

Defined Contribution Pension Plan Follow Up Letter

vol. 01
2019

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: "Investing methods to further enhance the effectiveness of a 'regular investment scheme.'"

Money for Life Events

We will introduce data on money. This time, the topic is "Medical Expenses."

Brush Up Quiz! Economic / Money Sense

Take the Money Quiz!

Q1 What are the stocks, such as those in consumer staples (food), pharmaceuticals, and social infrastructure (such as electricity, gas, and railways) whose performance is relatively unaffected by economic trends?

A Aggressive Stock B Cyclical Stock C Defensive Stock

Q2 The "International Tourist Tax", or so-called departure tax, was applied to departures on or after January 7, 2019. How much is this departure tax?

A 1% of the travel expenditure B 3,000 yen C 1,000 yen

Q1
The Answer is
C

Defensive stocks are those in consumer staples (food), pharmaceuticals, and social infrastructure (such as electricity, gas, railways) whose performance is relatively unaffected by economic trends. Revenue growth potential tends to be insignificant, but stable performance can be expected, so the relative performance tends to be better during an economic downturn.

(Extracted from the National Tax Agency website "About the International Tourist Tax")

Q2
The Answer is
C

The "International Tourist Tax" was created to provide a permanent source of funds to expand and enhance the tourist infrastructure in an effort to help Japan become an advanced tourism country. Under the "International Tourist Tax" scheme, cruise lines and airlines (special tax collectors), in principle, must collect the tax from all passengers departing Japan (such as international tourists) in the form of an addition to the ticket price (1,000 yen per departure), and remit the collected tax to the Government of Japan.

Outline of the International Tourist Tax

Tax payers	Passengers leaving Japan by sea or air
Tax exemption, etc.	<ul style="list-style-type: none"> Ship and aircraft crew members Those being deported and so on Those leaving Japan by official ships or official aircrafts (e.g. government plane) Transit passengers (leaving Japan within 24 hours of arrival) Passengers of international aircrafts stopping at Japan due to weather or under other unavoidable circumstances Those who have returned to Japan without entering another country after departure from Japan due to weather or under other unavoidable circumstances Children under the age of 2 <small>(Note) The tax shall not be imposed on certain departures of diplomats and so on dispatched to Japan.</small>
Tax rate	1,000 yen per departure
Collection / Remittance	<ol style="list-style-type: none"> Special collection by operators of the international passenger transport business (in the case of departures through transportation from operators of the international passenger transport business) <ul style="list-style-type: none"> → Operators of the international passenger transport business are required to collect the tax from passengers and remit it to the Government of Japan by the end of the second month. (Note) Domestic business operators must pay the collected tax to the tax office and overseas business operators must pay the collected tax to the customs office Payment by passengers (in the case of departure by private jet, and so forth) <ul style="list-style-type: none"> → Passengers are required to remit the tax to the government (customs) before boarding the aircraft, and so on
Applicable Period	Applies to departures after January 7, 2019 (except for certain departures related to the international passenger transport business based on transport contracts that are concluded before January 7, 2019)

(Source) Prepared from the National Tax Agency website "About the International Tourist Tax"

A Money Plan That Makes Sense

1st Edition

Investing methods to further enhance the effectiveness of a "regular investment scheme."



It is important to diversify investment across asset classes.

