

CONTENTS

Feature Articles

This month's focus: **Financial Gerontology**

Overview	<i>Akiko Nomura, CMA</i>	2
-----------------------	--------------------------	---

Articles

Financial Gerontology in a Super-Aging Society	<i>Kohei Komamura</i>	6
---	-----------------------	---

The government is looking at 'financial gerontology' to solve issues related to asset management in a super-aging society. However, financial gerontology is not yet an established academic field in Japan.

In this article, we show that financial gerontology is regarded as a new research field based on gerontology, cognitive science, and behavioral economics. Financial gerontology focuses on the declining cognitive abilities of people in terms of asset management. In the super-aging society, the share of financial assets owned by the elderly is estimated to increase from 22% in 2015 to 30% in 2035.

Financial gerontology is expected to make policy contributions toward the establishment of new market rules related to elderly investors in a super-aging society.

Wealth Management for Retirees	<i>Yasuyuki Katoh, CMA</i>	19
---	----------------------------	----

As wealth management for retirees is different from that for working generations in many senses, an appropriate methodology for retirees should be employed. In this paper, three approaches are introduced, including ① withdrawal rate and bankruptcy, ② investment timing risk for lump sums, and ③ personalization of investment strategies. Empirical analysis of these approaches showed that ① investment strategies and inflation rate are important factors for bankruptcy, ② dollar-cost averaging works reasonably well, and ③ AHP (analytic hierarchy process) -based investment strategies are a good way to personalize from a multi-functional perspective.

Financial Gerontology and Home Equity Release Schemes	<i>Hisashi Ohgaki</i>	29
--	-----------------------	----

Residential assets account for some 52% of the entire assets of retirees. Currently, typical types of reverse mortgages offered in Japan are either HELOC (home equity lines of credit) to provide liquidity for unexpected events or quasi-forward mortgages to secure appropriate housing for elderly life. In both types, it is common that only principal payment is deferred until the death of the borrower. Paying interest substantially reduces longevity risk for lenders and uncertainty as to the final debt balance for borrowers. As only 12% of the elderly die in their own homes, we need to consider accelerating principal repayment when borrowers cease to live in the homes put up as collateral. Taking into account that the rental market in Japan has little to do with the sale market

and the former is far more stable and predictable than the latter, it would also be beneficial for both lenders and borrowers not to sell the collateral in the market but to rent out and redeem the debt balance as much as possible through rental income over a period of time even after death of borrowers. With these changes we would be able to better cope with the concern about what happens when borrowers of 35-year mortgages, that have become popular since around 2001, start to retire leaving about 10 years until maturity.

We may also need to come up with more efficient, and more predictable residential financing schemes for younger generations to make sure that they may make the most of residential value in the future while keeping maximum flexibility in their housing decisions.

Post Retirement Asset Management in the UK— ‘Pension Freedom’ and the Impact	<i>Tetsuya Kamiyama</i>	39
---	-------------------------	----

‘Pension freedom’, which gives consumers more freedom in accessing their pension pots, was implemented in the UK in 2015. As a consequence, consumer behavior did change with many accessing pots earlier and moving into drawdowns. On the other hand, new problems such as pension transfer emerged as a consequence. There may be lessons Japan can learn from the UK’s experience, where the regulatory architecture of defined contribution pensions was liberalized and restructured.

Prospects

Simultaneous Estimation of Growth and Cost of Capital: Part I	<i>Hiroyuki Ishikawa</i>	50
--	--------------------------	----

Economic and Industrial Analysis

Lack of Comparability between Entities through IFRS Penetration	<i>Yoshihiro Nomura, CMA</i>	55
--	------------------------------	----

Point of View	<i>Hisashi Ietsugu</i>	65
----------------------	------------------------	----

Articles

Accuracy of Management Earnings Forecasts and CEO Ability	<i>Zhang Jiao</i>	69
--	-------------------	----

Assuming that CEOs try to accurately predict earnings forecasts, this paper studies the influence of CEO ability on the accuracy of management earnings forecasts. Indeed, the results show that the greater a CEO’s ability, the more accurate are the released earnings forecasts. By clarifying the relationship between the accuracy of management earnings forecasts and CEO ability at Japanese firms this study offers new findings that contribute to prior research on the subject.

Macro Factors in Asset Allocation and Application to Risk Analysis		
.....	<i>Akio Ito, CMA / Kei Nakagawa, CMA</i>	80
	<p>To capture non-traditional sources of return, i.e., factors, a factor-based investment approach is attracting attention in asset allocation practice. In this paper, as a result of analyzing the meaning of factors in the multi-asset market obtained by principal component analysis, the top three factors could be interpreted as economic growth, real interest rate, and inflation. Therefore, we term these factors ‘macro factors’. We also confirmed that these macro factors are effective for risk analysis of various asset classes, policy asset mix, and hedge fund indexes.</p>	
Book Reviews <i>Tsuyoshi Kawata, CMA / Takafumi Sasaki, CMA / Sadakazu Osaki, CMA</i>	91
SAAJ News	98