

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:
"How much should I
set aside for post-
retirement life?"

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

We will introduce
data on money.
This time, the topic is
"Housing Acquisition
Cost."

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Take the Money Quiz!

Q 1

What is the term for the offsetting of profits and losses in determining various income amounts when calculating tax?

A Rolling Over **B** Aggregation of Profit and Loss **C** Switching

Q 2

Which of the following is a feature of an investment trust?

A The principal is guaranteed
B It requires a sizable amount of money to start investing
C Diversified investment in stocks and bonds is possible



Q1

The answer is

B ▶

Offsetting profits and losses in determining various amounts of income when calculating tax is referred to as aggregation of profit and loss. If you have two investment trusts and sell both of them, and one of them runs at a loss and the other runs at a profit, it is possible to reduce (consolidate) the taxable income by combining them together.

Q2

The answer is

C ▶

Should an individual investor desire to diversify the investment portfolio on their own, a significant amount of money would be required, but an investment trust collects a small amounts of money from individuals and manages it as one big fund, thus allowing the diversification of the investment portfolio into various assets and mitigating risk. Investment trusts are financial products born from this diversified investment concept.

A Money Plan That Makes Sense

How much should I set aside for post-retirement life?



Let's calculate it in two steps

1

Work out the total amount of living expenses

How much money is needed for post-retirement life and how much do you have to set aside yourself? Follow the two steps below to calculate it on your own.

The first step is to work out the total amount of living expenses needed for post-retirement life. The total amount of living expenses post-retirement is calculated by multiplying the cost of living each year after retirement by the expected number of years of remaining life. Consider, for example, a couple who retired at the age of 60. According to figures calculated by the Fidelity Investor Education Institute*¹, it is estimated that the annual living expenses post-retirement will be approximately 68% of the annual income immediately prior to retirement, or around 4.66 million yen*². So, let's assume the cost of living after retirement as being 4.66 million yen. A 60-year-old woman has a 20% chance of survival to age 96 years and 2 months*³, so if one considers their spouse will live for approximately 35 years after retirement, the total amount of living expenses post-retirement is calculated as being approximately 163.1 million yen, or 4.66 million yen multiplied by 35 years.

The amount of money you should set aside for yourself by retirement is calculated as "the total amount of living expenses post-retirement minus the total amount of income". First, let's examine the total amount of living expenses.



■ How much living expenses does a couple who retires at the age of 60 need to set aside for the 35 years of post-retirement life?

Total amount of living expenses post-retirement

= Annual living expenses × number of living years

= 4.66 million yen annually × 35 years

= Approximately 163.1 million yen

*1 Estimates by Fidelity Investor Education Institute based on the 2010 "Statistical Survey of Actual Status for Salary in the Private Sector" and "Family Income and Expenditure Survey" (both conducted by The Ministry of Internal Affairs and Communications).

*2 According to the National Tax Agency FY2018 Survey of Pay Rates in the Private Sector, the average salary of men in their late 50s is approx. 6.86 million yen.

*3 Calculated by Fidelity Investor Education Institute from the Ministry of Health, Labor and Welfare "2014 Abridged Life Table"

2

Let's find out your total income

Once you know the total amount of living expenses post-retirement, the next step is to look at the total income. If you subtract "total income" from "total amount of living expenses post-retirement," you will understand the total amount of money you should set aside for retirement.

Public pensions represent the main source of income post-retirement. According to the Ministry of Health, Labor and Welfare, the welfare pension (standard pension amount including old-age pension for a husband and wife)*4 for 2020 is approximately 221,000 yen per month, or about 2.65 million yen per year.

Let's look at the total amount of the welfare pension under the same conditions as above. The annual pension that can be received is approximately 2.65 million yen, and if the period is calculated as 30 years from the age at which the pension begins at 65 through to 95 years old, the total amount of pension received is calculated as being approximately 2.65 million yen per year multiplied by 30 years, or approximately 79.5 million yen.

If the total amount of living expenses post-retirement is approximately 163.1 million yen, the difference from the total amount of public pensions received is approximately 83.6 million yen. This difference is the total amount of money you should set aside yourself for retirement.

The total amount of living expenses post-retirement minus the amount of income (the total amount of public pension) is the total amount of money you should set aside yourself before retirement.



■ How much money should I set aside for retirement?

Amount of money to set aside by yourself before retirement

= Total amount of living expenses – annual amount of public pension × number of years of life

= Approx. 163.1 million yen – approx. 2.65 million yen (annual amount) × 30 years

= Approx. 83.6 million yen *5

*4 Example of the pension amount of a new subscriber (67 years old or younger) in 2020. Initial benefit level for a household when a husband is a company employee who has worked for 40 years with an average income (average standard remuneration (converted into monthly amount including bonus) of 439 thousand yen) and his wife is a full-time housewife for the same period. (Pension Division, Pension Bureau, Ministry of Health, Labor and Welfare, January 24, 2020)

*5 If your employer has introduced a retirement allowance or corporate pension, that amount can be deducted. In addition, assuming that you shall continue to work after retirement, you can also deduct that amount of income.

In order to make a reasonable financial plan for retirement, it is important to be aware of how much money you should set aside on your own prior to retirement.

Taking into account the standard of living after retirement, it is advisable to perform calculations early.

Housing acquisition cost

「How Much is the Housing
Acquisition Cost?」



Approx. **27.94** million yen to
approx. **49.41** million yen

(Source) Japan Housing Finance Agency "Consumer Survey Report of Flat 35 Customers 2018"

A house is said to be the most expensive purchase in life. How much money is required to purchase a house? The table shows the results of the "Consumer Survey Report of Flat 35 Customers 2018" conducted by the Japan Housing Finance Agency. Looking at the national average of purchase prices by type, custom houses and land run 41.126 million yen, ready-built houses run 34.421 million yen, and condominiums run 44.372 million yen.

However, the price difference by region (especially land cost) is also a feature of housing prices. While there are regions where houses can be acquired for approximately 27 million yen, the average purchase price of condominiums in the Tokyo metropolitan area exceeds 49 million yen.

In addition, in 2020, lifestyles have changed drastically such as the expansion of teleworking to prevent the spread of COVID-19. In the future, it is possible that various new trends will emerge in the selection of houses.

Consumer Survey Results of Flat 35 Customers 2018

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	Custom Houses and Land	Ready-Built Houses	Condominiums
National Average	41.126 mil. yen	34.422 mil. yen	44.372 mil. yen
Tokyo Metropolitan Area	47.747 mil. yen	38.338 mil. yen	49.405 mil. yen
Kinki Region	42.273 mil. yen	32.591 mil. yen	41.071 mil. yen
Tokai Region	41.065 mil. yen	29.762 mil. yen	40.169 mil. yen
Other Regions	37.621 mil. yen	27.941 mil. yen	34.660 mil. yen

(Source) Japan Housing Finance Agency "Consumer Survey Report of Flat 35 Customers 2018"

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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.