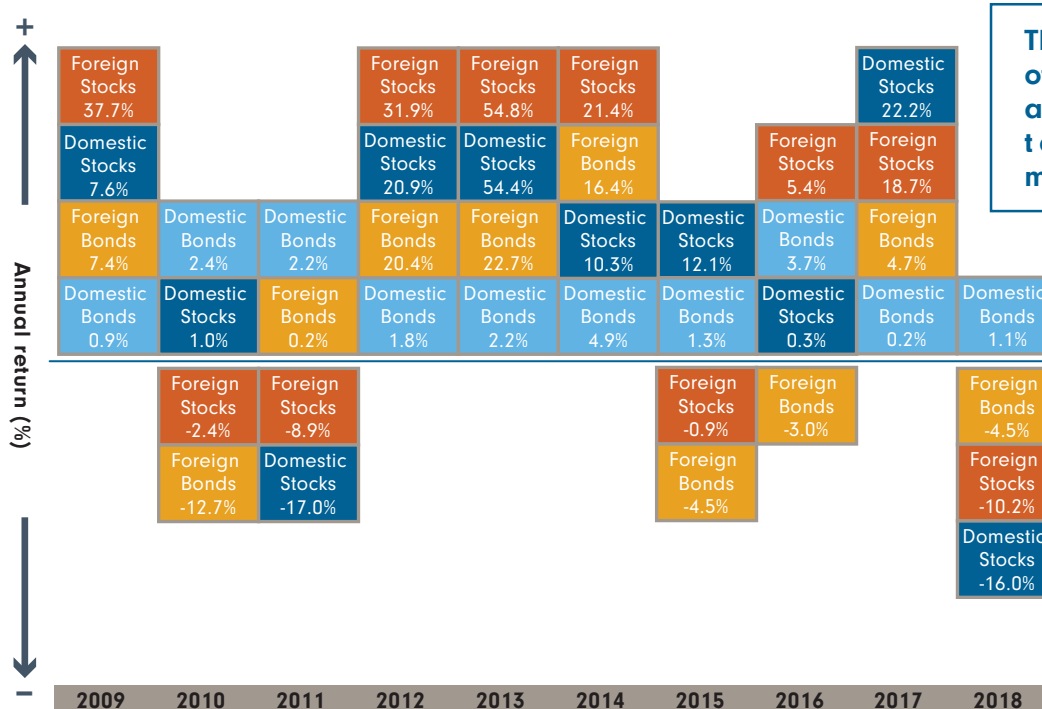
1

The price movements of assets to be invested differ from time to time.

As long as you invest, there is no escaping price movement (price fluctuation risk), but there are ways to reduce this. One such method is through asset diversification, which involves investing in various assets. The figure below shows the annual return of the major asset classes such as domestic stocks (blue), domestic bonds (light blue), foreign stocks (orange), and foreign bonds (yellow) in descending order from 2009 onward. While there are many years in which the prices of domestic and foreign stocks have risen sharply, there are also years where their prices have fallen

significantly, highlighting their volatility. On the other hand, domestic bonds rise marginally in price but the drop is also insignificant, and so on. You can see that each asset has its own swing range characteristics. It is also worth noting that the range of fluctuation in the return is variable. It is impossible to accurately forecast the annual price movements of each asset. There is only one thing that can be said with certainty here, and that is, for any asset, there will be years where investments reap results but there will be other years where losses are incurred.

Annual return for each asset class index^{*1}



The price movements of assets vary by type, and it is impossible to predict their movements accurately.



*1 Domestic stocks: TOPIX (incl. dividends), Domestic bonds: FTSE Japanese Government Bond Index, Foreign stocks: MSCI Kokusai Index (ex Japan) (including before-tax dividend, based on Japanese Yen), Foreign bonds: World Government Bond Index (ex Japan)
 Refinitiv, RIMES created Fidelity Investment Trust Period: End of 2008-End of 2018 (annual)
 (Note) The data represents past stock price performance and is no guarantee or indication of future trends or results.

2

Asset diversification can be expected to have the effect of suppressing the range of price fluctuation.

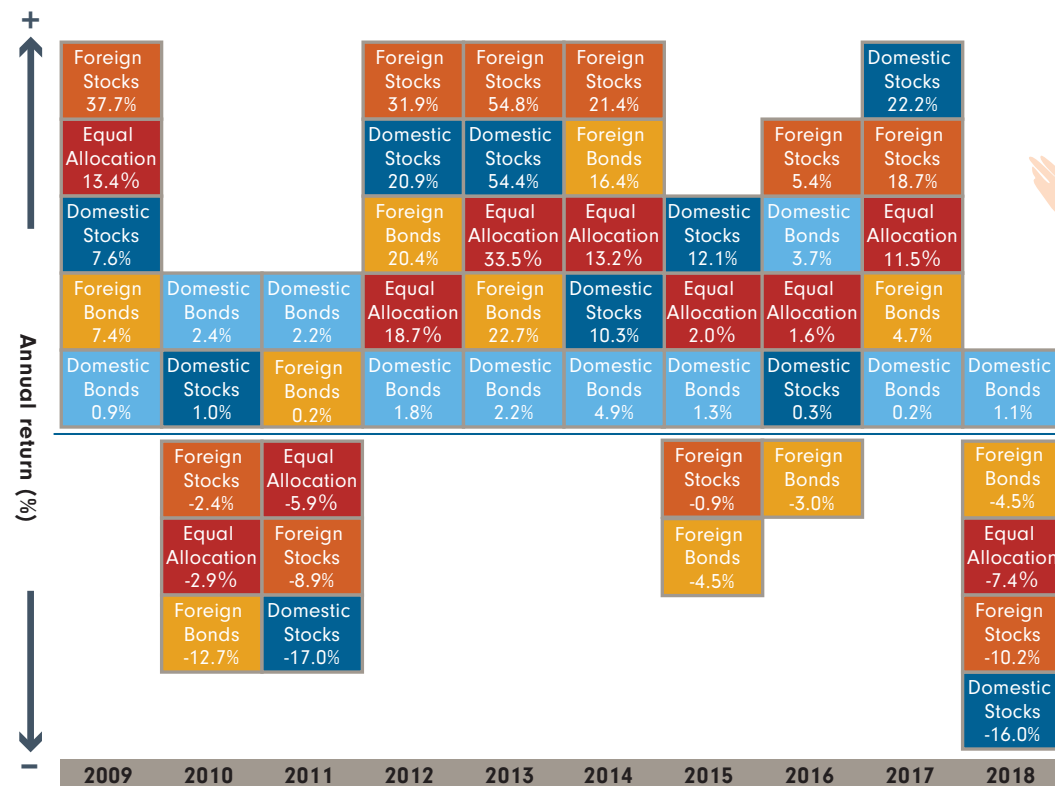
Next, let's look at the benefits of asset diversification. Asset diversification is an investment method that can be expected to have the effect of suppressing price fluctuations by incorporating multiple assets. The figure below shows the return for the same 4 main asset classes as previously mentioned, plus the return for the portfolio with equal weights in each of the 4 asset classes (shown in red).

