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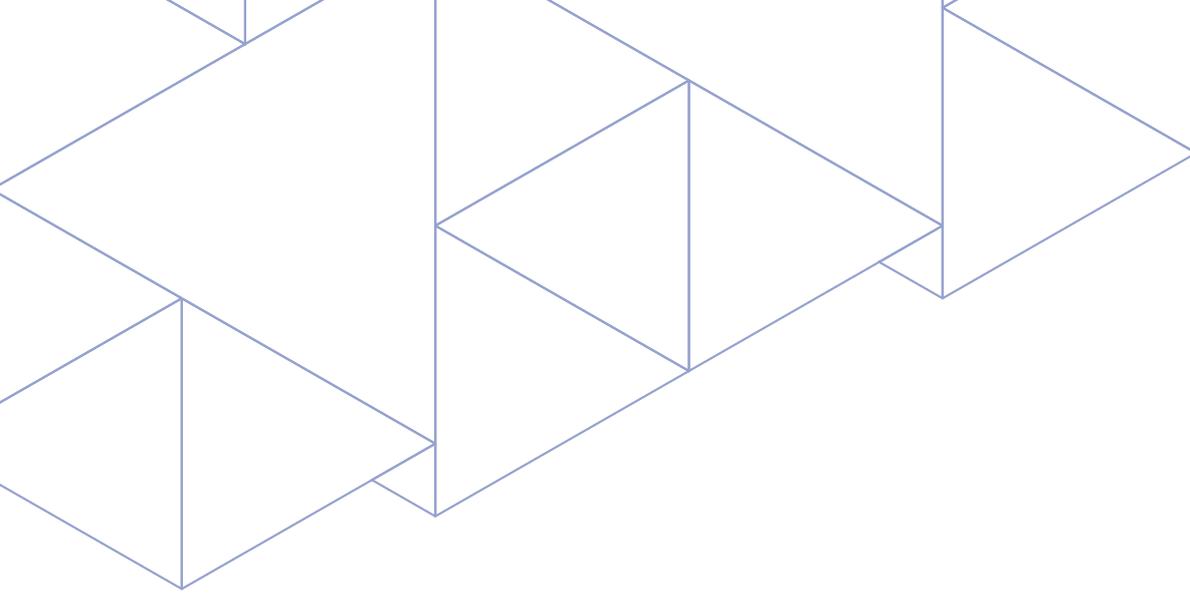
# ▶ Social insurance lump-sum withdrawals in Viet Nam Trends, challenges and recommendations

**Joint technical brief**

International Labour Organization (ILO) and World Bank (WB)







# ▶ **Social insurance lump-sum withdrawals in Viet Nam**

## **Trends, challenges and recommendations**

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# Acknowledgments

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# 1. Introduction

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When it comes to retirement pensions, the main objective of any system is to provide income security throughout old age. This is why only pensions delivered as periodical payments (mainly life annuities, but also means-tested benefits) are recognized by ILO standards, such as The Social Security (Minimum Standards) Convention, 1952 (No. 102), or the Invalidity, Old Age and Survivors' Benefits Convention 1967 (No. 128), as benefits potentially adequate to properly protect individuals against the risk of outliving their own savings or assets. However, in some countries, contributory pension schemes can allow for lump-sum payment of part or the totality of workers' pension entitlements.

Lump-sums are an alternative arrangement that allow people to collect their full benefits as a single payment before retirement. This is a feature in only a few countries globally and is mostly, if not always, only accessible for workers close to or at the retirement age. Such lump-sum payments are more often seen in countries with systems of individual savings (defined contributions) like Malaysia and Singapore, rather than systems based on solidarity (defined benefits) such as Viet Nam, Japan or most western European countries.

Although receiving a single, large payment can seem like an attractive prospect for many workers, there are many disadvantages to receiving retirement pension entitlements as a lump-sum payment, instead of breaking them down into regular, usually monthly payments.

Firstly, as lump-sums are a fixed, single amount paid one time, it is impossible for an individual to calculate how much to spend on a monthly or even weekly basis, as a person's lifespan and retirement are unknown. A retirement could vary from five to more than 30 years, which would result in very different monthly budgets. Taking lump-sum payments is a decision that retirees will have to live with for the rest of their lives. Anyone who accepts a lump-sum payment will lose the benefits of a lifetime's work income and be responsible for taking care of their own investments. Critically, they will also need to ensure the money lasts throughout their retirement, and that they do not outlive their assets and savings (including funds received as the lump-sum payment).

Secondly, even for retirees who can design an adequate plan to avoid the risk of outliving the lump-sum, there is still a potential outcome of misusing the money reserved for old-age income security. In some countries, people use this money to start household businesses, finance new houses, pay for their children's tertiary education or take trips abroad. A majority of people who take the lump-sum end up spending the entire amount within just a short period of time after retirement, thus effectively outliving their assets and savings.

