



EXECUTIVE SUMMARY

# OVERVIEW OF THE SOCIAL INSURANCE SYSTEM IN VIETNAM



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**The social insurance (SI) system is one of the most important pillars of social security in Vietnam. This report focuses on two SI schemes: Mandatory and voluntary SI. Of these, compulsory SI includes five benefits: Sickness, maternity, working accidents and occupational diseases, retirement, and survivorship. Meanwhile, voluntary SI includes two regimes: Retirement and survivorship.**

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Vietnam's SI system has been formed and is gradually being completed in order to meet the overall objective of providing social security for the entire population and increasing in-depth coverage for employees.

Nevertheless, the coverage of voluntary SI still has a number of limitations. According to data published by VSS, by the end of 2020, the number of voluntary SI participants had reached 1,031,000 people, very little compared to the 35 million informal employees currently eligible for voluntary SI in accordance with the law.

This study aims to assess the achievements as well as the difficulties and challenges in expanding the coverage of SI in general, and voluntary SI for informal laborers in particular, in Vietnam. Some policy solutions proposed are derived from the research to develop the Vietnamese SI system and ensure social security for informal employee

From the results of the literature review and descriptive statistical analysis using data from the Labor Force Survey over the years, the report has some key findings as follows:

**The current state of the Vietnamese SI system:** Legal regulations have increasingly improved, both in terms of participants, regulations on payment, and benefits of SI as well as communication and implementation policies. Accordingly, more legal participants of compulsory SI were added. Meanwhile, legal participants of voluntary SI were limited by job characteristics, but extended to older groups of workers. Regulations on payment and benefits of SI were made more flexible. However, some regulations remain unfavorable for participants of voluntary SI. For example, when participating in voluntary insurance, informal workers are subject to a relatively higher premium than those in mandatory SI due to the lack of contributions from employees. The regulation that the minimum income for paying voluntary insurance is the poverty line in rural areas limits a number of the rural poor (with incomes below the poverty line). While they are the most vulnerable group of workers in need of SI coverage, on top of support from poverty reduction programs, they cannot afford to participate in SI. Additionally, the voluntary SI pension scheme does not have an early retirement age. Nor does it allow retirement due to working capacity decline, as is permitted in mandatory SI. Meanwhile, the voluntary SI survivorship regime only has a one-time rather than a monthly payment. These characteristics deter people from joining voluntary SI. Furthermore, the five additional years of SI payment required to receive the maximum pension rate poses an additional barrier for employees when deciding whether or not to participate in voluntary SI.

**Comparing Vietnamese legal regulations and international standards in social insurance:**

Results show that Vietnamese SI framework is relatively complete compared to international standards: First, the SI system is designed to expand horizontal and vertical coverage in accordance with international standards. Second, the mandatory SI program provides full regimes of protection (maternity, illness/disease, unemployment, working accident/occupational illness, family allowance, loss of working capacity, survivorship, and retirement). However, the benefits of voluntary SI are very limited compared to international standards, only including pension and survivorship benefits. Third, the insurance system is based on the premium rate, the time of payment, and sharing amongst the participants, in which the state budget guarantees that the social pension department can secure the livelihoods of vulnerable people without a monthly pension or SI. Fourth, the system has been developed based on fairness between contributions and benefits in terms of gender inequality, income inequality, and policies for migrant and free workers.

The Chinese experience has shown that special coverage for both contributors and beneficiaries creates an incentive for vulnerable, low-income, and unstable groups of informal workers aged 16-60. The Chinese government applies match-defined contributions (MDCs) for these groups. For example, rural workers can choose one of five annual premium rates, from RMB100 to RMB500, RMB30 of which is government-sponsored. For Thailand, aside from covering parts of the insurance, child support is an important policy channel encouraging informal workers to join SI programs. By contributing 3% of their income to SI, pension funds, and child support, workers receive up to BHT400 a month in cash for every child from 2 to 6 years old in the same period.

#### **Participation in the compulsory SI scheme:**

This report found the following:

*First, concerning its horizontal coverage:* The growth rate in participation remains low, with uneven coverage across regions as well as educational and income levels and limited participation from retirement-age workers. The main findings regarding participation in mandatory SI are as follows:

- In the period 2007-2020, both the total number of SI participants and their proportion of the labor force increased. However, the growth rate in the number of SI participants was low (about 4% - 6% annually). Compulsory SI coverage rates varied among provinces. For formal workers, coverage was highest in those aged between 20-54 for women and 20-59 for men. The coverage rate of formal male workers is also higher than that of females, especially for those aged between 45 and 64. Notably, older participants in mandatory SI (aged 55 years and above for women and 60 and above for men) account for the majority of formal workers in the same age group. This demonstrates that it is necessary to raise the age of retirement and implement SI policies for elderly workers.
- Coverage in urban areas was higher than that in rural areas, especially in the 25 to 59 age group. The difference was not as stark for the older group. In 2019, the coverage in rural areas increased, reducing the urban-rural gap.
- Education was strongly correlated to SI coverage, with a higher level of education correlating to a higher likelihood of participation. However, education levels also affect coverage rates among formal, working-age people. The majority of laborers who had a primary, secondary, or high school education or had no primary school education received little protection from the SI system, despite having joined the formal workforce.



