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Fringe Benefits

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I. What are fringe benefits?

“Fringe benefits” (referred to below as “benefits”) basically refers to remuneration other than the wage that enterprises regularly offer to employees. When benefits are substantial, enterprises can expect to secure and retain a competent workforce and boost their motivation to work, while workers can work with peace of mind and effectively demonstrate their abilities. This is enterprises’ fundamental purpose in introducing benefits, which are considered to be systems with positive outcomes for both labor and management.

II. Breakdown of labor costs and welfare expenses

All costs incurred by employers hiring workers (i.e. enterprises’ share of costs) are labor costs, and as Figure 1 shows, the majority of labor costs consist of cash earnings. Looking at the breakdown of labor costs other than cash earnings, they include statutory welfare costs, voluntary social benefits and retirement allowances (see the right-hand side of the figure). Since retirement allowances are statistically regarded as “labor costs other than cash earnings,” they may on occasion be regarded as belonging to the category of benefits, but basically they are interpreted as part of wages and remuneration, paid collectively at retirement. Retirement allowances are paid only if payment criteria are clearly defined by the work rules, or by labor-management practices or labor-management agreements.

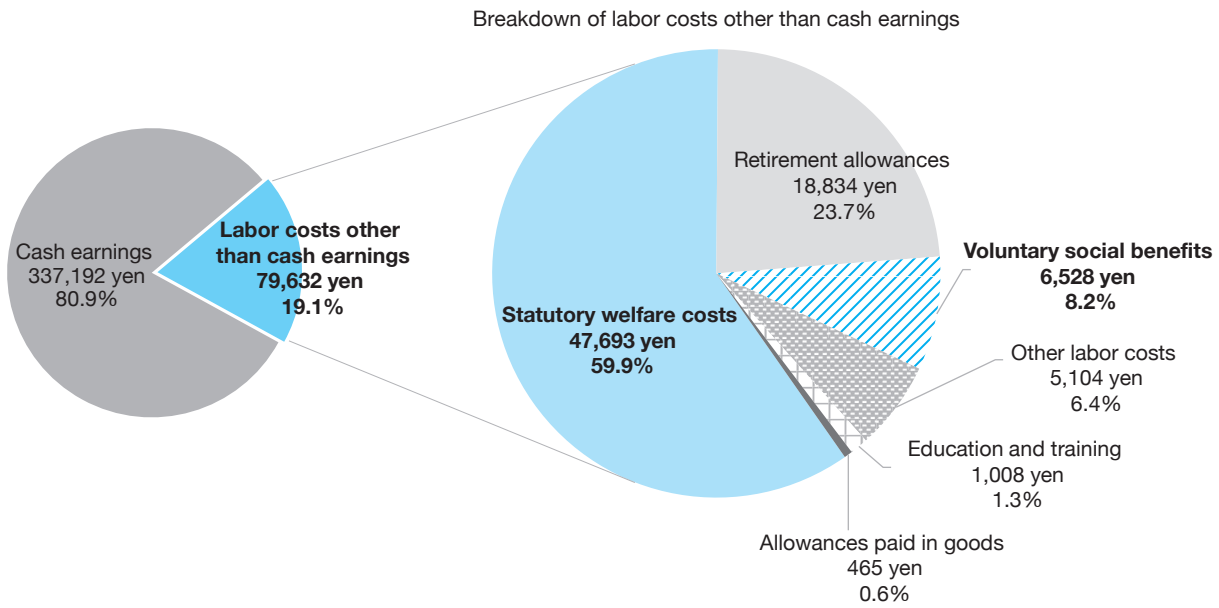
Welfare expenses are subdivided into statutory welfare costs and voluntary social benefits. The

former are the costs of benefits that are defined by laws on social insurance, and comprise social insurance-related expenses including medical insurance, pension insurance, long-term care insurance, industrial accident compensation insurance, and employment insurance, of which enterprises and workers share costs. The latter consist of costs of benefits defined by enterprises at their own discretion which apply only to employees who work in-house. Typical examples are provision of company housing and assistance with home purchases. Although these are said to be voluntary benefits, they may be subject to laws and regulations, such as non-discrimination provisions under the Equal Employment Opportunity Act¹, and regulations regarding company housing and systems of personal savings within the company under the Labor Standards Act.

