

# Panel 2: Global Differences in Investor Attitudes Towards Saving and Investing and the Strategic Challenges in Delivering Financial Advice and Education

**S. Katherine Roy**, Moderator  
J.P. Morgan Asset Management

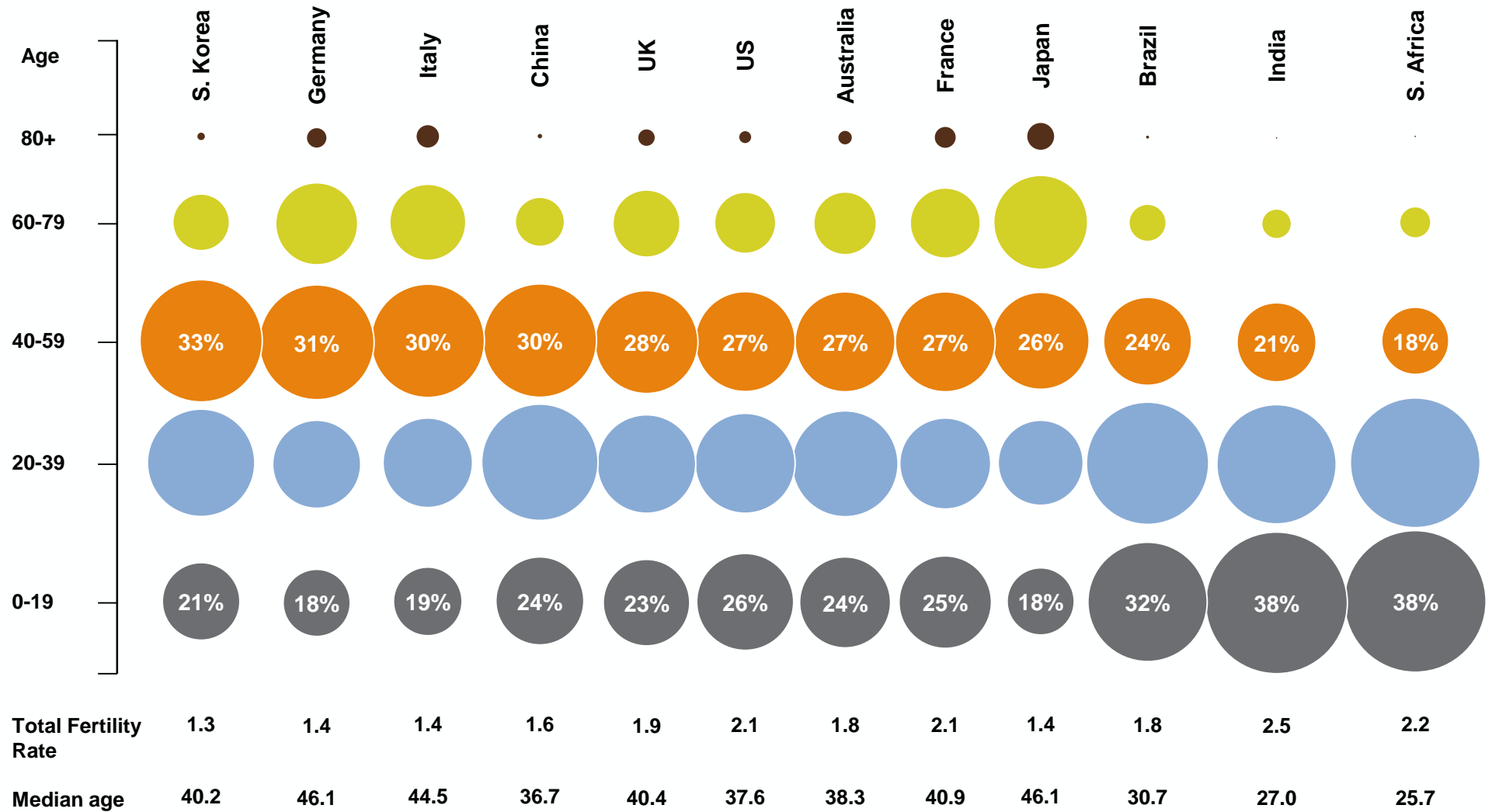
**Josef Pilger**  
Ernst & Young

**Yuta Seki**  
Nomura Institute of Capital Markets Research

**Massimo Tosato**  
Schroders

# Population by age

Percentage of population, by age cohort



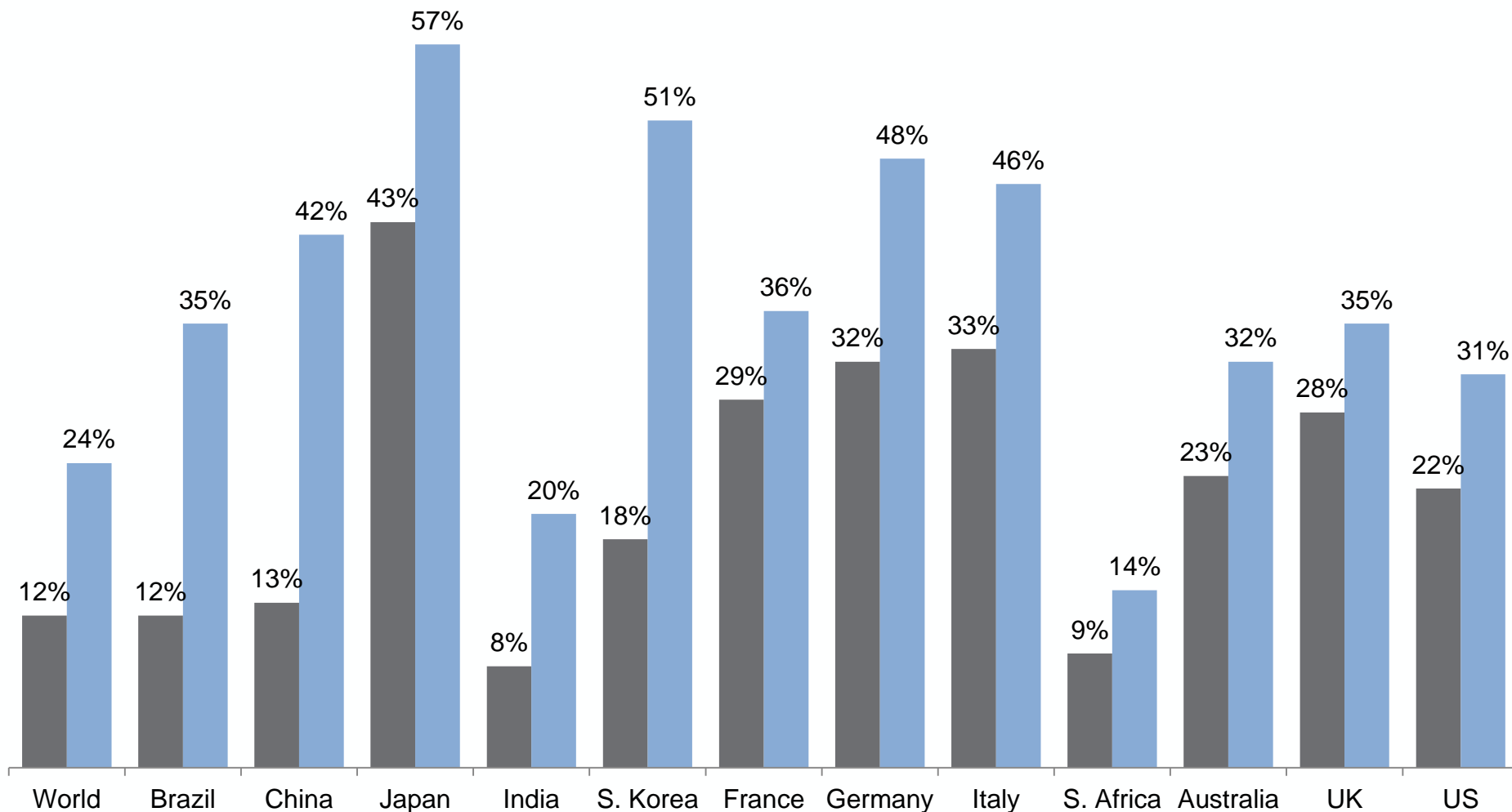
Source: U.S. Census, 2014. J.P. Morgan Asset Management

Based on mid-year 2014 population estimate, ordered by size of 40-59 age group. Total fertility rate is the average number of children born per woman over their natural life time