- In particular, the percentage of registered business owners participating in the compulsory SI system remains low, at only about 3%-17% depending on age groups. The coverage also depended largely on the form of labor contract. Workers with contracts lasting less than three months (including the form of a 1-3 month labor contract) or from three months to less than one year often did not/were not entitled to compulsory SI according to the Law on Social Insurance. Notably, some formal workers without labor contracts or written agreements still join mandatory SI. These include workers of cooperatives in formal economic zones; the owners of entities in formal economic zones; self-employed workers<sup>1</sup> in agricultural, forestry, and fisheries households; sole proprietorship entities; and non-state enterprises in the formal economy.
- Income had a significant impact on whether workers participated in the compulsory SI system. However, the highest income level workers (the richest) had weaker compliance than the groups of high middle and middle-income levels. The reason for the non-participation of many workers in the lowest income group was not just their inability to contribute, but also because SI is not a priority for them. Furthermore, the results also reflected the fact that many employers did not comply with the regulations on compulsory SI payment for their employees who were formal workers and had an income higher than the minimum wage.

*Second, concerning potential coverage:* The potential compulsory SI coverage was very large. More than 90% of formal workers with an

income higher than the minimum wage were able to participate in compulsory SI. Conversely, less than 10% of workers had an income lower than the minimum wage, often the self-employed and wage workers.

*Third, concerning vertical coverage:* Monthly wage contributions have increased, but mandatory SI welfare has been falling. In particular:

- The monthly wage basis used to calculate the mandatory SI premium has increased since 2007 and more rapidly since 2016.
- The welfare level of the mandatory SI benefits has decreased gradually, especially for pension funds and death benefits as well as monthly pensions in particular. This is evidence that the benefit level of the compulsory SI was not adjusted in line with inflation.

### **Voluntary social insurance coverage**

*First, regarding its horizontal coverage:* Coverage remains limited and uneven across regions, with high coverage among young, well-educated, middle-income wage workers.

- Voluntary SI coverage was uneven among provinces and ecological regions: Provinces in the Northern and Central regions had significantly higher rates of participation than those in the South.
- The participants, as a percentage of the total labor force, have increased gradually since 2008, then significantly in 2019 and 2020. However, this program currently covers only 1.86% of the labor force. This is very low compared to about 78.6% of informal workers in the labor force in Vietnam.

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[1] Self-employed workers join mandatory SI in two cases: (i) when retired workers become self-employed in the formal economy, (ii) when they ask business to cover for them.

- Coverage was highest in younger workers aged 20 to 34 years-old. For these age groups, female workers had a significantly higher rate of participation than their male counterparts. For example, participation rates for workers aged 25-29 were 2.8% for women and 1.8% for men.
- Coverage in urban areas was about two times higher than in rural areas for all age groups. This gap was largest for workers aged 25 to 29 years old, where coverage was 3.7% in urban areas and 1.8% in rural areas. For older groups, the rate of participation in voluntary SI gradually decreased and the difference between urban and rural areas was very small.
- Higher levels of education were associated with higher rates of participation in the voluntary SI scheme, especially for working-age groups (under 60 years old). Male workers were less likely to participate than female workers across all education levels. This gap increased for higher education level groups.
- Migrant workers with 1-5 years or less than 1 year of residence were more likely to participate than those with long-term residency (of more than 5 years). In particular, the highest coverage rate was achieved in the 1-5 years of residence group.
- Workers in households with more school-age children were less likely to participate in the voluntary SI system in both urban and rural areas.
- Wage-workers were more likely to participate in the voluntary SI scheme than owners of entities, the self-employed, and family workers.
- The coverage rate in 2019 was higher than in 2016, mostly due to workers with labor

contracts with a term of less than 3 months in both urban and rural areas and those with service contracts working mainly in urban areas.

- Middle-income informal workers were the most likely to participate in the system.
- For the informal labor force earning above the poverty line, the coverage rates of owners of entities, the self-employed, and family workers were very low. Meanwhile, wage workers and cooperative members were more likely to participate than others.