III. Changes in welfare expenses: Long-term trends

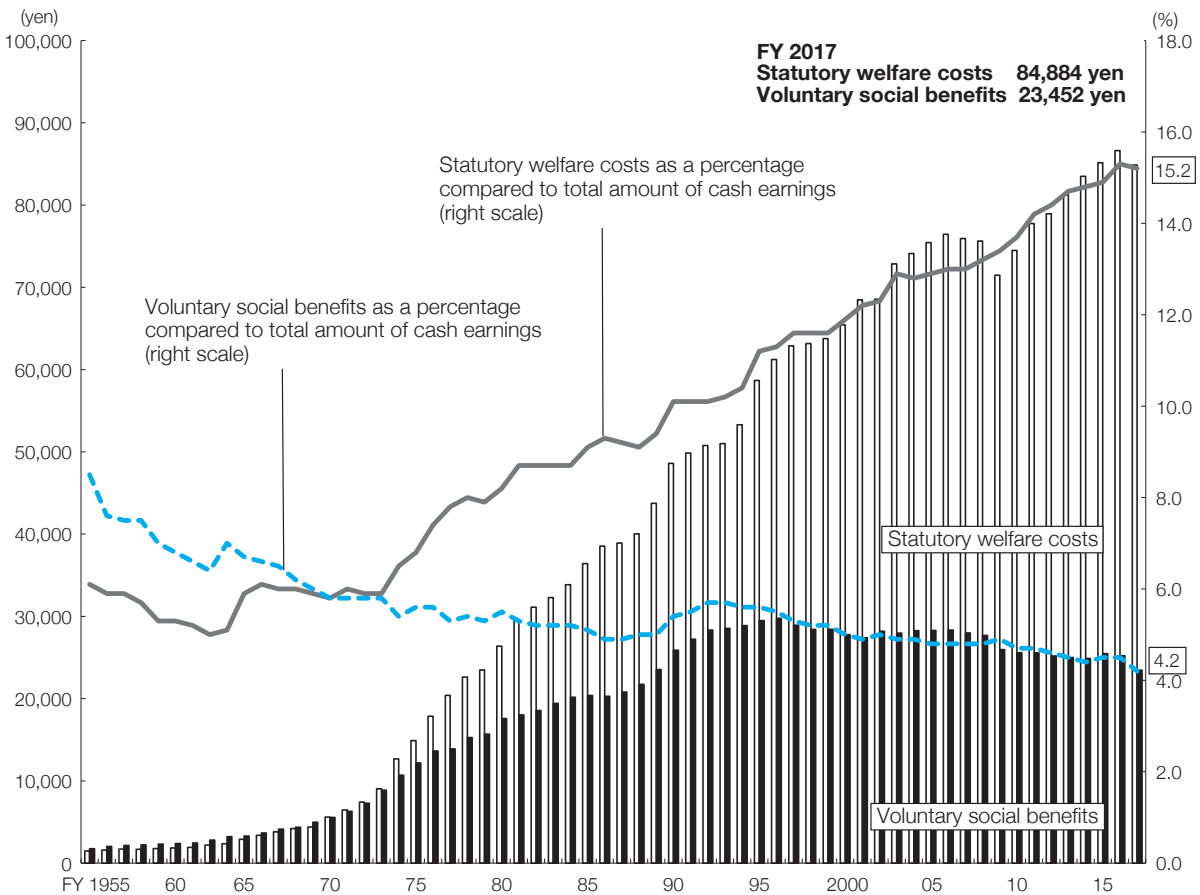
Let us examine changes in welfare expenses over time based on the Japan Business Federation (Keidanren)² survey on corporate welfare expenditures for FY 2017 (Figure 2). The survey covers enterprises belonging to Keidanren, and thus basically illustrates the situation in large enterprises. The difference between large enterprises and small and medium-sized enterprises (SMEs) in terms of benefits is an important issue, which will be discussed later.