# Elderly dependency ratios

Ratio of the population aged 65 or over to the population aged 15-64

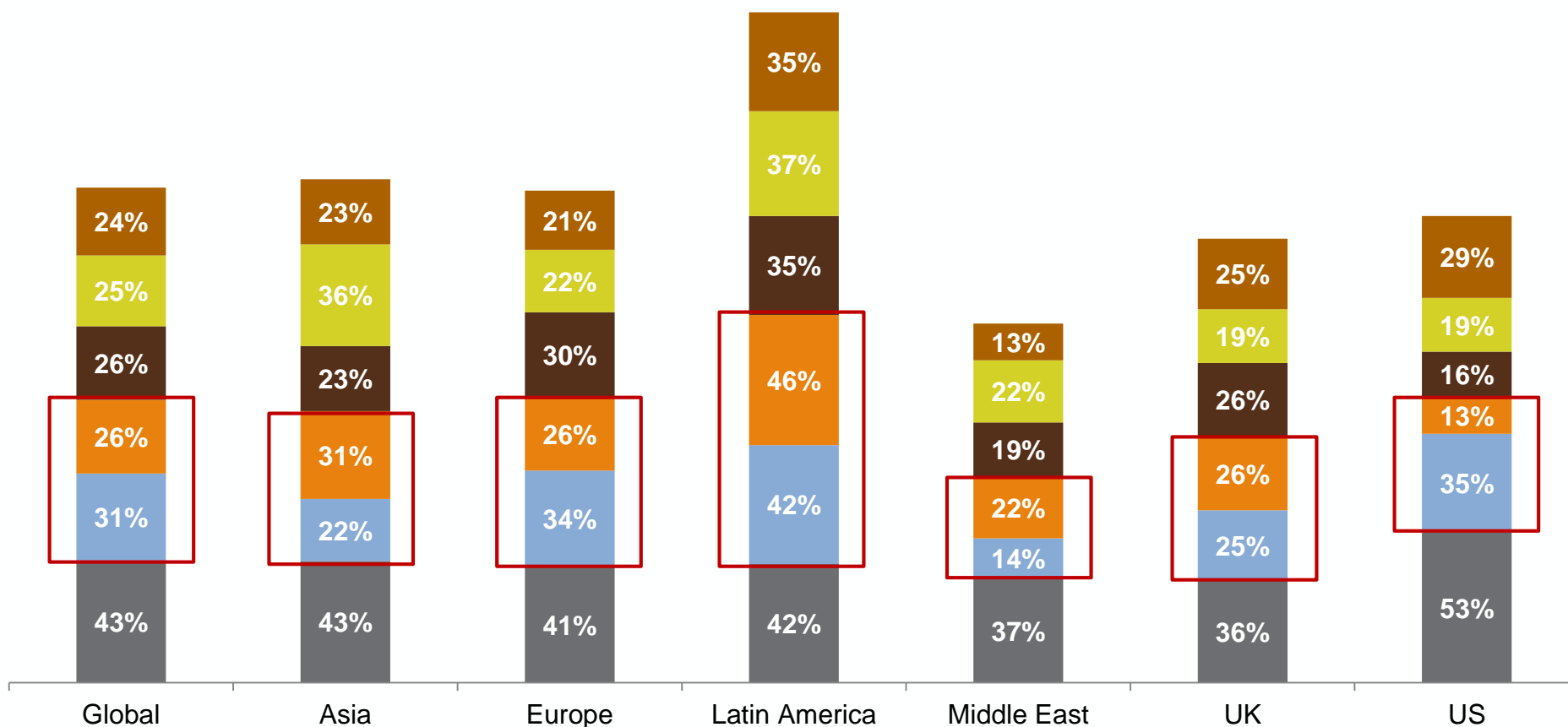
■ 2015 ■ 2060



Source: World Population Prospects: 2012 Revision, United Nations

# Perceived threats to financial security in retirement

- Long-term care
- Insufficient proceeds from benefit plans
- Gov't financial situation
- Physically unable to work
- Insufficient gov't pension funds
- Market volatility



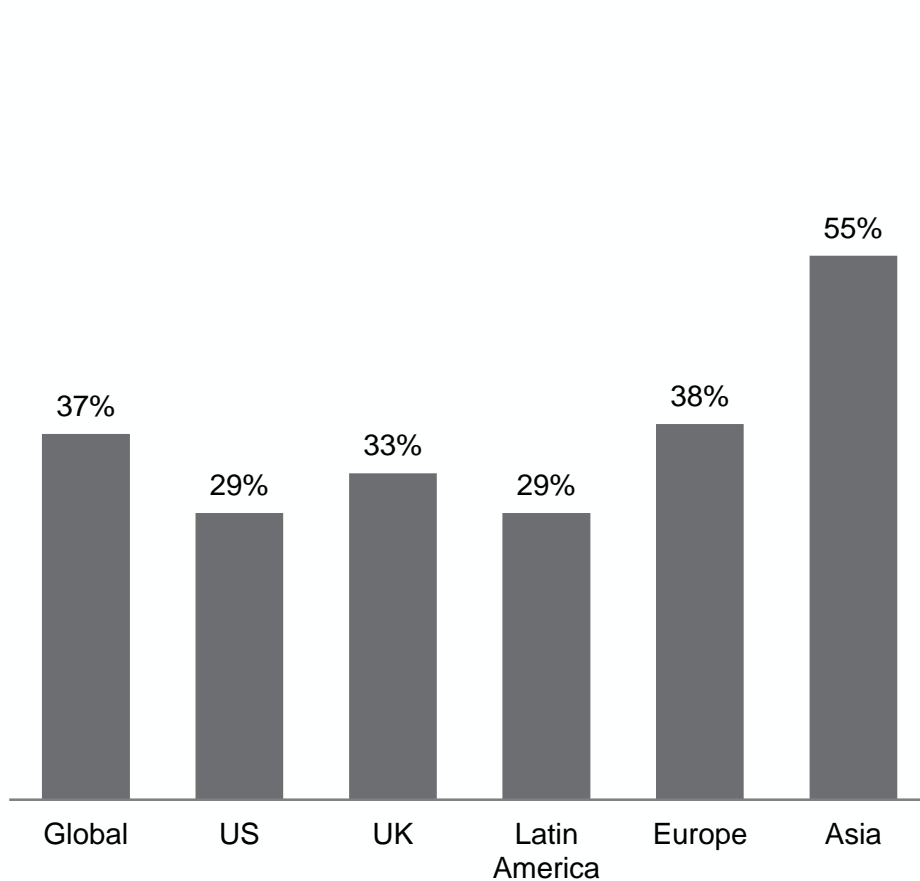
**Note: Multiple selections allowed**

Source: Natixis 2014 Global Survey of Individual Investors

# The global investor lacks knowledge and a plan

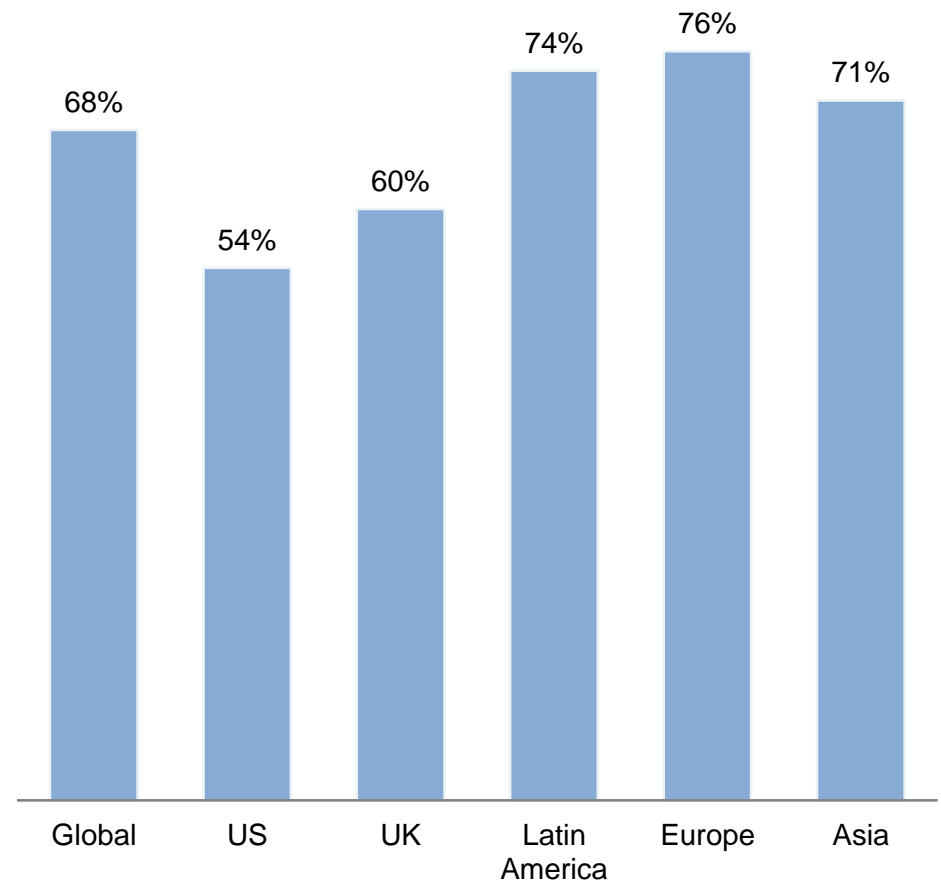
## Annual income needed to live comfortably in retirement

