Panel Discussion 1

Pension Assets – Aging Society and its Implication for Asian Capital Markets

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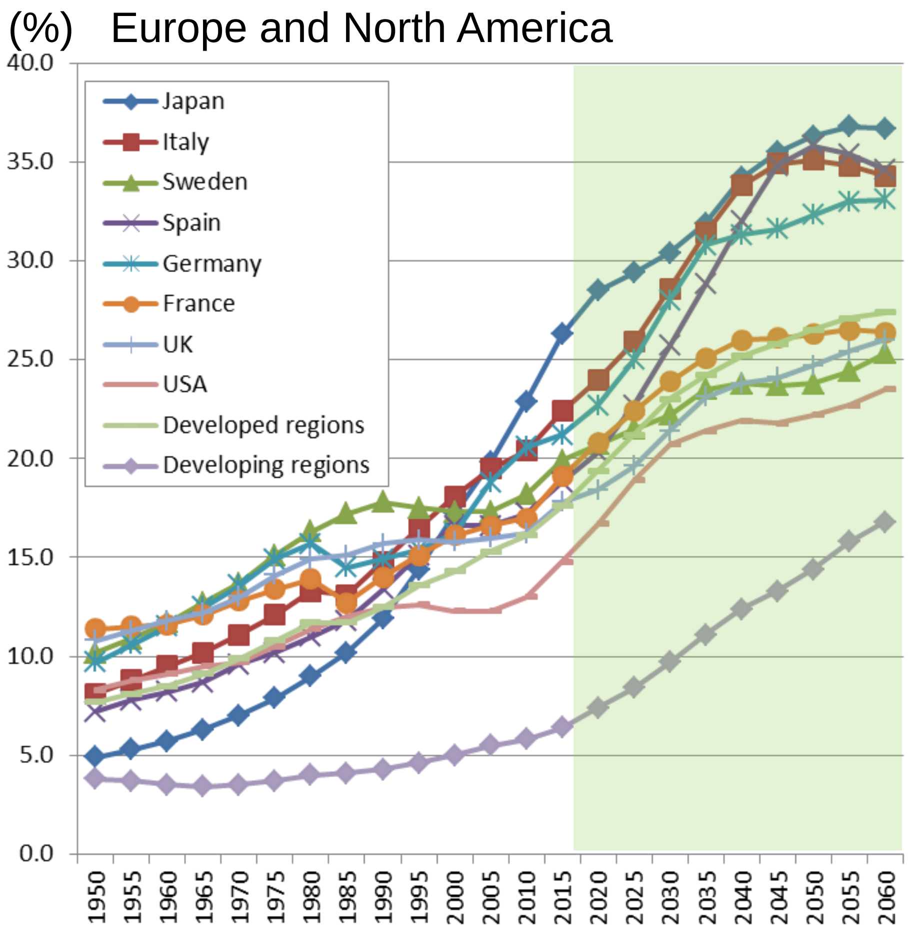
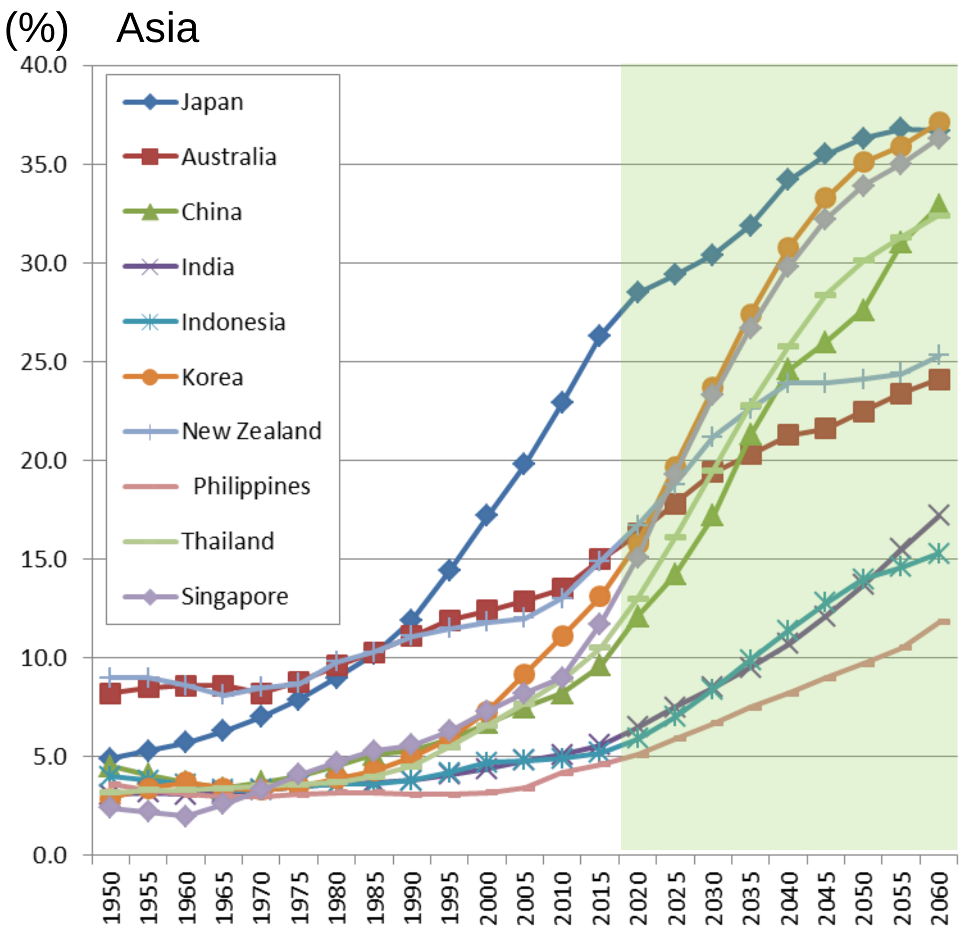
* This presentation represents the presenter's own views, and not necessarily those of JSDA