The average across all industries of enterprises’ welfare expenses for FY 2017 (total of statutory welfare costs and voluntary social benefits) was



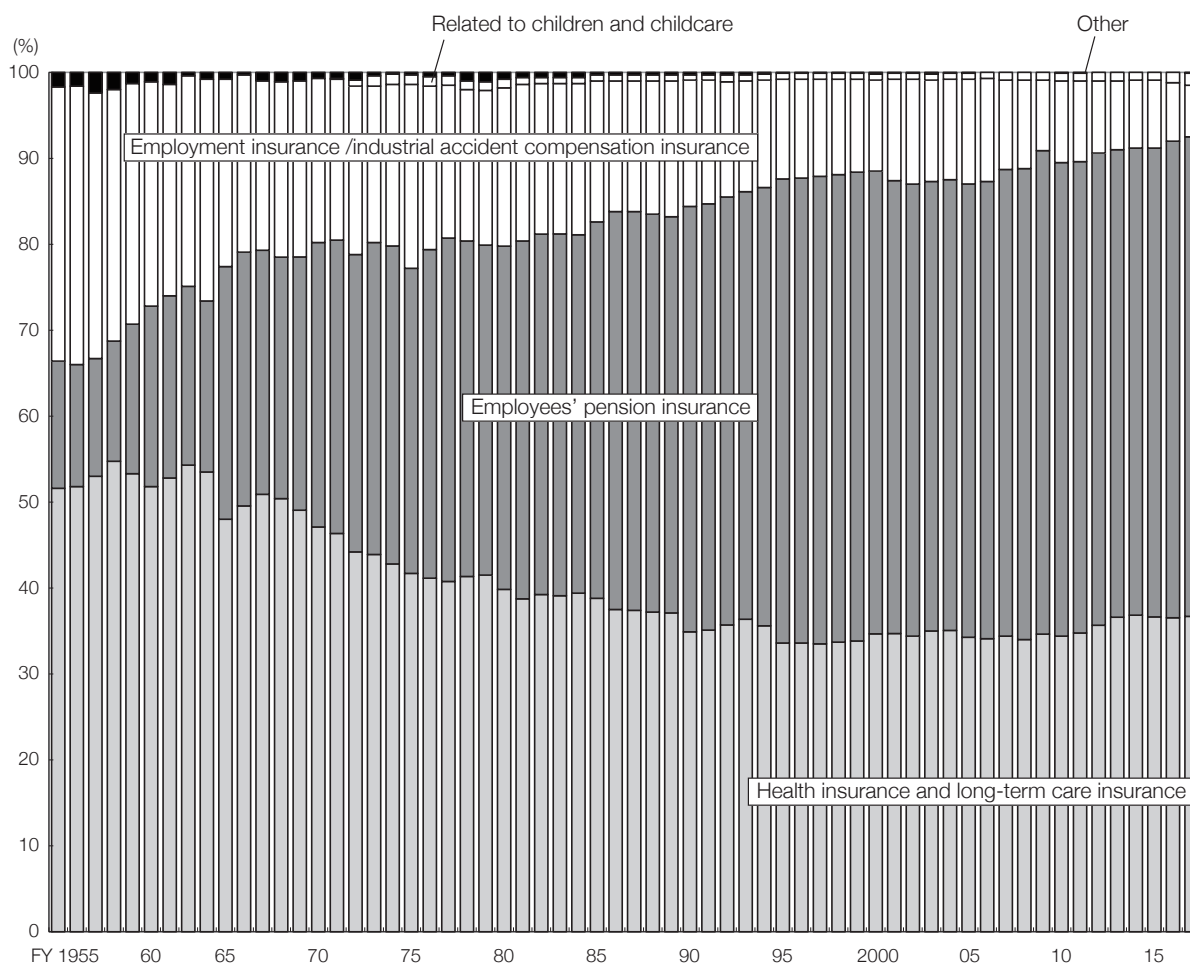
Source: Prepared on the basis of MHLW, "General Survey on Working Conditions 2016," 2017.

Figure 1. Average monthly labor cost per regular employee



Source: Prepared on the basis of Japan Business Federation, "Results of Survey on Corporate Welfare Expenditures for FY 2017," 2018.

Figure 2. Change in welfare expenses



Source: Prepared on the basis of Japan Business Federation, "Results of Survey on Corporate Welfare Expenditures for FY 2017," 2018.

