

Defined Contribution Pension Plan Follow Up Letter

vol. **04**
2018

For DC plan administrators,
plan sponsors and members

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:
"Even without a large sum of money, investment is possible."

**Money for
Life Events**

We will introduce data on money. This time, the topic is "Long-term Care Expenditure."

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

Q1 What is the name of the international organization whose purposes include contributing to the promotion of international trade, a high level of employment and increase in national income of member countries, and stability of foreign exchange?

A IMF B FRB C Bank of Japan

Q2 In the questionnaire conducted by Fidelity Investor Education Institute in 2018, which of the following was considered to be the largest expenditure / constraint in post-retirement life?

A Meal Expenditure B Rent C Healthcare Expenditure

Q1
The Answer is
A▶

The International Monetary Fund (IMF) is an international organization that was established in July 1944 at the Bretton Woods conference (The International Monetary and Financial Conference of the United and Associated Nations held in Bretton Woods, New Hampshire, United States) and commenced operations in March 1947 under the Articles of Agreement of the International Monetary Fund (IMF Agreement) signed at the same conference. As of the end of September 2018, it consists of 189 member countries.

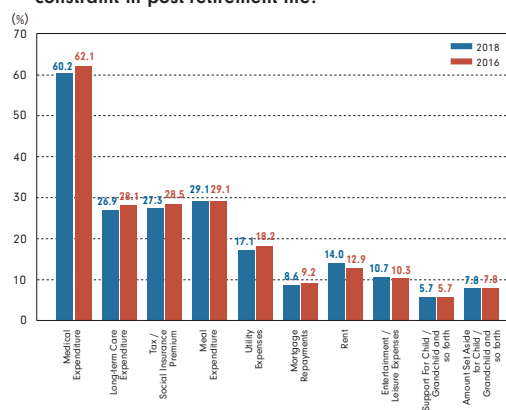
The main objectives of the IMF are to contribute to (1) the promotion of international trade, (2) a high level of employment and increase in national income of member countries, (3) the stability of foreign exchange, and so on through monitoring (surveillance) of exchange rate policies of member countries and financing member countries whose balance of payments has deteriorated markedly.

(Extracted from the Bank of Japan Website "Bank of Japan FAQs")

Q2
The Answer is
C▶

Medical expenditure (60.2%) was listed as one of the largest expenditures / constraints in post-retirement life in the "Survey of 10,000 Employees" conducted by Fidelity Investor Education Institute in 2018. This was followed by meal expenditure (29.1%), tax and social insurance (27.3%), and long-term care expenditure (26.9%). Indeed, among these four items, it would appear that individuals can only control their meal expenses and a large number of people seemed concerned about the possibility of high healthcare expenditures in the future.

■ What is the largest expenditure / constraint in post-retirement life?



(Source) Fidelity Investor Education Institute, Survey of 10,000 Employees, June 2018

A Money Plan That Makes Sense

4th Edition

Even without a large sum of money, investment is possible.



Let's take advantage of regular investment schemes.

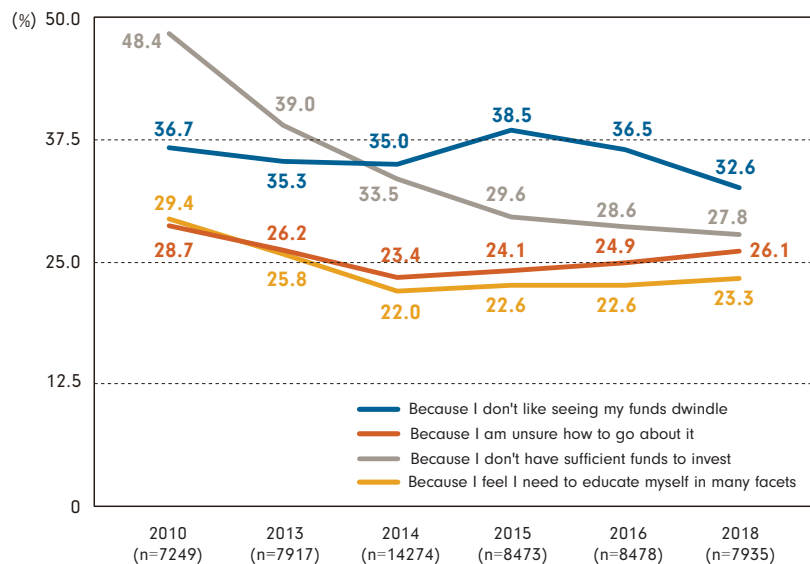
1

There is a method to start investment immediately.

In recent years, various schemes to help individuals grow their assets were introduced in quick succession, such as the tax exemption scheme for small investments NISA (Nippon Individual Savings Account) introduced in 2014, and installment NISA in 2018. While it seems people are becoming more familiar with asset formation, it turns out that there are many people who haven't taken yet the first step toward actually investing. The percentage of those who are investing has changed little from 34.0% in 2010 to 33.9% in 2018. (Researched by Fidelity Investor Education Institute)

On the other hand, it is also true there is a growing understanding that under these schemes, "investment is possible even with a small amount." According to the results of the ongoing "Survey of 10,000 Employees" conducted by the Fidelity Investor Education Institute since 2010, "In the question asking the reason for not investing", the number of respondents answering "funds are insufficient for investing" was 48.4%. In 2018 the result had dropped to 27.8%.

