

Unexpected negative impacts of the 2003 social insurance premium reform*

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Abstract

In 2003 in Japan, a total reward system was introduced for the employees' pension insurance and health insurance. Due to this reform, the insurance premiums for bonuses increased from 1 % to 8.2 %. In response to this reform, theoretically, firms whose costs increased should have decreased the fraction of bonuses among all compensation, and this tendency should be stronger for those whose bonus ratio was originally very high. We utilized this natural experiment to explore how this reform affected firms' behaviors, particularly the bonus/monthly salary ratio, the bonus payments, monthly salary, work hours, and employment, using a rich Japanese national dataset. Quantile difference-in-differences and the Dinardo, Fortin, and Lemieux decomposition confirm that those whose bonus amount was affected the most were firms with small amounts of bonuses, and that large firms paying large amounts of bonuses were not affected much by this reform. The same things can be said for other variables except bonus ratio. The hypothesis about bonus ratio is also supported by the rich national data.

JEL Classification: J33, J38, H20

Keywords: Bonus ratio, Social insurance premium, Quantile difference-in-differences, Dinardo, Fortin, and Lemieux decomposition

*This study was conducted as a part of a project of the Joint Usage and Research Center, the Institute of Economic Research, Hitotsubashi University. We wish to thank participants at the micro-data seminar at Hitotsubashi University for many helpful comments. We are also thankful that Daiji Kawaguchi kindly gave us many comments on this project. This manuscript has not been published or presented elsewhere in part or in entirety, and is not under consideration by another journal. There are no conflicts of interest to declare.

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