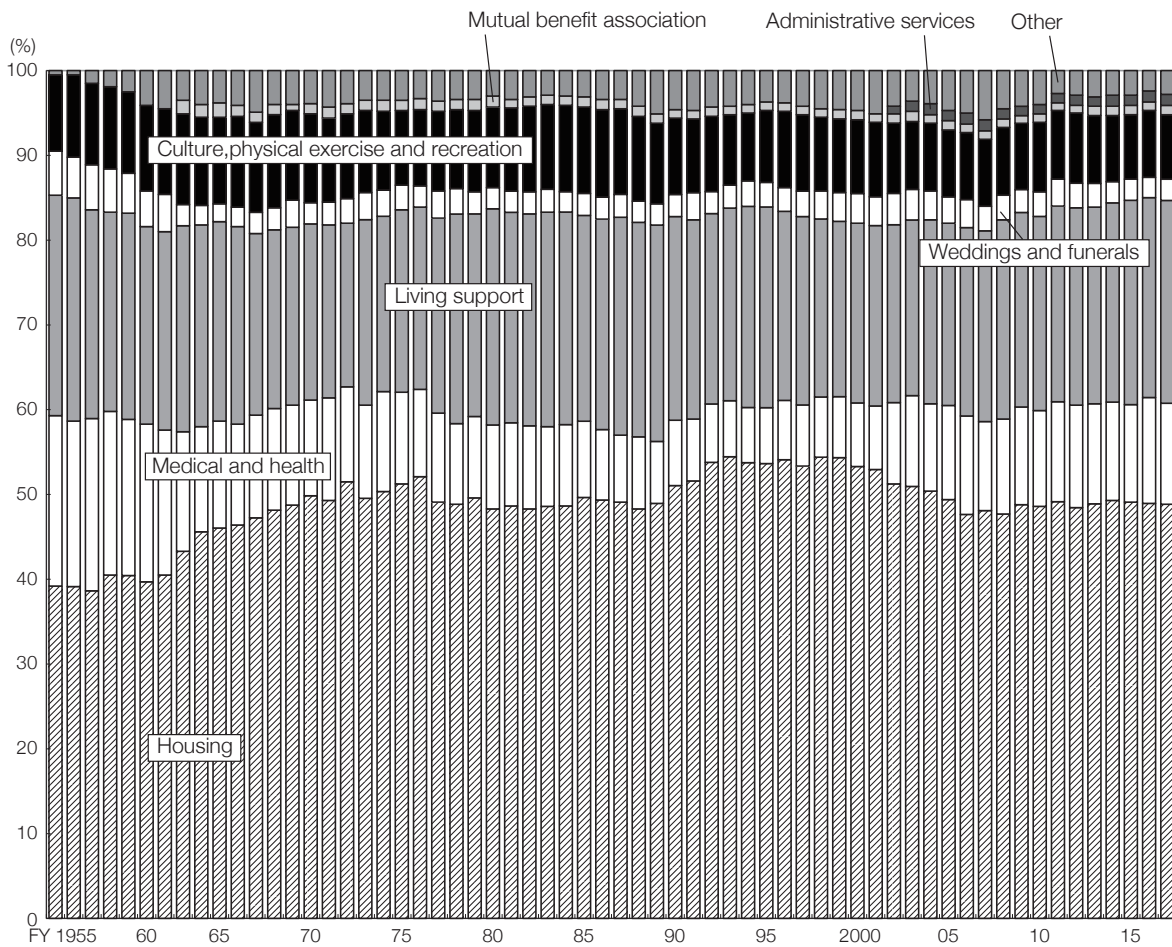
Figure 3. Breakdown of statutory welfare costs

108,336 yen per employee per month, (down 3.1% year-on-year), which accounts for only 19.4% of total cash earnings. Statutory welfare costs were 84,884 yen (down 2.0% year-on-year) and voluntary social benefits were 23,452 yen (down 7.0% year-on-year).

Until 1970, voluntary social benefits had accounted for larger part of cash earnings than statutory welfare costs, but the latter surpassed the former that year, and the ratio of statutory welfare costs to cash earnings has been consistently on the rise. For example, the ratio of statutory welfare costs to total amount of cash earnings was 5.8% in 1970, but in 2017 it reached approximately one-sixth, or 15.2%. In contrast, the ratio of voluntary social benefits to total amount of cash earnings has

continued to decline, from between 5% and 6% in the 1970s to 4.2% in 2017. This trend is considered to result from an increase in costs borne by employers due to increases in premium rates of employees' pension insurance, health insurance and so forth due to the declining birthrate and aging population.