In the portfolio of diversified investments in the 4 asset classes, the return in the past 10 years was positive on 7 occasions, and negative on 3 occasions. In 2013,

foreign and domestic stock prices both increased by nearly 55%. It can be seen that largely stable investment results were obtained for the other years. We cannot expect a higher return than domestic and foreign stocks. However, the losses are not as significant, and although the price movement is larger than that of domestic bonds, the benefit of asset diversification is that it is possible to suppress the range of price movements so that you can expect a higher return.

Annual return on each asset class index and the portfolio of diversified investments^{*2}

From the past results, it can be said that if you were diversifying into the 4 major asset classes, you could have made the investment with less fluctuation in price movements. You might want to consider diversified investment to obtain stable investment results.



*2 Domestic stocks: TOPIX (incl. dividends) , Domestic bonds: FTSE Japanese Government Bond Index, Foreign stocks: MSCI Kokusai Index (ex Japan) (including before-tax dividend, based on Japanese Yen), Foreign bonds: World Government Bond Index (ex Japan) Equal allocation of the four assets: In the case of equal allocation, 1/4 allocated to each asset class. Refinitiv, RIMES created Fidelity Investment Trust. Period: End of 2008-End of 2018 (annual)
 (Note) The data represents past stock price performance and is no guarantee or indication of future trends or results.

Medical Expenses

What are the annual medical expenses for those over 75 but under 80?

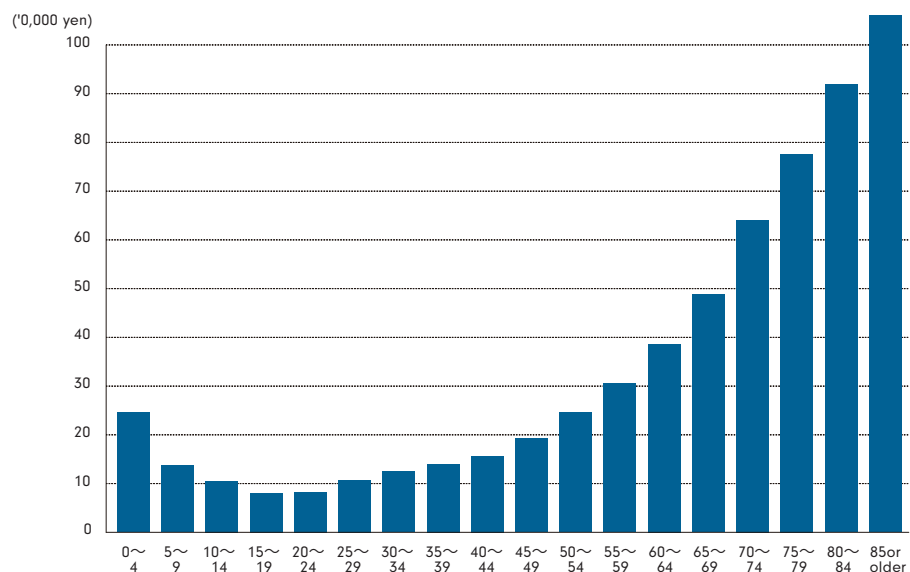
Approx. **780,000** yen

(Source) Ministry of Health, Labor and Welfare "Estimates of National Medical Care Expenditure, FY 2016" (2016)
(Note) The sum of the benefit amount under the national health insurance and the copayment amount

Health is the most important matter to consider if we are to live out a prosperous post-retirement lifestyle. However, in general, do you know that medical expenses tend to increase as you age? The graph indicates annual medical expenses per capita by age. We have shown the sum of the benefit amount under the national health insurance and the copayment amount paid over the counter at the medical institution, and it is clear that medical expenses tend to increase with age.

Of course, Japan's National Health Insurance system provides a solid guarantee, with the system covering 70% of the medical expenses incurred when receiving hospitalization or hospital treatment due to illness or injury (in the case of people under 70 years of age). The amount paid to the medical provider in the same month exceeds a designated amount, the high-cost medical expense benefit system (for medical treatment covered by insurance) allows for the excess amount to be remitted. However, medical expenses cannot be covered entirely by national health insurance, and copayments are one of the points to remember when considering money planning.

Annual medical expenses per person by age



(Source) Ministry of Health, Labor and Welfare "Estimates of National Medical Care Expenditure, FY 2016" (2016)
(Note) The sum of the benefit amount under the national health insurance and the copayment amount

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