I. Aging Population Prospect

- ✓ People aged 65 and over already account for 25% of Japan's total population. The aging process is expected to enter a phase that no other country in the world has yet experienced.





Source: UN, World Population Prospects: The 2015 Revision

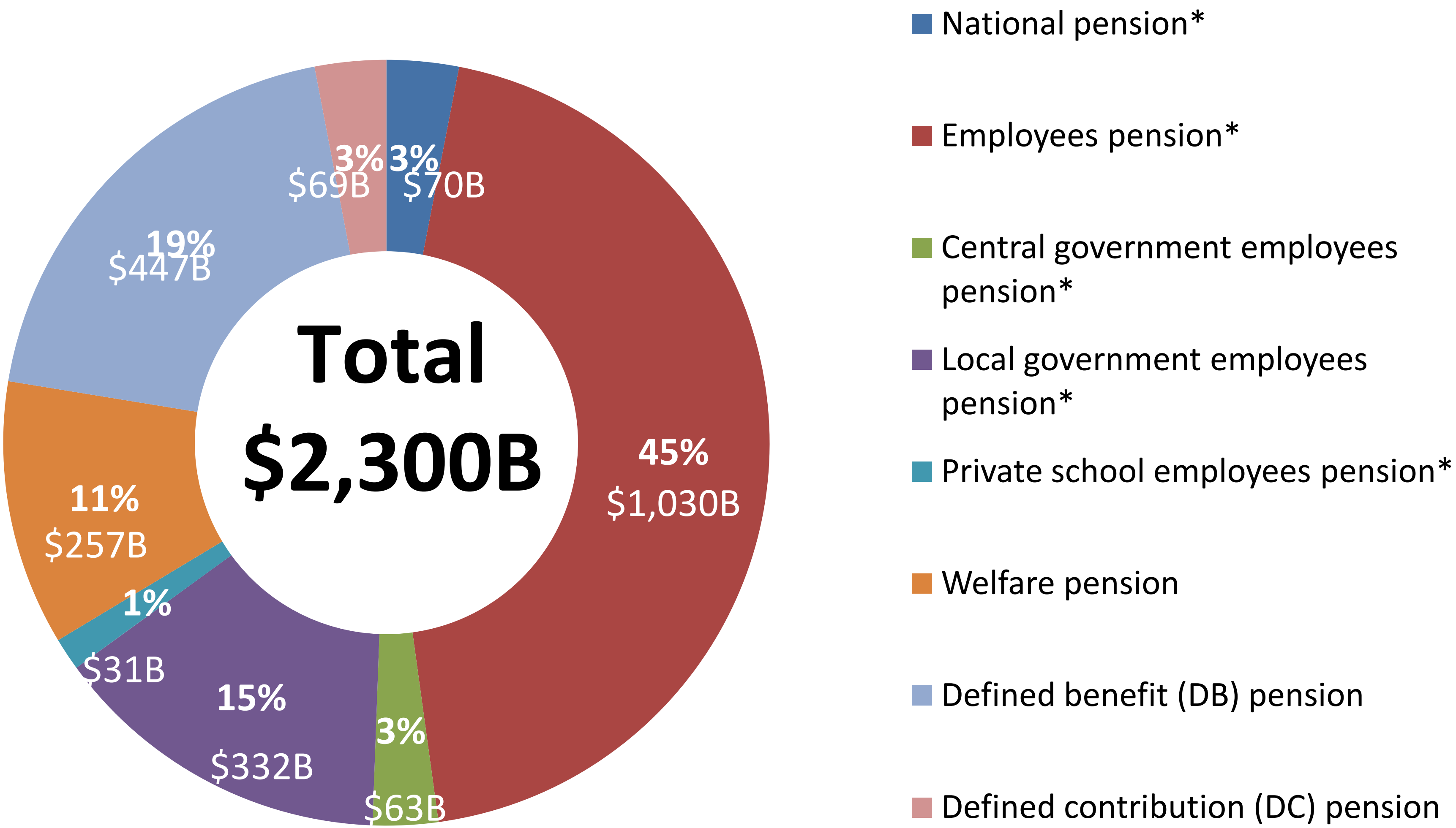
(Ref.) Old-age Dependency Ratio

Country or Region	1990	2020	2050
Japan	19	52	77
Asia	9	15	32
United States	21	29	41
Europe	21	32	53

The old-age dependency ratio is the ratio of the population aged 65years or over to the population aged 20-64.

(Source) “World Population Prospects 2015” (United Nations Population Division)

II. Pension Asset Segments



(B: billion dollars)

*categorized as public pensions

As of March 2014
Exchange rate: $1= ¥120

III. Public Pension Assets Management (1)

(1) About GPIF

- ✓ Most of the public pension assets (employees pension and national pension schemes) are managed by the Government Pension Investment Fund (GPIF).
- ✓ Total GIPF assets amount to ¥141, 120.9 billion (*$1,176 billion) (as of end-June 2015).