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1 In such situations, it is important to make sure that the annuity part of the overall benefit is adequate – *World Social Protection Report 2014/15: Building economic recovery, inclusive development and social justice* International Labour Office – Geneva: ILO, 2014, page 76.

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►► Accessing lump-sum withdrawals from social insurance earlier in workers' careers can significantly compromise their old age income security.

This can become particularly dramatic in the later years of their lives, when there is a greater probability of increases in health and care costs.

Another potential disadvantage of lump-sum payments is that, when taking a lump-sum pension payment instead of a monthly pension, retirees can potentially lose in terms of total value benefit.

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►► In most cases, the value of the lump-sum is usually lower than the net present value of the flow of income that retirees will receive during their retirement.

For instance, a recent study in the United States estimated that people lose 15 to 20 per cent on average of what they would have received over a 20- or 30-year period, if taking the lump-sum. Evidence from Malaysia in the early 2000s also suggested that a large share of workers who accessed lump-sum payments for early retirement exhausted the full amount of their withdrawals within a span of three years.<sup>3</sup>

Furthermore, retirement pensions' goal to ensure income security is meant to allow retired workers to cope with expenditures in old age which are, for the most part, of a regular (if not monthly) nature – such as rent, utilities and food – thus making a regular (monthly) payment more suitable to achieve this goal.

Finally, it is important that the risks and shortcomings of allowing workers to withdraw social insurance contributions as a lump-sum payment, discussed above, are based on the premise that such payments are made close to or at workers' retirement age. In Viet Nam, the fact that such withdrawals are available to workers at any moment of their careers, increases the risk of myopic behaviour by workers with respect to their long-term needs, as most people only start thinking and planning for retirement when they are closer to retirement age. Thus, the Vietnamese system magnifies and deepens such risks, underlining the criticality of re-thinking such features of the system vital to ensuring workers' right to old age income security.

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2 Trump Treasury Backtracks On Lump-Sum Pension Rules Meant To Protect Retirees <https://www.forbes.com/sites/ashleaebling/2019/03/07/trump-treasury-backtracks-on-lump-sum-pension-rules-meant-to-protect-retirees/?sh=46fffd6268ed>

3 Old In Age Support for Private Sector Employees Malaysia: Can the Employees Provident Fund Do Better? (2002) <https://hermes-ir.lib.hit-u.ac.jp/hermes/ir/re/7688/HJeco0430201190.pdf>

These shortcomings translate into significant income security risks for workers in old age on an individual level.

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## Large numbers of lump-sum withdrawals can present a significant obstacle to the effectiveness and sustainability of the contributory pension system as a whole.

Viet Nam has, through Party Resolution 28, set ambitious goals in terms of its social insurance coverage rates. To meet these goals (set for 2030), social insurance participation must increase dramatically in the coming years. This can only be achieved by a combined increase in entry rates to social insurance (more workers participating in social insurance), and a decrease in exit rates (workers remaining in the system long enough to ensure their entitlement to retirement pensions and adequate income security in old age).

Exit rates from social insurance in Viet Nam are particularly high, to a large extent driven by workers' need to access lump-sum payments to ensure income security throughout different contingencies in their life cycles. A recent ILO report<sup>4</sup> estimated that, for women, participation rates in social insurance drop from 58.5 per cent for the 25–29 age cohort, to 30 per cent for the 40–44 age cohort (an almost 30 percentage points drop), continuing to fall further at older ages. For men, the rate at younger cohorts is significantly lower than women's (close to 40 per cent for the 25–29 cohort), dropping to slightly above 20 per cent for the 40–44 cohort (close to a 20 percentage points drop). This slower pace in the decrease in coverage leads to a larger share of men being covered above the age of 50. Overall this implies that, for Viet Nam, increasing social insurance coverage requires a dual focus, as it must focus not only on how to bring new workers to participate in social insurance, but also on how to guarantee that, after joining, workers do not leave the social insurance system.

From a financial standpoint, even though lump-sum payments do not represent necessarily larger expenditure for the contributory pension system (as their present value tends to be lower than the net present value of their pension entitlements if they remain in the system and receive pensions as a monthly payment after retirement), they can still bring some disadvantages. In particular, the unpredictable nature of the number of people accessing lump-sum payments each year in Viet Nam, given the loose conditions to access them, makes estimations of the number of contributors registered in the system each year less robust. Thus, it lowers the confidence of the actuarial estimations regarding the performance and sustainability of the system in the short, medium and long run.