■ For those not investing, the reasons are as follows:



(Note) The graph on the left is based on those respondents who answered in the annual survey that they are not investing. In the survey, eight selection criteria were presented, but only the top four are shown here.
(Source) Fidelity Investor Education Institute, Survey of 10,000 Employees (2010, 2013, 2015, 2016, 2018) and survey of 30,000 workers (2014)

The defined contribution pension, to which you are subscribed, allows funds to be accumulated through small contributions each month up until retirement. In other words, it is "a scheme for asset formation that can be conducted even with minimal funds". In order to effectively utilize this scheme, let's reconfirm both how the funding works and the effectiveness of regular investment.

2

The earlier you accumulating funds and the more you contribute, the more effective your investing can be. Let's consider utilizing the investment from a long-term perspective.

In accumulating funds, the earlier and the greater the increment, the more effective it can be. Another advantage is that it can be possible to reduce the future contribution expenses.

The table on the right shows the amount of monthly funds required in order to accumulate 10 million yen (if not investing). In order to save 10 million yen in 30 years, the monthly contribution is approximately 28,000 yen as shown in (1), in 20 years it is approximately 42,000 yen as shown in (2) and in 10 years it is approximately 83,000 yen as shown in (3). The longer the start is prolonged, the higher the future monthly contribution burden.

What needs to be considered when setting funds aside is investment. Through investing, you can expect to reduce your monthly contribution amount.

For example, let's look at the monthly contribution required to save 10 million yen, assuming that investments attain an annual return of 2%. The monthly contributions over 30 years is approximately 20,000 yen as shown in (4), approximately 34,000 yen over 20 years as shown in (5) and approximately 75,000 yen over 10 years as shown in (6). If you compare that to not investing, you would be able to reduce your month contributions. However, the larger the return you desire on investment, the greater the risk. It is crucial to take a long-term perspective where possible, with investments aiming for stable returns.

What is the monthly contribution required to accumulate 10 million yen (when not investing)?

	Funding Period	Monthly Contributions
(1)	30 years	Approx. 28,000 yen
(2)	20 years	Approx. 42,000 yen
(3)	10 years	Approx. 83,000 yen

(Note) This doesn't consider taxes and fees.
(Source) Prepared by FIL Investments (Japan) Limited



What is the monthly contribution required to accumulate 10 million yen (when investing at an annual return of 2%)?

	Funding Period	Monthly Contributions
(4)	30 years	Approx. 20,000 yen
(5)	20 years	Approx. 34,000 yen
(6)	10 years	Approx. 75,000 yen

(Note) This doesn't consider taxes and fees.
(Source) Prepared by FIL Investments (Japan) Limited

Long-term Care Expenditure

How much money is required upfront when family members are in need of long-term care?



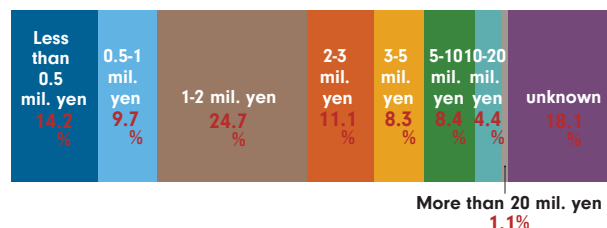
On average, approx. **2.42** million yen

(Source) Japan Institute of Life Insurance (JILI)
FY2018 National Field Survey on Life Insurance (Draft Version)

Post-retirement life planning should consider the issue of long-term care. How much will be required for expenses not covered by public long-term care insurance, such as home remodeling and purchases of long-term care products? The graph below is the distribution result of the amount of funds (upfront costs) considered necessary by respondents when long-term care is needed as per the Japan Institute of Life Insurance (JILI) FY2018 National Field Survey on Life Insurance (Draft Version). The most common answer was 1 to 2 million yen, with 24.7% respondents. Numerous people believed that public long-term care insurance will be insufficient to cover the needs of long-term care.

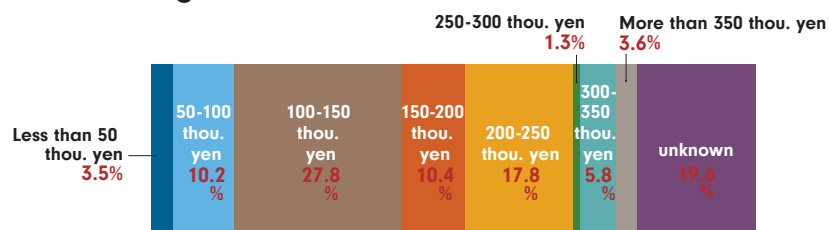
In addition, looking at the distribution of funds that is considered necessary for monthly expenses, the most common answer was 100,000 to 150,000 yen at 27.8%. This was followed by 17.8% of respondents who answered 200,000 to 250,000 yen, with the average being 166,000 yen.

Distribution of funds (upfront costs) considered necessary for home remodeling and purchasing long-term care products such as nursing beds when long-term care is needed



(Source) Japan Institute of Life Insurance (JILI), FY2018 National Field Survey on Life Insurance (Draft Version)

Distribution of funds (monthly costs) considered necessary when long-term care is needed



(Source) Japan Institute of Life Insurance (JILI), FY2018 National Field Survey on Life Insurance (Draft Version)

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