SOCIAL SECURITY IN VIETNAM: CHALLENGES AND OPTIONS

BUI XUAN DU, MSc
Institute of Labour Science and Social Affairs (ILSSA)
Ministry of Labour, Invalids, and Social Affairs (MOLISA), Vietnam

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The following slides, particularly policy recommendations, indicate those of the author, and they do not necessarily reflect those of the ILSSA, the MOLISA, and any institutions mentioned in the presentation.
General concepts of social security and social security system

• **Social security** is an economic guarantee that the society provides for people through executing a system of schemes, policies and interventions against dangers and *risks* which may lead to a decrease or loss of income sources for members in the society.

• **Social security system** is a system of schemes, policies and measures to create multi-layers and steps to protect all social members not to fall into impoverishment caused by negative impacts of different types of risks.
Active interventions, including active labour market programmes

Interventions for risk management via social insurance modalities

Social security measures under form of social transat

Social
risks

Risk of illness

Environment

Life circle

Natural calamities

Economic risks

Conflict
### Vietnam’s basic socio-economic indexes

- Total area: 331,211.6 sq.km
- Participants in compulsory social insurance (2007): 8.2 mil.
- Health care insurance (2007): 35.7 mil.
- Poverty rate (2007, 2008): 14.75%, 12.67%
- Malnutrition rate among children under 5 years old (2007): 22.30%
POVERTY MAP OF VIETNAM
BẢN ĐỒ ĐỐI NGHÈO VIỆT NAM

Poverty rates
(% of people below the poverty line)

1 dot = 1000 persons
below poverty line
Current Structure of the Social Security System in Vietnam

**Social Insurance**
- Compulsory SI: sickness, maternity, occupational disease and accidents, old-age, survival benefits
- Voluntary SI: old-age, and survival benefit

**Health Insurance**
- Compulsory H.I.
- Voluntary H.I.

**Preferential treatment**
- National devotees, their family members

**Social assistance**
- Social relief
- The elderly (>85)
- Orphans, street children...
- People with disabilities
- Other forms of assistance

**Labour market**
- Loans for job creation
- Security provided by employer
- Support for redundant
- Oversea labour fund
- Vocational training
- Other forms

**Unemployment Insurance**

**State budget Employers Workers**

**State budget Employers Workers**

**State budget Community**

**State budget Community**

**State budget Employers**
Labor Market Policies

- **Vocational training for ethnic minority pupils and rural workers**: about 20 percent of pupils finishing ethnic minority boarding schools enrolled in vocational training boarding schools.

- **Vocational training for rural workers**: has provided vocational training for 511,599 labor cohorts.

- **National Employment Fund**: 250 thousand jobs created

- **Labor demand – supply linkage**: there are more than 150 employment introduction centers nationwide. Many of them have been operated effectively and trusted by enterprises.
The scope and coverage of social insurance has been extended. By April 2008, there were 8.2 millions participants in social insurance, making up of nearly 18 percent of total labor force. About 54 percent of labor in state, foreign investment and private sectors registered to participate in this system as stipulated by the Enterprise Law.
- The way to calculate benefits does not motivate people participate, especially in non-government sectors.
Reasons for not participating…

- Not belief
- Procedures
- Worries about guarantee
- Lack of informations
- Low incom
Health Insurance

• The participants in health insurance increased sharply from 10.4 million people in 2002 to about 35.7 million ones in early 2008.
• Total incomings from health insurance also accelerated.
• Rights and benefits of health insurance contributors have been improved through better quality of health care services and higher technology.
• Contributing to realize the target of social equity in accessing public health care services, supporting the goal of poverty reduction.
• Making practical contributions to restore strengthen and develop grass-root health care services and system
• The coverage of social allowance beneficiaries, who are disadvantaged and in difficult circumstances, has been extended and accelerated in accordance with the Decree No. 67/2007/ND-CP. Total number of social protection beneficiaries is estimated to be 1.5 million people.
• The social benefit level is also adjusted in accordance with economic growth.
• Absolute poverty decreased significantly from 58 percent in early 90s of 20th century to less than 20 percent at present.
The current social insurance fund was about 3.7% of GDP 2006, its investments have earned an average rate of return which was always lower than the market rate.
# Gap between the fund’s RoR and other