% with little to no knowledge



## Financial goals and plans

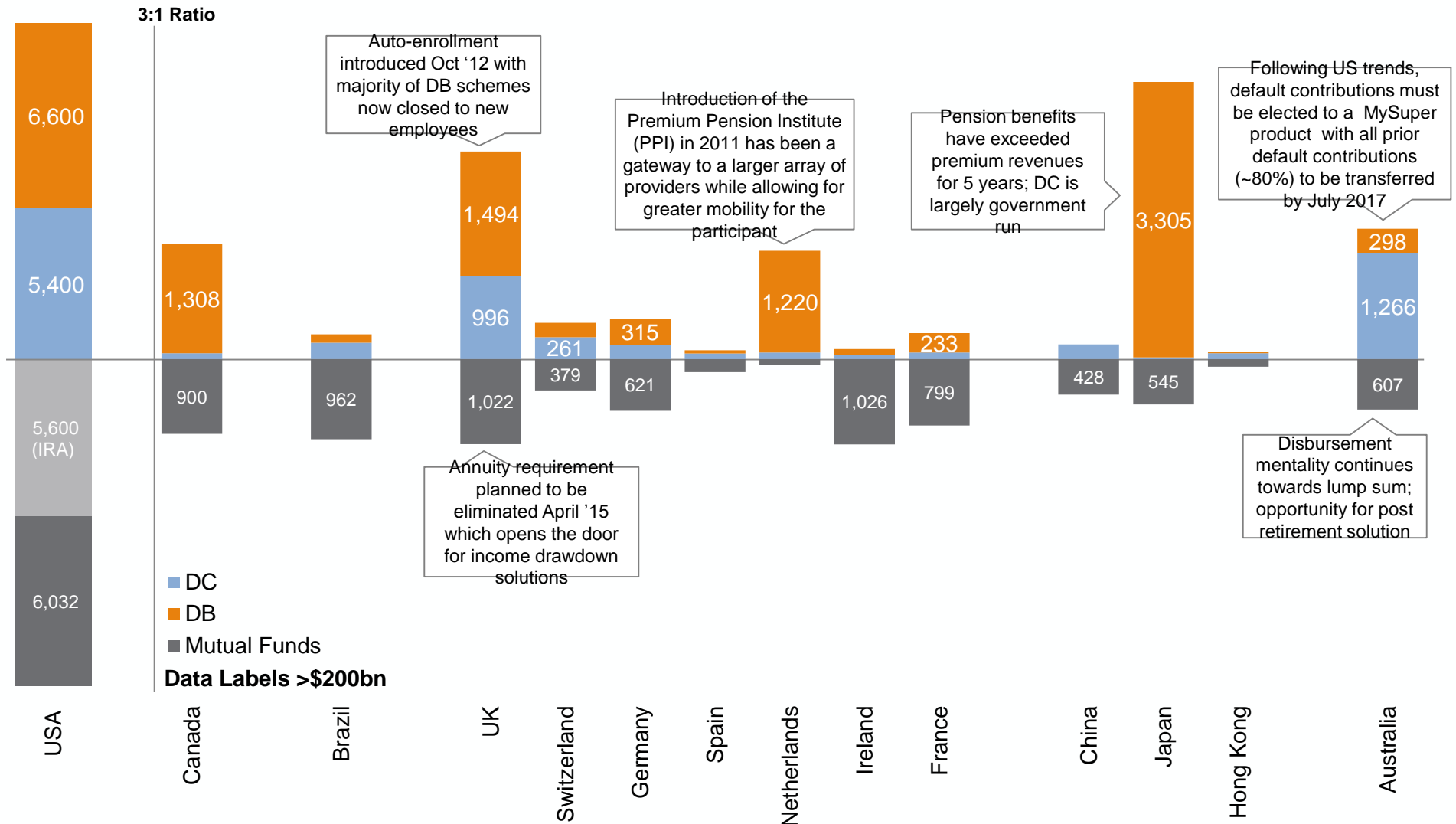
% without a plan to reach financial goals



