

Inter-jurisdictional Interaction on Premium-setting: the Case of Long-term Care Insurance in Japan

Katsuyoshi Nakazawa

Faculty of Economics, Toyo University

Kota Sugahara

Faculty of Economics, Kyoto Sangyo University

Minoru Kunizaki

Faculty of Economics, Aichi University

Abstract

This paper considers the effect of inter-jurisdictional interaction on premium-setting behavior of municipalities in the Japanese system of long-term care insurance (LTCI). We find that cities are facing political pressure from the elderly, and engaged in yardstick competition on premium-setting. This causes insufficient premium revenue for financing benefit expenditure, and thus the LTCI special account requires the intra-municipal transfer from municipal general account. On the other hand, towns and villages are also facing political pressure from the elderly on premium-setting; however they would be controlled by the instruction of upper level governments. Although it should be avoided that rigid premium-setting will cause excessively heavy burden on the elderly, the restriction on the intra-municipal transfer is required in order to tame inter-jurisdictional interaction and to keep balanced budget of LTCI special account.

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