< GPIF’s performance in FY2014 (Apr. 2014- Mar. 2015) >

Rate of Return :	**12.27%**
Investment Income :	**¥15,292.2 billion** (*$127 billion)

Source: GPIF *Exchange rate: $1=¥120

III. Public Pension Assets Management (2)

(2) GPIF Reform

- ✓ In June 2013, the Japanese government organized a committee of experts to discuss the improvement of the investing and risk management capabilities of public funds.
- ✓ In November 2013, the committee recommended that GPIF diversify its current portfolio and enhance its governance and risk management schemes.
- ✓ In October 2014, GPIF published a medium-term plan as below:

Plans	Details
Change asset allocation	• Increase the percentage of Japanese/ foreign stock investment
Reinforce governance structure	• Appoint a compliance officer • Review disclosure policy
Enhance investment and risk management capabilities	• Appoint professional investment managers • Strengthen expertise in macro economic analysis and market forecasting

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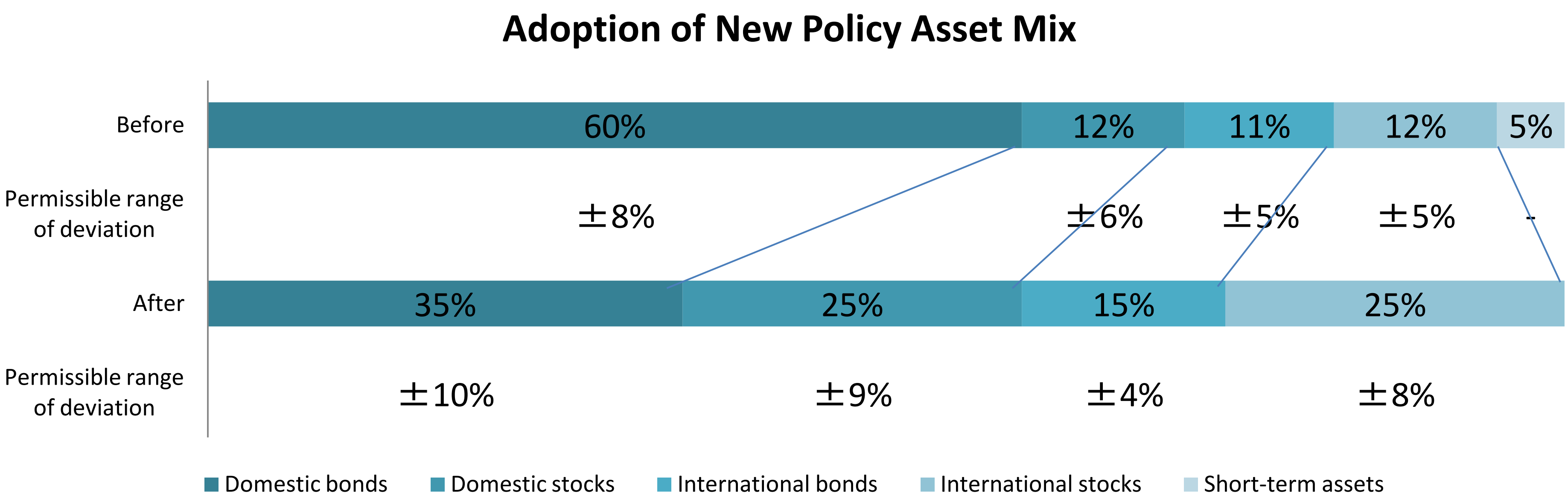
(3) Purpose of the reform