*Second, regarding potential coverage:* The potential coverage for voluntary SI remains large, especially for owners of entities and wage laborers. Potential coverage is largest for workers aged 15-44 and rises as they get older. In contrast, coverage is likely to be low when there are school-age children in the household.

- Nearly 100% of informal workers who were owners and wage-workers had incomes above the poverty line in Vietnam. This shows that such workers have the financial capacity to participate in voluntary SI programs. In contrast, only about 10% of family workers had incomes above the poverty line in 2016.
- Based on the disposable income of informal workers, the potential coverage was also quite high at between 60% and 90%, depending on age, gender, and living area. In particular, the potential coverage rate increased as informal workers got older for those aged 15-44 but decreased gradually for older workers. The potential participation of female workers was significantly higher than that of males and saw an upward trend in 2019 compared to 2016. Similarly, the coverage in urban areas was significantly higher than that in rural areas for all age groups in both 2016 and 2019.

- Nonetheless, the potential coverage remained quite similar across educational levels.
- The potential coverage of family workers was lowest because their income would fall under the poverty line if they used a part of it to contribute to the system.
- Workers with more school-age children in their households had a lower potential coverage rate than others. For instance, among informal workers with one child of school-age, 68.63% of workers had an income above the poverty line. This rate was lower for those with more school-age children.

*Third, regarding vertical coverage:* An increase in the proportion of income used for voluntary SI in 2008-2006 can be observed. The proportion gradually decreased until now. The gap between entitlement and the poverty line showed signs of expansion before 2016.

- There was an increase in the proportion of monthly income that employees contributed to the voluntary SI scheme during 2008 to 2016. This peaked at VND2.8 million per participant per month in 2016. However, this number decreased gradually from 2017 to 2020 and fell to VND1.23 million per participant per month in 2020.
- The entitlement level in the voluntary SI scheme was reflected by the ratio of average pension and death allowance levels to the poverty line of rural areas. This ratio tended to increase slightly before 2016. However, these did not illustrate the current vertical coverage of the voluntary SI scheme because this scheme has only been applied in Vietnam since 2008. Therefore, people who were entitled from 2008 to 2016 changed from the mandatory

SI scheme and many retired people received lump-sum payments.

*Fourth, some policy barriers have made workers reluctant to participate in the voluntary SI system:*

- The regulation in the 2014 Social Insurance Law, which will be enacted in 2022, requires workers to contribute for an additional five years to receive the highest benefit level.
- Regulations for retirement and survivorship in both mandatory and voluntary systems are similar, but there are some important differences: Participants of voluntary SI cannot take early retirement or retire due to weakened working capacity, and only have a one-off rather than a monthly survivorship benefit.

Based on the above findings, we would like to discuss and recommend some main policy recommendations as follows.

### **General recommendations**

- Both mandatory and voluntary SI need to be more flexible (eliminating or simplifying regulations) in terms of the required minimum years of contribution to receive a monthly retirement payment.
- Increased promotion to raise awareness and special programs for rural or ethnic workers are also needed.
- Longer and more frequent promotion materials should be shown across media channels for easier access.

### **Regarding the mandatory SI program:**

- The adjusted monthly income paid for mandatory SI participants should be increased to ensure that the purchasing power of contributions already made is adjusted for inflation.

- Many workers with a labor contract of less than 1 year have made no contribution to the mandatory SI. Hence, it is necessary to disseminate the benefit of participation for employees and encourage the corporate social responsibility of employers by contributing to the social security system.

#### **Regarding the voluntary SI program:**

- The adjusted monthly income paid for voluntary SI participants should be increased to ensure that the purchasing power of contributions already made is adjusted for inflation.
- Flexible, short-term benefit packages for voluntary SI (such as sickness, maternity, and family support) should be implemented.
- The regulation of contribution, benefits and applying various support levels to different groups of workers according to their occupational and family characteristics (such as income) should be changed.
- Different support policies for owners and

self-employed workers should be introduced, such as funding opportunities.

- Suitable information for each group of workers should be disseminated to create better opportunities to access the voluntary SI system.
- Other relevant policies: There should be more regulations on working conditions for informal workers, with a special focus on those without labor contracts or only with verbal agreements.

#### **Policy recommendations for both SI programs:**

- Both should be more flexible regulations in terms of the minimum number of years of contribution in the SI system to get a monthly pension.
- Support and subsidized policies should be disseminated more effectively in some rural and ethnic minority areas.
- The time and frequency of dissemination on all suitable channels should be increased.



*Photo: Tineke D'haese / Oxfam*



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Oxfam in Vietnam believes that a reduction in poverty, injustice, and inequality will occur through the interaction between active citizens, accountable states and responsible private sector and that it is fundamental to Vietnam's development.

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