Source: Natixis 2014 Global Survey of Individual Investors

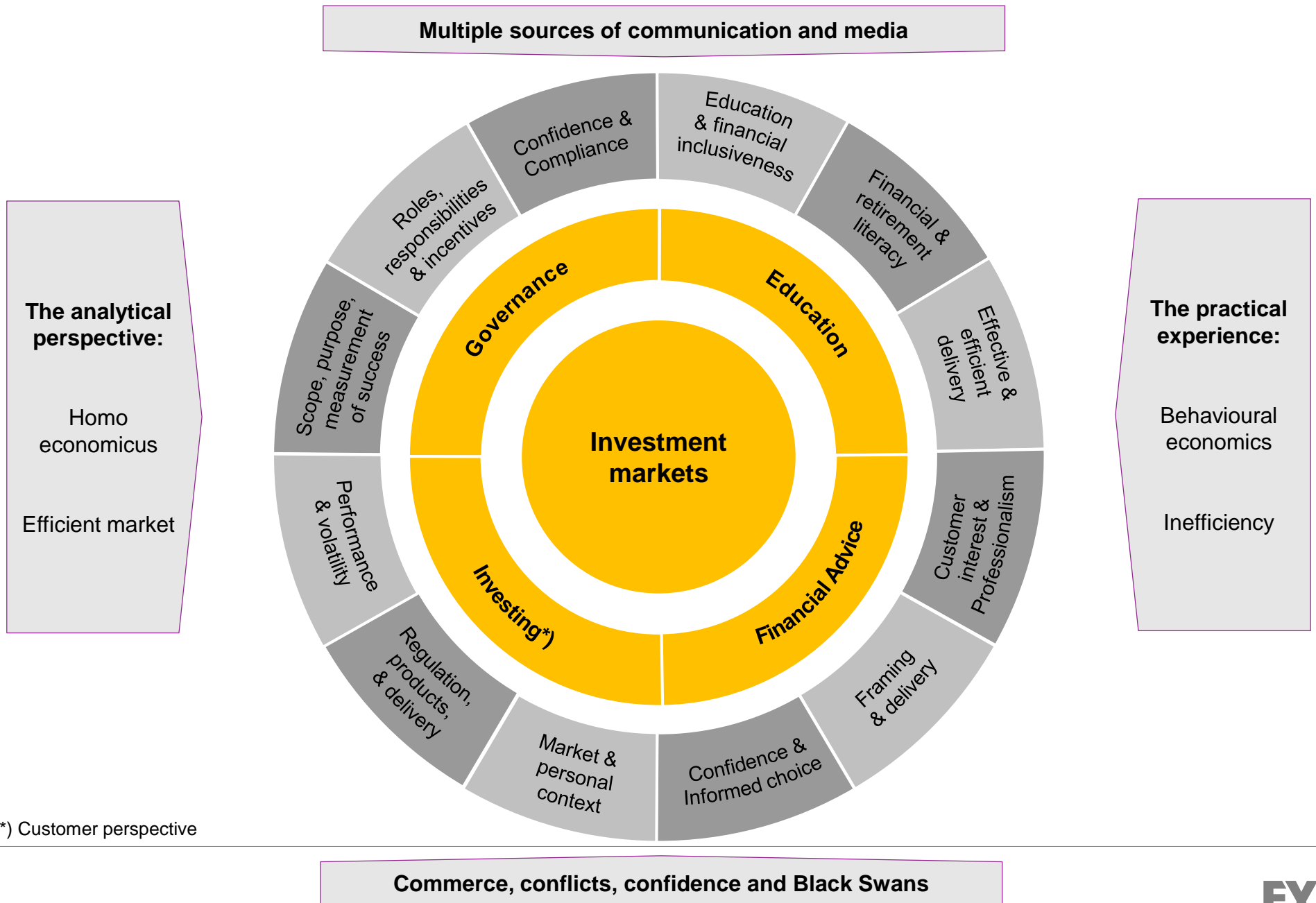
# The global retirement market

Funded asset distribution, 2012 (\$bn, USD), US = \$23.6T, Global = \$19.6T



DC & DB Assets; split projections as of 2010 with 2012 data- Source: <https://www.kpmg.com/GR/en/IssuesAndInsights/ArticlesPublications/Documents/defined-contribution-pensions.pdf>  
 Mutual Funds- Source "Other": The Cerulli Report, Global Markets 2013, Growth in a Flat World