To ensure adequate returns in an anticipated inflationary economy, GPIF is to invest more in risk assets and less in JGBs.



Source: GPIF

IV. Income of Elderly People (1)

- ✓ Three main sources of income of elderly people:

  (a) Transfer income, including pensions
  (b) Labor income
  (c) Capital income

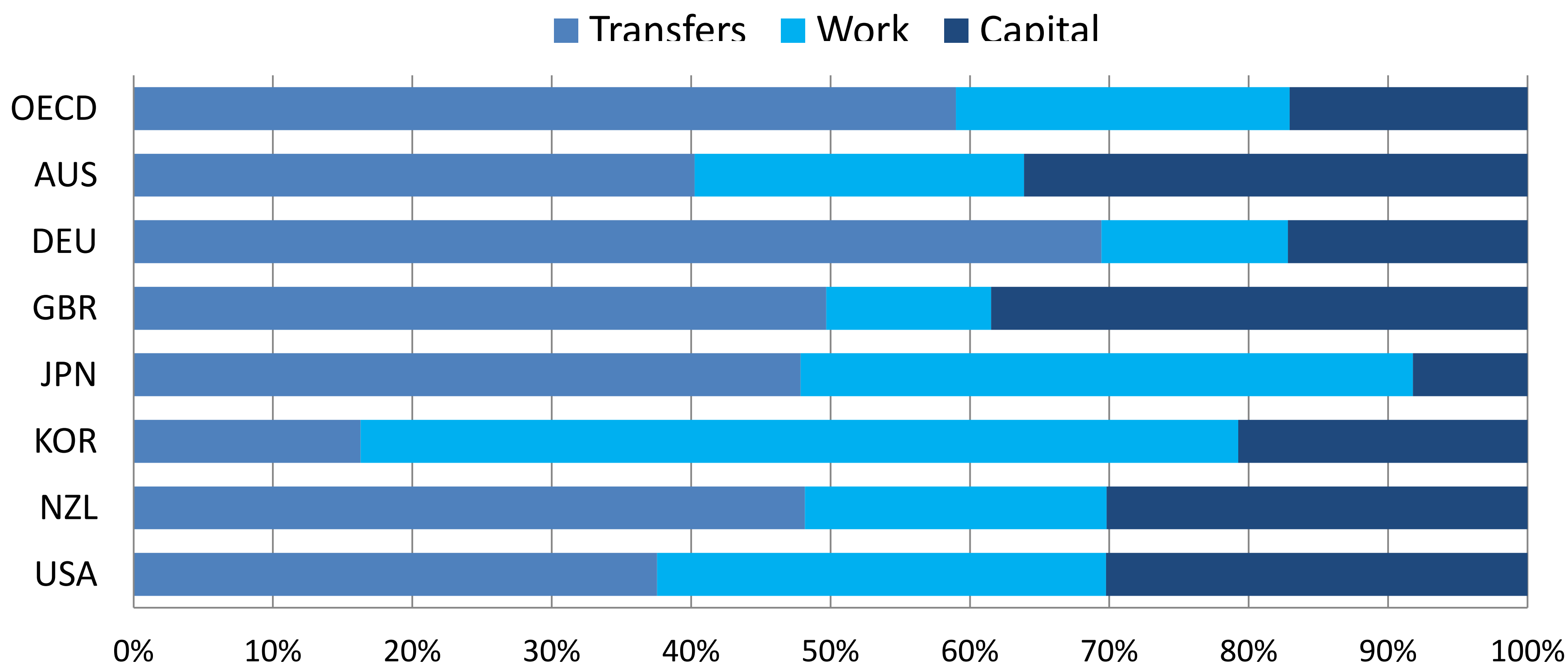
- ✓ In an aging society, it is difficult to expect that “(a) transfer income” can fully support the lives of elderly people while some increase may be anticipated in their “(b) labor income.” Accordingly, “(c) capital income” will be a key factor for elderly households to enjoy comfortable lives after retirement.

