

Jul 17, 2015

## R&I Affirms 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, Affirmed  
**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 the faculty and staff of private universities and private junior and technical colleges. RAFPUC exclusively undertakes the management and operations of allowance funds for the said private educational institutions across the nation. A sufficient number of private schools are needed in order to enhance the quality of public education, and to accomplish this, private educational institutions (school corporations) must be stably managed and remuneration and benefits for the faculty and staff of private schools must be assured. The need for a retirement benefit system that offers the same level of retirement pay as public universities is high. About 600 or 90% of all the school corporations in Japan join the foundation. When member school corporations pay retirement allowances to their faculty and staff, RAFPUC provides them with necessary funds. The source of allowance funds is premiums collected from member school corporations. The premiums member school corporations pay to RAFPUC are subsidized by incentive grants from the national government. There have been no changes in the stability of its operating base, or in the mechanisms for maintaining the management and operations of allowance funds, including a premium rate which is reviewed every three years, a solid relationship with related organizations consisting of private universities and other private educational institutions, and a conservative financial management policy.

Although the business environment for private universities, etc. is projected to be harsher partly because the population of 18-year olds will decrease in 2018 and thereafter, the industry risk is relatively small. Concern about members' capacity to pay premiums is thus limited. A more-than-expected increase/decrease in retirees is also unlikely. The 10th premium rate to be applied from FY2016 will be even lower than the current level, which means that reserve assets as a risk buffer will decrease with the provision of allowance funds exceeding premiums over the next 20 years or so. RAFPUC plans this rate cut because it needs to reduce the amount of reserve assets to a year's worth of allowance funds in response to the guidance from the Cabinet Office. Given that the implementation of this measure will end in FY2036 and that reserve assets equivalent to a year's worth of allowance funds are ensured even after draw-downs, the impact on the rating is marginal. Even if the provision of allowance funds by RAFPUC is under certain stress, it is unlikely that retirement allowance payments will exceed the sum of premium revenue and reserve assets.

RAFPUC's risk appetite is low, since it has no strong need to achieve high returns from investments and there is no earnings pressure on operations. Most of assets in its investment portfolio are Japanese Government Bonds (JGBs). Given that they are basically classified as held-to-maturity securities, the portfolio entails no price fluctuation risk. To make investments in ultra-long term JGBs acceptable in a historically low interest rate environment, RAFPUC has extended the maximum duration of debt securities in the portfolio to 20 years in its revisions to rules on asset management. However, this is merely a temporary measure for the extraordinary environment, and RAFPUC has no intention to take risks actively. Even if it decides to invest in ultra-long term JGBs, the acquisition is aimed at reinvestment and is limited to a partial amount of bonds that are maturing. Accordingly, there should be no impact on the payment of retirement allowances. RAFPUC maintains its conservative financial management policy.

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The primary rating methodology applied to this rating is provided at "R&I's Basic Methodology for Corporate Credit Ratings". 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, Affirmed

**RATING OUTLOOK:** Stable