# Many dimensions influence successful investing



\*) Customer perspective

## Key Challenges....

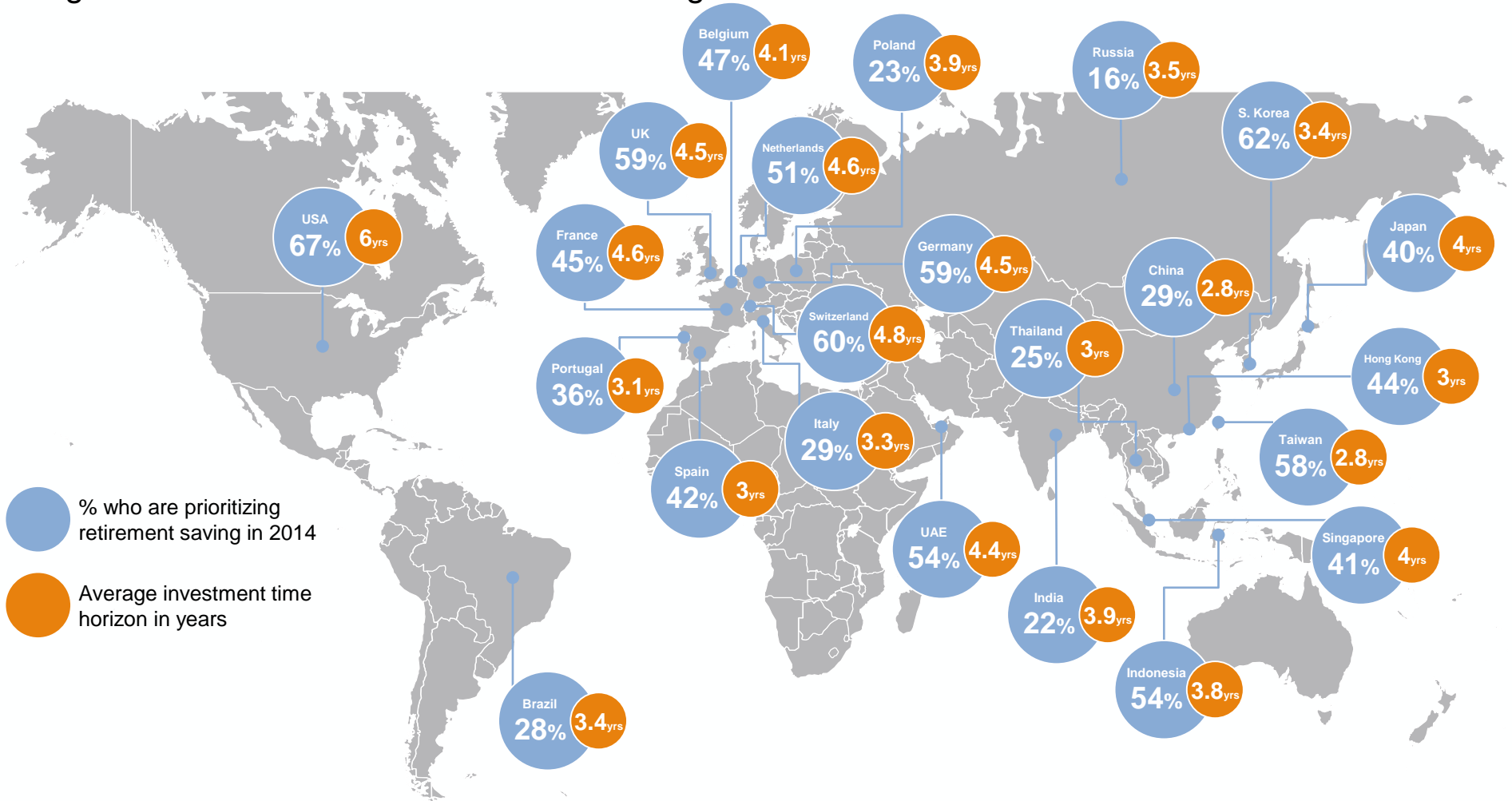
---

- **The Irrational Investor**
- **Culture Clash**
- **The Unintended Consequences of Regulation**
- **Product Innovation: Simplicity vs. Behaviorally-Engineered**



