

Jun 24, 2014

R&I Assigns AA, Stable: The Retirement Allowance Foundation for Private Universities and Colleges of Japan

Rating and Investment Information, Inc. (R&I) has announced the following:

ISSUER: The Retirement Allowance Foundation for Private Universities and Colleges of Japan
Issuer Rating: AA, Assigned
Rating Outlook: Stable

RATIONALE:

The Retirement Allowance Foundation for Private Universities and Colleges of Japan (RAFPUC) is a public interest incorporated foundation that engages in the management and operations of "allowance" funds provided to private universities and junior and technical colleges. It collects premiums from private universities and colleges, and provides funds necessary for retirement payment to their faculty and staff. It commenced the fund management and operations in 1982. In April 2013, RAFPUC became a public interest incorporated foundation, following the institutional reform of public-service corporations by the government. RAFPUC's objectives are to establish a safety net that ensures the same level of retirement allowances as those for national government employees and to help member universities and colleges stabilize and improve remuneration for their faculty and staff. With nearly 90% of nationwide private universities and colleges being a member, RAFPUC is effectively a monopoly in the segment of retirement allowance funds.

In many cases, the management and operations of "allowance" funds are closely tied to the industry sector to which funds are provided. The entire sector's capacity to pay premiums, changes in the number of retirees, and attributes of member bodies and individuals are among important factors for rating evaluation. Furthermore, since the size of a fund management organization and management resources are generally limited, it is desirable that the "allowance" fund framework involving the relevant sector should have mechanisms that allow it to ensure stable management. It is thus also important to evaluate the mechanisms.

The operating base for RAFPUC is extremely stable. Thanks partly to a slowed pace of decrease in the population of 18-year olds, the financial situation of domestic universities overall continues to improve albeit moderately. R&I is not concerned about member institutions' capacity to pay premiums for the foreseeable future. Moreover, any major increases/decreases in retirees beyond estimates are unthinkable, since rapid changes in the operating environment are unlikely in the university sector.

Premiums member private universities and colleges pay to RAFPUC are subsidized by the national government, and this gives strong incentives to become a member. RAFPUC is restricted not to book large profits because of its status as a public interest incorporated foundation. Even so, it has mechanisms that stabilize revenues/expenses for a long time, including flexible rules on premium rate revision, in addition to the fact that it has no debt-financing costs. There is no special worry about the feasibility of them.

RAFPUC has a stringent financial discipline. After it logged unrealized losses in the investment portfolio in the past, investment rules were changed. Currently, it mainly invests in Japanese Government Bonds (JGB) and takes only a limited credit risk. As a funding method, it adopts an adjusted pay-as-you-go system, which retains one year's worth of retirement funds provided to members in its asset holdings. Since retirement fund payments will unlikely increase at a rapid pace, R&I is not concerned about the financial base deteriorating seriously. At the same time, RAFPUC has ample liquidity.

In consideration of the above factors, R&I has assigned an Issuer Rating of AA, with a Stable Rating Outlook. Note that the Issuer Rating will not be above the creditworthiness of Japan, given that premiums

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private universities and colleges pay are subsidized by the national government and a large part of RAFPUC's investment portfolio is JGB.

The primary rating methodology applied to this rating is provided at "Basic Methodologies for R&I's Credit Rating". The methodology is available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.

<http://www.r-i.co.jp/eng/cfp/about/methodology/index.html>

R&I RATINGS:

ISSUER: The Retirement Allowance Foundation for Private Universities and Colleges of Japan
Issuer Rating

RATING: AA, Assigned

RATING OUTLOOK: Stable