

# 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 "How to allocate assets for defined contribution pension plans?"

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

We will introduce data on money. This time, the topic is "Average Mortgage Balance."

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Take the Money Quiz!

**Q 1** An investment trust that invests in stocks whose prices are considered to be undervalued in comparison to the company's performance, dividends, or assets is referred to as which of the following funds?

A Growth fund    B REIT fund    C Value fund

**Q 2** The type of investment trust that can be purchased only during the preliminary offering period and is closed to additional purchases during the investment period is referred to as which of the following terms?

A Unit investment trust    B Open-end investment trust    C MMF



**Q1**  
The answer is  
**C**▶

A value fund is an investment trust that invests in stocks whose prices are considered to be undervalued in comparison to the company's performance, dividends, or assets. Valuation metrics such as PER (Price Earnings Ratio) and PBR (Price Book-value Ratio) are used to determine if the stock price is overvalued or undervalued.

**Q2**  
The answer is  
**A**▶

A unit investment trust is a type of investment trust that can be purchased only during the preliminary offering period and is closed to additional purchases during the investment period. Unit investment trusts with a fixed trust period have the advantage that investors can undertake fixed-term investments, while asset management firms are able to manage them in a planned manner. However, since no additional subscriptions take place, the fund may be redeemed ahead of the originally planned trust period, such as when numerous cancellations occur. The conditions for early redemption are described in the prospectus.

## A Money Plan That Makes Sense

A little over 50% of the assets of defined contribution (DC) plans are managed with capital-guaranteed products.



**Is this asset allocation appropriate?**

1

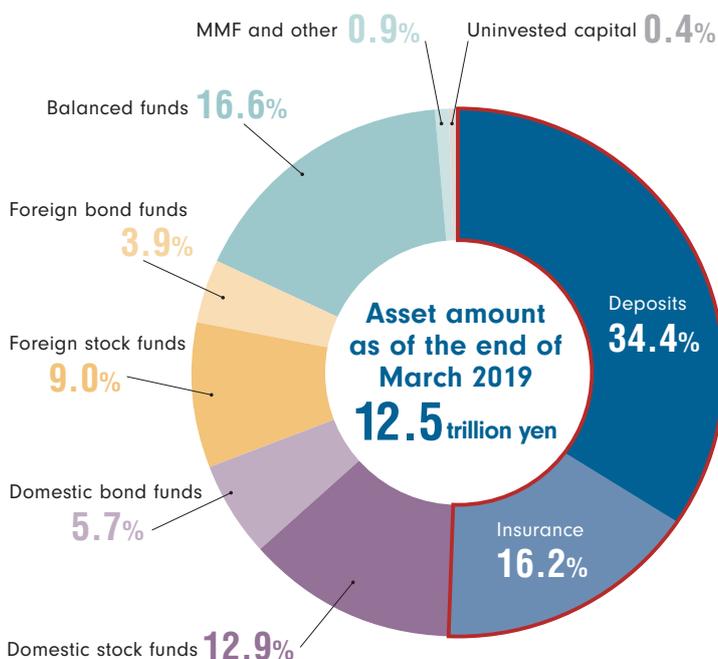
### How do you manage DC premiums?

As many readers are aware, DC is a pension plan in which members allocate assets at their own discretion and manage the premiums contributed by the Company. If this is effectively managed, it will be advantageous in asset formation for their post-retirement life. So, what is the overall allocation of assets currently managed by DC? Figure 1 below shows the asset allocation status of members currently enrolled in corporate DC pension plans \*1.

As you can see in this figure, capital-guaranteed

product, such as deposits and insurance account for just over 50%, with the remainder being investment trusts and so forth. Given the low yield of capital-guaranteed products, in a situation where the ratio of capital-guaranteed products is so high, it is a little concerning as to whether a sufficient amount of post-retirement funds can truly be secured. Please also take a moment to consider the risks of managing assets with an emphasis on preserving investment capital.

■ Figure 1: Corporate DC Pension Plan Members' Asset Allocation (as of the end of March 2019) \*1



Capital-guaranteed products account for approximately half (50.6%) of the asset allocation of those members participating in Corporate DC pension plans. Attention needs to be paid to the appropriate level of capital preservation within asset allocation.

Capital-guaranteed products (total of deposits and insurance) **50.6%**



\*1 Allocation status as of the end of March 2019, according to the Defined Contribution Plan Statistics of the DC Provider Liaison Council. Percentage is based on the amount (yen).