# Investor confidence varies

Divergence between focus on retirement saving and investment time horizons



Schroders

# Why DC Plans in Japan Doesn't Penetrate?

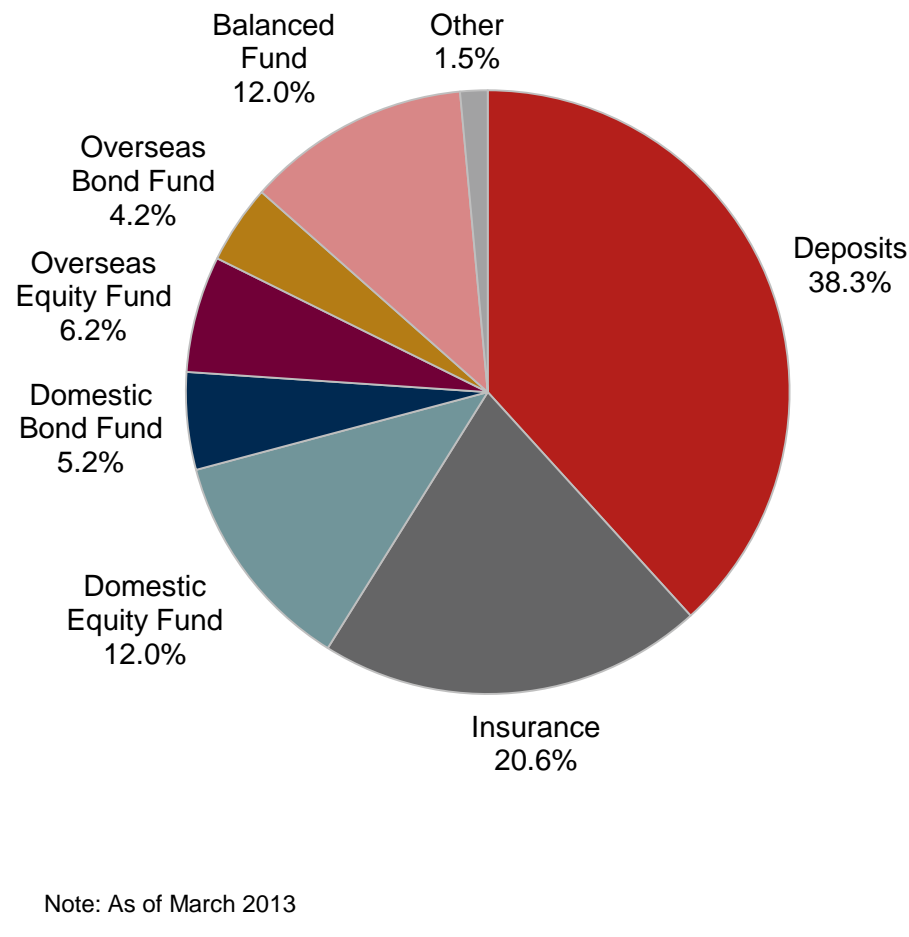
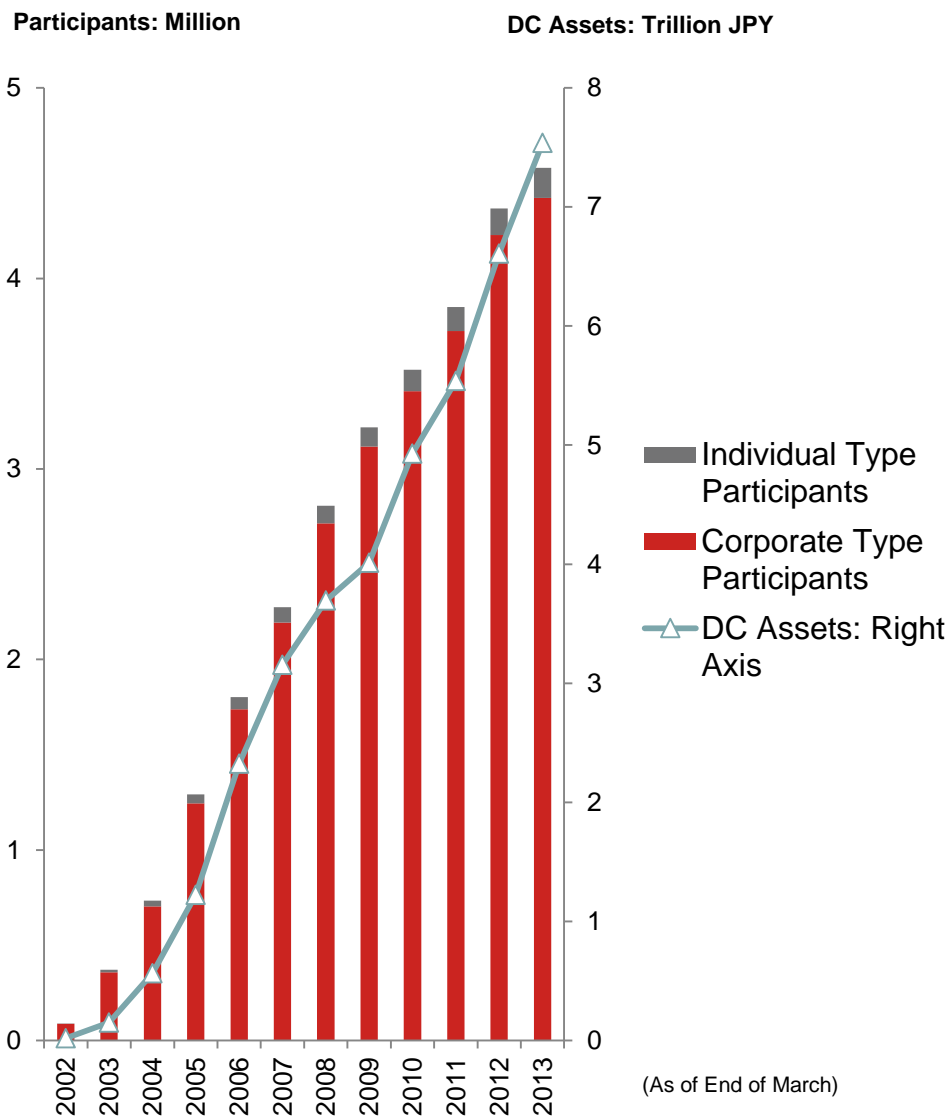
## Major Issues for DC Plans in Japan