<table>
<thead>
<tr>
<th>Years</th>
<th>Gap with treasury bills</th>
<th>Gap with lending rate</th>
<th>Gap with borrowing rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>4.37</td>
<td>2.05</td>
<td>7.96</td>
</tr>
<tr>
<td>1998</td>
<td>3.21</td>
<td>1.00</td>
<td>6.17</td>
</tr>
<tr>
<td>1999</td>
<td>1.63</td>
<td>-0.12</td>
<td>5.21</td>
</tr>
<tr>
<td>2000</td>
<td>-1.31</td>
<td>-3.08</td>
<td>3.82</td>
</tr>
<tr>
<td>2001</td>
<td>0.18</td>
<td>-0.01</td>
<td>4.11</td>
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<tr>
<td>2002</td>
<td>2.16</td>
<td>2.69</td>
<td>5.30</td>
</tr>
<tr>
<td>2003</td>
<td>1.30</td>
<td>2.09</td>
<td>4.95</td>
</tr>
<tr>
<td>2004</td>
<td>0.32</td>
<td>0.71</td>
<td>4.22</td>
</tr>
</tbody>
</table>
Opportunities

- Young population, high growth rate of workforce $\rightarrow$ numbers of people participating in social insurance should be increased.
- Together with economic growth, new financial markets are being established $\rightarrow$ various opportunities to invest social insurance fund.
- Econ-Political environment is sustainable.
And, young population…
Challenges

- Definitions, scope, types of social security, social insurance still in debating process → eligible regulations overlapped, workers [target group] do have not enough information → difficulties in decision-making and implementing.

- Coverage rate of the system increased, but still low…
- Aging population in near future…
- Informal sector remains high and vulnerable

<table>
<thead>
<tr>
<th>Occupation of household head</th>
<th>Are poor</th>
<th>Are less than 10 percent above the poverty line</th>
<th>Have less than 15 million dong in assets</th>
<th>Meet any of these three criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inactive</td>
<td>12.5</td>
<td>3.8</td>
<td>2.6</td>
<td>14.2</td>
</tr>
<tr>
<td>Employed by</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td>1.5</td>
<td>1.6</td>
<td>0.7</td>
<td>6.1</td>
</tr>
<tr>
<td>State-owned enterprises (SOEs)</td>
<td>4.7</td>
<td>1.1</td>
<td>1.3</td>
<td>3.4</td>
</tr>
<tr>
<td>Foreign-invested company</td>
<td>2.5</td>
<td>0.0</td>
<td>0.0</td>
<td>0.4</td>
</tr>
<tr>
<td>Private sector</td>
<td>4.2</td>
<td>2.9</td>
<td>2.9</td>
<td>2.4</td>
</tr>
<tr>
<td>Households and collective enterprises</td>
<td>20.4</td>
<td>6.8</td>
<td>7.2</td>
<td>13.3</td>
</tr>
<tr>
<td>Non-farm self-employment</td>
<td>6.8</td>
<td>2.2</td>
<td>1.7</td>
<td>22.6</td>
</tr>
<tr>
<td>Farmers</td>
<td>25.1</td>
<td>5.8</td>
<td>4.8</td>
<td>37.5</td>
</tr>
<tr>
<td>Total</td>
<td>16.0</td>
<td>4.4</td>
<td>3.7</td>
<td>100</td>
</tr>
</tbody>
</table>
Needs of social security reform

- Economic growth/slowdown (Economy in transition process);
- Changes in the labour structure;
- Globalization and international economic integration;
- Warning of unsustainability of social insurance fund; and
- Population aging.
General Directions

• **To cover all:** social security system should be designed to cover formal, informal sectors and also poor people.