Examining the breakdown of statutory welfare costs and its changes (Figure 3), we see an ongoing year-on-year rise in the aggregate amount of employees' pension insurance and health and long-term care insurance as a percentage of the total. Their shares of statutory welfare costs in fiscal 2017 were 55.8% and 36.7% respectively, which when combined exceeds 90%. Clearly, it can be considered as the impact of the declining birthrate and the aging of the population.



Source: Prepared on the basis of Japan Business Federation, "Results of Survey on Corporate Welfare Expenditures for FY 2017," 2018.

Figure 4. Breakdown of voluntary social benefits

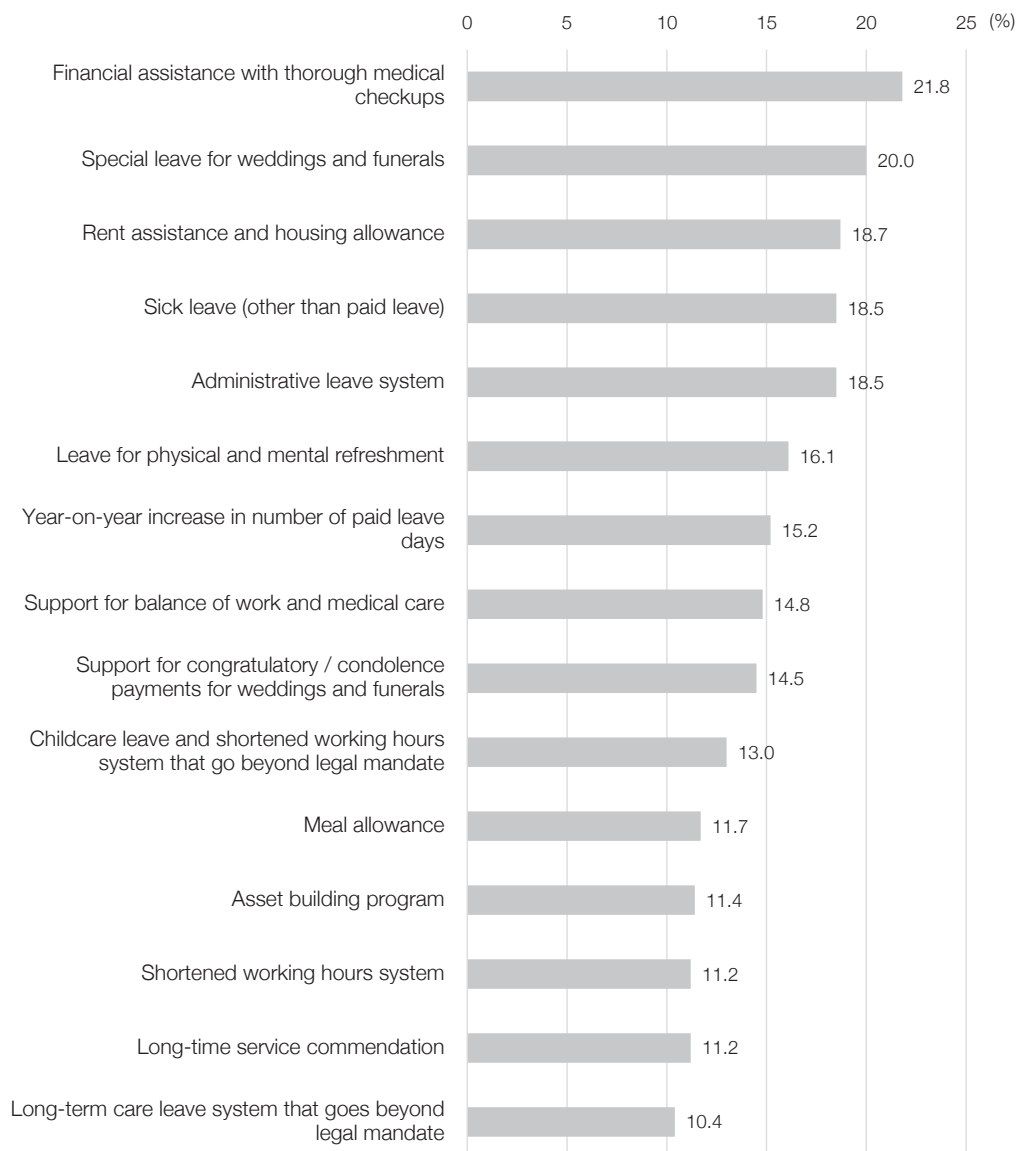
The breakdown of voluntary social benefits and its changes over time are shown in Figure 4. Housing-related expenses such as assistance with home purchases were the largest category, accounting for about 50%. This was followed by the cost of supporting various aspects of workers' day-to-day lives (shown as "living support") such as providing meals, purchasing and shopping, insurance, family care, child-care related costs, 'family support,' asset building and so forth, accounting for a quarter. Only about 10% were related to "medical and health."