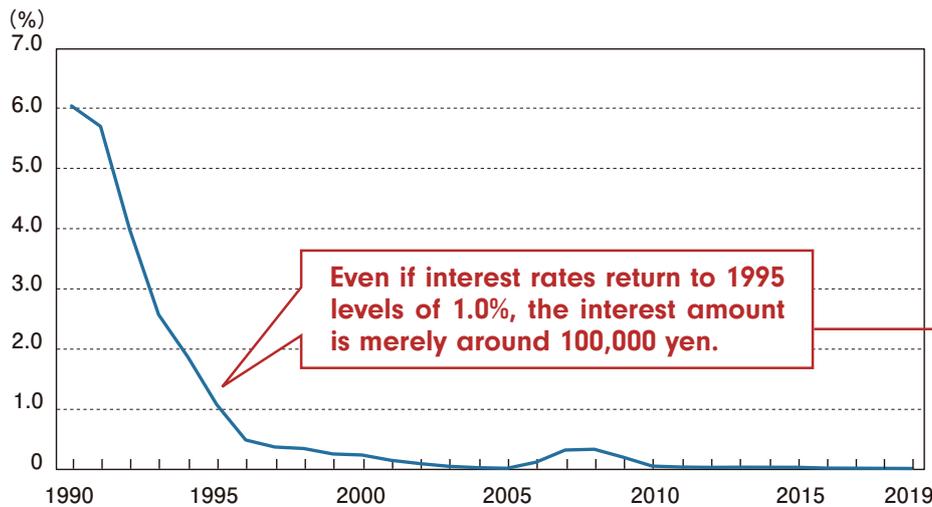
# 2

**In a prolonged low-yield environment, it is difficult to grow money simply by holding deposits and savings. Moreover, if inflation accelerates, the value of money will decrease.**

Time deposit interest rates in Japan, which were once around 6%, are now at an ultra-low level of close to 0%. Even if 1 million yen is deposited as a time deposit for 10 years at the current interest rate, the interest amount would only come to 2,603 yen.

Furthermore, as inflation (rising prices) advances, the value of money declines, while the value of deposits and savings may also decline, so much so that items can become unaffordable.

**Figure 2: Trends in Interest Rates on Time Deposits \*2**



Interest amount when one million yen is deposited in a time deposit for 10 years

Interest rate	Interest amount
0.026%	¥2,603
0.50%	¥51,140
1.00%	¥104,622

\*2 Average interest rate by time deposit period (newly accepted) of the Bank of Japan, time deposit of 1 year or more and less than 2 years, with deposit amount less than 3 million yen. 0.026% was the average value in 2019. Taxes are not considered.

**Figure 3: Changes in the price of goods \*3**

The price of goods has risen moderately up till now

	Instant Noodles Cup Noodles Type (contains 77g) "cup noodles"	Bread One loaf (about 340g)	Dry Cleaning Costs (1x business shirt)
1980	¥60	¥107	¥178
2019	¥161	¥148	¥241

\*3 Created by Fidelity International based on data from the Ministry of Internal Affairs and Communications "Retail Price Survey (Retail Prices of Major Items for the Tokyo Metropolitan Area)".

# 3

**Please effectively utilize the defined contribution pension plan.**

The defined contribution pension plan is a system for creating valuable assets for your post-retirement life. Even without specialized knowledge, a mechanism is incorporated to manage assets in a stable manner. Together, let's learn about this pension plan.

Let's skillfully leverage the defined contribution plan and ensure a solid fund structure for the future.



## Mortgages

“What is the average mortgage debt balance per household?”

Approx. **13.99** 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] (2019)

The repayment of mortgages is a heavy burden on the household. The table below shows the results of a “public opinion survey on household financial behavior” conducted in 2019 by the Central Council for Financial Services Information. Approximately 40% of households have outstanding loans, and the average balance of mortgages is 13.99 million yen.

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 34% and 15% respectively, with the average amount being 9.20 million yen and 8.16 million yen. Some households continue to repay even after retirement. Many of 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 those who make monthly repayments. However, the use of retirement allowances can be considered not only for repayment of loans but also for funds for livelihood after retirement. It is important for these people to make early repayments, such as reviewing the mortgage repayment plan and striving for advanced repayments.

### Percentage of households with borrowings and outstanding mortgages

	Percentage of households with borrowings	Outstanding mortgage amount
Overall	41.8 %	13,990,000 yen
20s	41.7 %	16,000,000 yen
30s	56.3 %	22,840,000 yen
40s	65.3 %	16,380,000 yen
50s	53.8 %	10,700,000 yen
60s	34.1 %	9,200,000 yen
Over 70s	15.3 %	8,160,000 yen

Source: The Central Council for Financial Services Information “Public opinion survey on household financial behavior” [Survey of households with two or more people] (2019)

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\* 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.