

Jul 21, 2016

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 retirement allowance funds provided to the faculty and staff of private universities and junior and technical colleges (private schools). Its activities have a strong public nature, helping private schools secure a competent faculty and staff by enabling them to pay the same level of retirement allowances as state-run universities. As most private schools join RAFPUC, its operating base is very stable. Even so, the rating is constrained by the creditworthiness of Japan's sovereign, because the national government grants subsidies to member school corporations and the vast majority of assets in RAFPUC's investment portfolio are Japanese government bonds.

The business environment for private schools will become gradually harsher due partly to a shrinking population of 18-year olds. Given a relatively low industry risk, however, R&I is not concerned about members' capacity to pay premiums. Furthermore, the relationship between RAFPUC and organizations consisting of private schools is solid. These factors, combined with premium rates reviewed periodically, constitute a mechanism that allows stable management and operations of allowance funds over the long term.

In response to the guidance from the Cabinet Office, RAFPUC plans to reduce the amount of reserve assets as a risk buffer to a year's worth of allowance funds. Reserve assets are projected to decrease, with the provision of allowance funds basically greater than premium revenue until FY2036 ending March 2037. Its impact on the rating is marginal, however, because reserve assets equivalent to a year's worth of allowance funds will be ensured even in FY2036. It is unlikely that retirement allowance payments will exceed the sum of premium revenue and reserve assets.

Even in the negative interest rate environment, RAFPUC maintains its conservative financial management policy. Since it works to establish and strengthen back office processes, including information security, concern over improper management and operations is also small.

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>

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R&I RATINGS:**ISSUER:****The Retirement Allowance Foundation for Private Universities and
Colleges of Japan****Issuer Rating****RATING:****AA, Affirmed****RATING OUTLOOK:****Stable**

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