IV. Benefits sought by employees and enterprises

Do the systems and schemes of benefits meet the needs of employees? According to the results of a

survey conducted by the Japan Institute for Labour Policy and Training (JILPT) in 2017, categories where employees felt "there is a particularly strong need for assistance" were related to "maintenance of health" and "leave system." As seen in Figure 5, the most frequently cited, in order, were "financial assistance with thorough medical checkups" (21.8%), "special leave for weddings and funerals" (20.0%), "rent assistance and housing allowance" (18.7%) "sick leave (other than paid leave)" (18.5%) and "administrative leave system" (18.5%) (JILPT 2018a, and 2018b).

We should also consider whether the feelings and hopes of employees are in line with the intentions of the companies that provide benefits. According to Matsuura (2003), it is apparent that



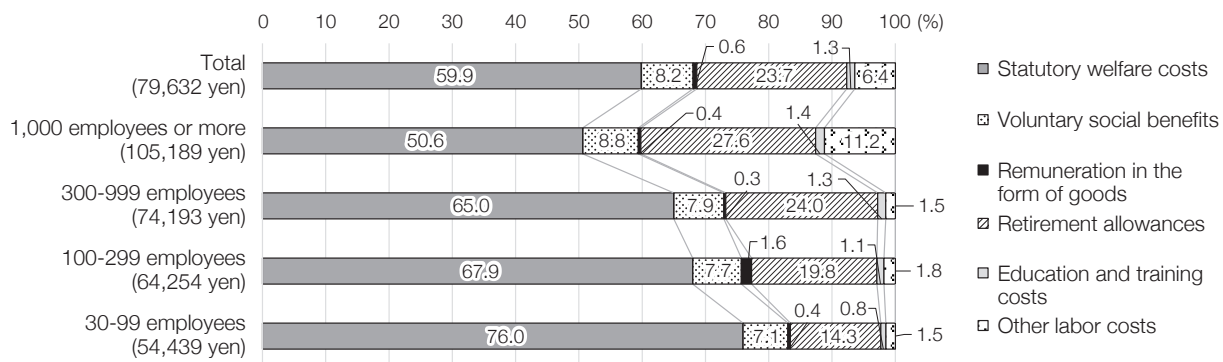
Source: JILPT, Fact-finding survey on current voluntary social benefits programs of Japanese firms: Companies and employees questionnaire survey. Press release, July 24, 2018.

Figure 5. Systems and measures perceived as highly necessary (employees survey)

labor and management had somewhat different perceptions of categories of “particularly strong need for employees.” While employees want to utilize benefits for their current health and future lives, enterprises focus more on productivity, such as acquiring skills and qualifications that are directly applicable to their current work (Matsuura 2003, 4–6). Further study from this perspective will be required in the future.

