

## **The resilient middle class – How families adjust to sudden changes in premium subsidies**

### **Abstract**

Our study exploits two policy-induced shocks to household income as a natural experiment to investigate how middle-income families in the Canton of Lucerne respond to two unexpected financial shocks. Specifically, we examine the impact of sudden and unforeseen changes in healthcare premium subsidies for families with children in 2017 and 2019, driven by the canton's budgetary difficulties. To investigate how the income shock impacts the financial behavior of these households, we analyze its effect on various wealth and savings outcomes, such as net assets or contributions to the 3a pension pillar. We utilize FinSit, a longitudinal dataset from the Lucerne Statistical Office (Lustat), which provides comprehensive information on household income, wealth, and social benefits. We employ a two-stage least squares (2SLS) fixed effects model to assess the causal effects. Using the subsidy reduction as an instrument, we focus on families with married and single parents within the affected income bracket. The results show no statistically significant effects across the overall income bracket. Further examinations of more financially vulnerable subgroups of the sample also yield no statistically significant effects.