<b>Contribution</b>	Low level of maximum contribution	<ul style="list-style-type: none"> <li>■ Corporate (where the only corporate pension is a DC plan): ¥51,000 monthly</li> <li>■ Corporate (where both DB and DC plans are offered): ¥25,500 monthly</li> <li>■ Individual (employees without a corporate pension): ¥23,000 monthly</li> <li>■ Individual (self-employed, etc.): ¥68,000</li> </ul>
	Restrictions on employee contributions	<ul style="list-style-type: none"> <li>■ Restricted to no more than the employer contribution.</li> </ul>
<b>Eligibility</b>	Limited eligibility	<ul style="list-style-type: none"> <li>■ Employees at a company with a DB plan but without a DC plan cannot participate in an individual DC plan.</li> <li>■ Government employees cannot participate.</li> <li>■ Category 3 insureds (non-working spouses) cannot participate.</li> <li>■ With some exceptions, persons aged 60 and older cannot participate.</li> </ul>
<b>Early withdrawals</b>	Severe restrictions on withdrawals before age 60	<ul style="list-style-type: none"> <li>■ The only withdrawals allowed are upon the death or disability of the participant and from inactive participants who had been contributing no more than three years and have assets of no more than ¥500,000.</li> </ul>
<b>Special corporate tax</b>	Sunset provisions on special corporate tax suspension for sponsors	<ul style="list-style-type: none"> <li>■ The special corporate tax suspension expires in March 2017.</li> <li>■ If the tax is reinstated, it will result in a tax on assets in both DC and DB plans.</li> </ul>
<b>Investment instructions</b>	Too much dependence on deposits and insurance products	<ul style="list-style-type: none"> <li>■ Over 60% of DC plan assets are invested in low-risk, low-return vehicles.</li> </ul>

# Unreached Goals of Japan's Retirement Savings

Number of DC Plan Participants and DC Plan AUM in Japan

Allocations of DC Plan (Corporate Type) Assets



# Case Study: NISA (Nippon Individual Savings Account)

## What is NISA?

- On termination of the reduced tax rate from 20% to 10% imposed on income gains and capital gains of listed stocks etc. at the end of 2013, NISA was introduced in January 2014.
- Residents in Japan who are over 20 years old are able to open NISA accounts. Dividends and capital gains from invest in listed shares, stock investment trusts. Etc. are tax-exempt.
- The upper investment limit of NISA is one million yen per year (accumulated base:5 million yen).