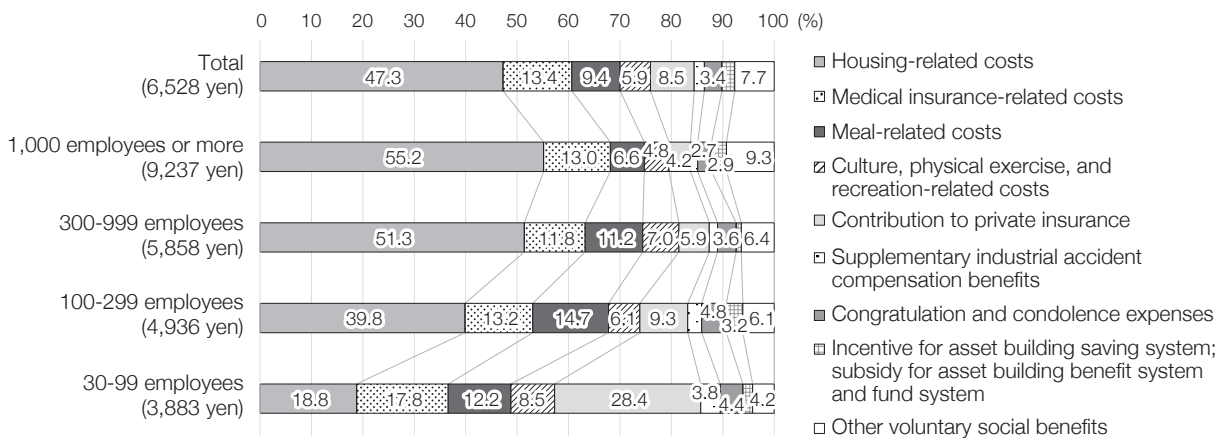
V. Disparities between large enterprises and SMEs

Finally, let us examine disparities in benefits between large enterprises and SMEs as tracked by the Ministry of Health, Labour and Welfare (MHLW 2017). There are various disparities in treatment of employees, including wage. Various differences exist with respect to benefits as well, as seen in



Source: Prepared on the basis of MHLW, "General Survey on Working Conditions 2016," 2017.

Figure 6. Average monthly labor costs other than cash earnings per regular employee



Source: Prepared on the basis of MHLW, "General Survey on Working Conditions 2016," 2017.

Figure 7. Average monthly voluntary social benefits per regular employee

Figure 6. To clarify these disparities, let us compare enterprises having 1,000 or more employees with those having 99 or fewer employees.

First, the total amount of labor costs at large enterprises is roughly double that of SMEs. There is a sizable difference concerning statutory benefits, their share of total labor costs being approximately 50% at enterprises with 1,000 or more employees and slightly under 80% at enterprises with 99 or fewer. Taking into account retirement allowances as a percentage of total labor costs as well, SMEs struggle to provide even mandatory benefits stipulated by laws and labor agreements, and providing benefits beyond legal requirements would be extremely challenging. It should be noted, with

regard to retirement allowances, that the share to total labor costs is relatively low at SMEs as compared with large enterprises. The reasons for this may be that remuneration levels at the former are not high, and that relatively small enterprises may have no retirement allowance system at all.

Concerning statutory welfare costs, while there are scale-based discrepancies (they average 53,254 yen at enterprises with 1,000 or more employees and 41,349 yen at those with 99 or fewer), their components are almost the same. As for voluntary social benefits (Figure 7), while the average is above 9,000 yen at enterprises with more than 1,000 employees, it is only about 40% of that, approximately 3,900 yen, at enterprises with 99 or fewer employees.

In terms of the specific breakdown, at both large enterprises and SMEs, housing-related expenses are the single largest category, accounting for well over half for the former and about 20% for the latter. One notable characteristic is that at enterprises with 99 or fewer employees, “contribution to private insurance” accounts for slightly under 30%, a significantly higher percentage than at large enterprises.

As we have seen, voluntary welfare is first of all geared toward delivering basic support for the daily lives of employees and their families, such as housing-related, medical and dietary assistance. In that sense, benefits within enterprises are an important system to secure livelihood. However, compared to large enterprises, SMEs are faced with relatively limited budgets for fringe benefits. There is public-sector support for SMEs to compensate for this situation, but it is necessary to continually review the scope of these systems and whether they are functioning adequately.

Notes

1. Act on Securing, Etc. of Equal Opportunity and Treatment between Men and Women in Employment.
2. The Japan Business Federation (Keidanren) is a

comprehensive economic organization with membership comprised of 1,376 representative companies of Japan, 109 nationwide industrial associations and 47 regional economic organizations (as of May 31, 2018).

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