IV. Income of Elderly People (2)

- ✓ In Japan, the share of "(c) capital income" in elderly people's total income is lower than in other countries, which suggests a need and room to promote asset formation by individuals for their post-retirement lives.

Sources of incomes of the over 65s, late 2000s

Percentage of gross household income



Source: Pensions at a Glance, OECD

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Outline of Defined Contribution Plan (DC)

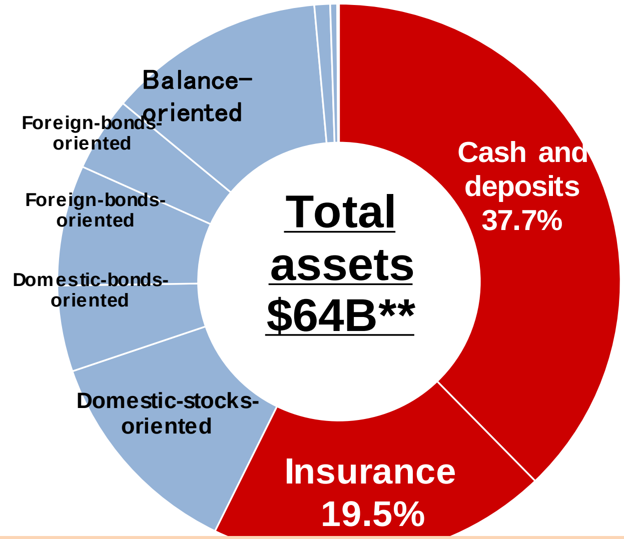
- ✓ The Japanese Defined Contribution Plan (DC) is a private pension plan scheme. It was introduced along with the enforcement of the Defined-Contribution Pension Law in October 2001.
- ✓ Employers and/or DC participants pay pension premiums every month. DC participants decide which financial products will be invested in. Investment performance determines the amount of pension benefit received.

DC Changes

	3/2002	3/2005	3/2010	3/2015
Number of Corporate type DC plans	32	170	3,231	4,572
Corporate-type DC participants	90,000	1,250,000	3,410,000	5,070,000
Corporate-type DC assets (billion yen) (million dollars)	17 *142	1,172 *9,767	4,497 *37,475	8,800 *73,333

*Exchange rate: $1=¥120 **As of March 2014

Asset allocation in DC



57% in principal–protected products

Source: Council of DC Pension Plan Operational Management Institutions

V. Increase Capital Income: DC (2)

- Defined Contribution Plan (DC) Reform

✓ In April 2015, the government presented a bill to the Diet to reform the DC scheme as follows:

(a) Promoting Investment through DCs

- ❖ Reinforce employers' obligation to make an effort to continuously educate their employees (DC participants)
- ❖ Provide DC participants with more choices of financial products with diversified risk-return profiles

(b) Promoting Corporate Type DC

- ❖ Introduce a "simplified corporate type DC" which eases the DC start up procedure for small- and medium-sized companies

(c) Expanding participants base and making DCs more convenient

- ❖ Enable civil servants and housewives to participate in DCs
- ❖ Ensure the portability of DC assets in job changes

V. Increase Capital Income: NISA (1)

Outline of NISA

- ✓ NISA: Nippon (Japan) Individual Savings Account, a tax exemption scheme for investment by individuals, which was launched in January 2014.
- ✓ People who live in Japan and are at least 20 years old are eligible to open a NISA.
- ✓ Dividends and capital gains from investment in listed shares, stock investment trusts, etc. are exempt from tax.
- ✓ Maximum tax-exempt period is 5 years.
- ✓ Maximum tax-exempt annual investment amount is up to ¥1 million (*$8,333) a year and up to ¥5 million (*$41,667) in total.

*Exchange rate: $1=¥120

V. Increase Capital Income: NISA (2)

- Developing NISA

✓ In December 2014, the government announced a plan to expand the NISA scheme in the Outline of Revisions to the Tax System in Fiscal 2015 as below:

(a) Introducing a Junior NISA System

❖ Junior NISA will enable tax-exempt contributions by individuals to asset formation by their children and grandchildren under 20 years old through Junior NISA. The annual investment limit is ¥800,000 (*$6,667).

(b) Raising the NISA Investment Limit

❖ The limit on the annual NISA investment amount will be raised from ¥1 million (*$8,333) to ¥1.2 million (*$10,000).

(c) Making NISA More Convenient

❖ To simplify and expedite the NISA account opening procedure, a newly introduced "Social Security and Tax Number" will be used for data processing.

*Exchange rate: $1=¥120

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