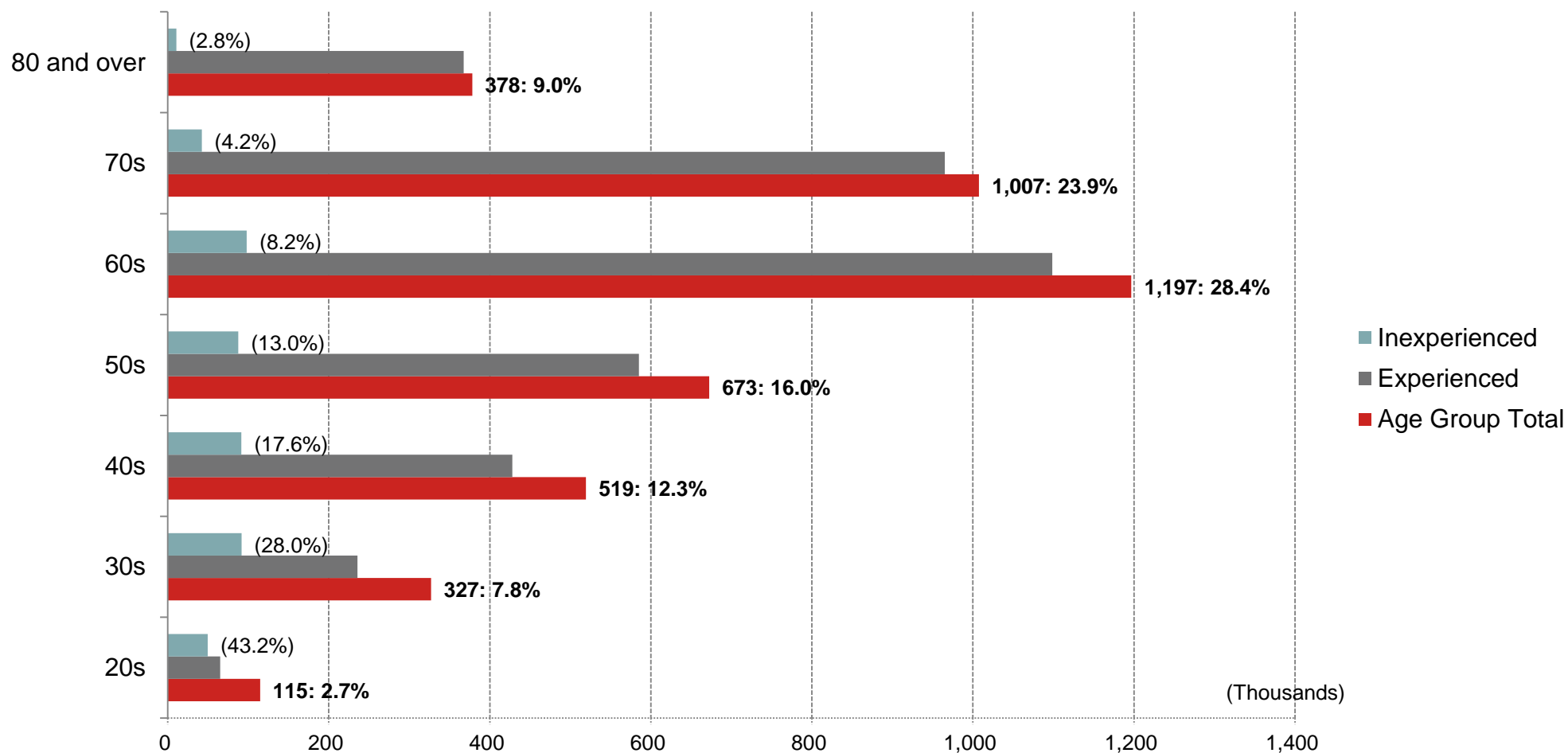
## Outline of NISA

<b>Who is eligible?</b>	Anyone who lives in Japan and is at least 20 years old.	<b>How much can be invested?</b>	A maximum of ¥1 million (approx. US\$10,000) a year can be invested in a NISA up to ¥5 million (approx. US\$50,000) in total. (Unused portion of maximum ¥1 million investment of each year cannot be carried over to following years)
<b>What income is exempt from tax?</b>	Dividends and capital gains from investment in listed shares, stock investment trusts, etc. through a NISA.		
<b>Where can a NISA account be opened?</b>	It can be opened at securities firms (for investing in listed stocks, stock investment trusts, ETFs and REIT) and banks (only for investing in stock investment trusts).	<b>How long is the tax-exempt period?</b>	5 years at longest. After the 5 year period, the investor can hold onto the asset and invest up to ¥1 million yearly under the NISA scheme. Thus the scheme offers a total tax-exempt duration of up to 10 years.
<b>How many NISA accounts can be set up by one person?</b>	Only one.	<b>When can the assets held in the NISA be sold?</b>	Any time. However, if the assets are sold before the tax-exempt period of five years is over, the portion of tax-exempt capital used to purchase the assets cannot be reused within that period.

## Analysis for NISA Account Holders (As of March 2014)

- The number of NISA accounts (at brokerage firms) exceeded 4.2 million only for 3 months since NISA formerly started. If including NISA accounts at banks, around 5 million participants seem to have started.
- However the retired consists more than 60% of account holders. Also the inexperienced investors only consist 11.2% of NISA users.

NISA Account Holders Profile: By Age and Investment Experience



Note: The survey was conducted in March 2014 only for NISA investors with broker-dealers. Figures in parentheses indicate the percentage of inexperienced investors of each age group. Source: NICMR based on the survey by Japan Securities Dealers Association

---

## Additional Questions

# Panel 2: Global Differences in Investor Attitudes Towards Saving and Investing and the Strategic Challenges in Delivering Financial Advice and Education

**S. Katherine Roy**, Moderator  
J.P. Morgan Asset Management

**Josef Pilger**  
Ernst & Young

**Yuta Seki**  
Nomura Institute of Capital Markets Research

**Massimo Tosato**  
Schroders