• **Clear and stimulus mechanism:** for all side (individual, enterprises and services providers)

• **Transparency:** Shift from current model of PAYG to NDC and (further) to Fully Funded.
Socio-economic development orientations to 2020 onwards

• A harmonious, free and independent nation; a rich, independent country whose culture is not depraved;
• Democracy is the goal of the regime for the people and by the people where man is the center;
• A modern society which can combine and filter value of the world’s economic, political and social life to the nation tradition culture;

In short, Vietnam is heading for a society which is a comprehensively and harmoniously developed society in economy, science, culture, politic, ethics and environment
Principles:
Equality, Solidarity, Universal Access

- **Solidarity**
  - Contribution based on income
  - Rich -----> Poor

- **Equality**
  - Contribution by contracts based on personal risk

- **Universal Access**
  - Based on contract
  - Service upon request
Development Viewpoints

- Development of social security system is based on **solidarity, sharing and mutual support**; enhancing **equality**
- Global integration;
- Rapid but sustainable development
- Flexibility and diversity;
- Decentralization and empowerment.
Policy Options/Recommendations

• It is necessary to reform pension system in the direction to utilize personal account through the transition in applying nominal personal account (NDC).

• The social insurance system development should be on track of universal approach with a common design for both formal and informal sectors with probable accessibility for vulnerable groups of people.

• The international and domestic labour markets with fluctuation and mass unemployment are seen in the context of economic recession. Therefore, unemployment should be ready in supporting the unemployed and underemployed. This system is required to be under close linkage with other labour related systems such as job service, demand driven vocational training, etc., to fulfill its function.
Renewing social assistance policy under the direction of enlarging its coverage to all target groups of social protection.

Accomplishing financial mechanism and mechanism for mobilization of resources. Payment for social assistance should be clear and renewed to reach direct payment (which is considered a trend pursued by many countries).

Renewing social assistance policy under the direction to ensure reasonable level of assistance through which calculation of assistance levels must rely on necessary minimum expenditure for monthly costs per capita. It should be reckoned and announced yearly.

Setting up an organizational apparatus in connection with mechanism of monitoring both vertically and horizontally.

Applying technology in management and payment for target groups (each beneficiary has a Personal Identification Number- PIN)
Measures to Achieve Objectives

- Developing a Code on Social Security.
- Developing legal documents and guideline for the Code implementation with efficiency, transparency and feasibility.
- Budget for renewal and development of the system as well as for policy accomplishment and implementation.
- Establishing a State administration agency on social security (Social Security Bureau affiliated to the Ministry of Labour-Invalids and Social Affairs) with a vertical system of management and monitoring.
- Social insurance is run under tripartite principle (Government-employers- employees)
- Participation of social partners in implementation (including private sector, non-profitable service suppliers: private hospitals, private vocational training centers, NGOs with support for vulnerable groups to be entitled to their rights from policies, etc.,)
- Establishing a social court to practice the right of security of people.
Social assistance funded by state budget and the society, community and localities basing on the principle of universal and flat rate.

People with disabilities seem to have no working capability, infant, lonely older people, etc.

Benefit: allowances, medical rehabilitation

Vocational training, occupational consultation
Support for apprentice
Credit (student, job creation)
Temporary work (public work) + allowance after beneficial period of unemployment insurance

Unemployment insurance
Other short-term insurance (maternity, illness, etc.)

Active labour market policies funded by State budget

Insurance based measures to actively minimize the negative impact of risks basing on the principle of contribution and combination between equity and social mutual support.

From 65 and above
National Health insurance
Allowance (non-contributory pension)

Pension (contributory pension)
Health insurance (long-term care)

From 15 to 18 years old
Children
-- National Health insurance
-- Primary education
-- Child grant

Working period
-Tax contribution
-Social insurance contribution (Compulsory social insurance, unemployment insurance and other types of insurance such as long term care, micro insurance, etc.)
Thank you for your attention!