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4 [https://www.ilo.org/hanoi/Whatwedo/Publications/WCMS\\_819801/lang--en/index.htm](https://www.ilo.org/hanoi/Whatwedo/Publications/WCMS_819801/lang--en/index.htm)



## 2. Legal framework

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The evolution of the provisions regarding lump-sum payment in lieu of a monthly retirement pension in Viet Nam can be observed through several pieces of legislation through the years.

- ▶ **Decree 218/CP issued on 27 December 1961 (Temporary regulation on social insurance scheme for State employees and officers):** the payment of a social insurance lump-sum is conditioned to a loss of work capacity. The level of the lump-sum is determined as one month of salary per year of service.
- ▶ **Decree 12-CP on Social Insurance Regulation issued on 26 January 1995:** a worker who stops working before reaching the eligible age for a monthly retirement pension can request a lump-sum payment or wait until the eligible age for a monthly retirement pension. The level of the lump-sum is determined as one month of average insurable earnings per year of social insurance payments.
- ▶ **2006 Social Insurance Law (13/2006/L-CTN):** there are five situations where insured persons can request a social insurance lump-sum:
  - They have reached the retirement age without being eligible for a retirement pension.
  - They settle abroad.
  - They have suffered from a working capacity decrease of at least 61 per cent and have paid social insurance premiums for less than 20 years.
  - They have discontinued social insurance payments for at least one year and have paid social insurance premiums for less than 20 years.
  - Military personnel who are demobilized or have ceased working without being eligible for a retirement pension.

The level of lump-sum increased in 2006 from one to one and a half monthly average insurable earnings per year of social insurance payments. The voluntary insurance introduced in 2008 includes a slightly different provision for lump-sum payments.

- ▶ **2014 Social Insurance Law:** added fatal disease to the list of circumstances that allow payment of a social insurance lump-sum and removed the possibility of lump-sum payments after discontinuing social insurance payments for one year.
- ▶ **Resolution No. 93/2015/QH13:** further to the protest of workers at Pou Yuen (a Taiwanese footwear company in Ho Chi Minh City) on 26 March 2015<sup>5</sup>, the resolution and later **Decree 115/2015/ND-CP Guidance on the Law on Social Insurance** regarding Compulsory Social Insurance brought back the possibility for insured persons to request a lump-sum payment after discontinuing social insurance payments for one year.

5 Further to a dissemination session on the revised Social Insurance Law (2014) in the morning of 26 March 2016 at a factory of Pou Yuen Viet Nam Co., Ltd. (a Taiwanese footwear company in Binh Tan district, Ho Chi Minh City), about 30 workers turned off the lights preventing 700 workers to work that day. During the next two days, nearly 90,000 workers throughout the country protested against the provisions of Article 60 of the 2014 Social Insurance Law (effective on January 1, 2016) which no longer provided a social insurance lump-sum before retirement age. Pou Yuen Company issued a statement confirming the reason for the strike and the workers' request for the social insurance lump-sum to be restored as before the 2014 legislation. The Department of Labour, Invalids and Social Affairs at the province level (DOLISA), Viet Nam Social Security (VSS) and Viet Nam General Confederation of Labour (VGCL) at different levels engaged with the workers. Pou Yuen Company and the trade union collaborated to call for a quick return to work.

On 28 March 2016, VSS Ho Chi Minh City sent an official letter to Binh Tan District People's Committee to explain the policy regarding Pou Yuen Company. The official letter confirmed the legislation in application for the social insurance lump-sum and VSS' commitment to listen to the workers' comments and feedback, and to report to the authorities to consider the workers' request. Pou Yuen's workers returned to work on the morning of 30 March 2016. <https://laodong.vn/archived/gan-90000-cong-nhan-dinh-cong-vi-khong-duoc-huong-bhxh-mot-lan-679857.lco>

► **Table 1: Summary of social insurance lump-sum provisions in Viet Nam**

	1995 Decree 12-CP	2006 SI law	2014 SI law	Decree 115
Situations where insured persons can request a social insurance lump-sum:				
► They have reached retirement age without becoming eligible for a retirement pension	✓	✓	✓	✓
► They settle abroad		✓	✓	✓
► Suffering from a fatal disease			✓	✓
► They have discontinued social insurance payments for at least one year and have paid social insurance premiums for less than 20 years	✗	✓	✗	✓
<b>Amount of lump-sum social insurance allowance = Individual monthly insurable earnings x (Number of insurance years prior to 2014 x N + Number of insurance years since 2014 x M)</b>				
► N (for years prior to 2014)	1	1.5	1.5	1
► M (for years since 2014)			2	2

# 3. Problem statement

Before specific policy options can be discussed and refined, it is important to note that the large number of social insurance lump-sum withdrawals in Viet Nam are connected, directly or indirectly, with a much wider range of challenges, as summarized in the table below:

► **Table 2: Social insurance lump-sum withdrawals: challenges, issues and potential solutions**

Challenges	Potential causes	Ideas to explore
<ul style="list-style-type: none"> <li>• Short periods of participation in social insurance interrupted.</li> <li>• Unemployment and lock out of formal labour market.</li> <li>• Voluntary social insurance not used by unemployed workers or those in informal work.</li> </ul>	<ul style="list-style-type: none"> <li>• Unavailability of insurable work.</li> <li>• Non-compliance of employers.</li> <li>• Voluntary social insurance is not appealing.</li> </ul>	<ul style="list-style-type: none"> <li>• Formalization of labour market (social insurance coverage as a way to formalize work).</li> <li>• Unemployment insurance rather than retirement and death fund should provide support during working age.</li> <li>• Make Voluntary Social Insurance more attractive: contribution subsidies, short-term benefits, better communication.</li> </ul>
<ul style="list-style-type: none"> <li>• Difficult work conditions in industrial and export production zones.</li> <li>• Low-qualified jobs are physically demanding.</li> <li>• Employers' preference for younger workers.</li> <li>• Older workers' difficulty to stay in formal labour market.</li> </ul>	<ul style="list-style-type: none"> <li>• Low economy development.</li> <li>• Age discrimination.</li> <li>• Lack of occupational safety and health rules.</li> </ul>	<ul style="list-style-type: none"> <li>• Improve productivity.</li> <li>• Improve workers' employability.</li> <li>• Support from workers' organizations.</li> </ul>
<ul style="list-style-type: none"> <li>• Low wages.</li> <li>• High cost of living (housing, health care, schooling).</li> <li>• Low priority for old - age planning.</li> </ul>	<ul style="list-style-type: none"> <li>• Low real wage due to low qualified jobs.</li> <li>• Low wage relative to high cost of living.</li> <li>• Low insurable earnings due to under-declaration.</li> </ul>	<ul style="list-style-type: none"> <li>• Improve job supply.</li> <li>• Improve workers' employability.</li> <li>• Improve public services (job search assistance, housing, schooling, health services).</li> <li>• Enforcement of and incentives for compliance.</li> </ul>

Challenges	Potential causes	Ideas to explore
<ul style="list-style-type: none"> <li>Resettlement of migrant workers from rural areas to industrial zones.</li> <li>Saving wages and social insurance contributions to build capital for businesses on return to towns of origin.</li> </ul>	<ul style="list-style-type: none"> <li>Lack of housing and schooling at affordable cost.</li> <li>Lack of support from familial network.</li> <li>Public service not designed for mobile workers (ex-health insurance is linked to permanent address).</li> <li>Micro-enterprise initiatives cannot easily find financing.</li> <li>Lack of support for migrant workers returning home.</li> </ul>	<ul style="list-style-type: none"> <li>Expand social insurance coverage to more sectors and employment relationships.</li> <li>More flexible pension eligibility conditions.</li> <li>Improve access to credit for MSMEs.</li> </ul>
<ul style="list-style-type: none"> <li>Many workers do not expect to have 20 years of social insurance payments to qualify for a pension.</li> </ul>	<ul style="list-style-type: none"> <li>Required 20 years of social contributions is too challenging to meet in the current state of the labour market.</li> <li>Workers do not see pensions as a real advantage.</li> </ul>	<ul style="list-style-type: none"> <li>Reducing required period of contribution for a pension (to 15 years at least).</li> <li>Link eligibility to period of registration, while linking pension calculations to lower periods of contributions.</li> <li>Universal pension.</li> <li>Explore complimentary sources of funding (e.g. State Budget).</li> </ul>
<ul style="list-style-type: none"> <li>Choice between:               <ol style="list-style-type: none"> <li>taking social insurance lump-sum and terminating participation in social insurance scheme; and</li> <li>preserving past contribution period and be unlikely to qualify for a pension.</li> </ol> </li> </ul>	<ul style="list-style-type: none"> <li>Two options with major disadvantages:               <ol style="list-style-type: none"> <li>terminating participation creates momentum to stay out of insurable work; and</li> <li>lump-sum amount is worth less than the present value of the pension forgone.</li> </ol> </li> </ul>	<ul style="list-style-type: none"> <li>More flexible options with incentive to build up pension rights.</li> <li>Maintain social insurance link by allowing partial withdrawal of contributions (e.g. worker's part only).</li> <li>Allow workers to pay back the withdrawal (through series of payments or deduction from pension).</li> <li>Commuting part of the pension (e.g. 25 per cent) upon special circumstances (important medical expenses, house purchase, training).</li> </ul>

Given the multidimensionality of the issues that lead workers to take up social insurance lump-sum payments in Viet Nam, it is clear that no single measure or policy change can, by itself, completely address the issue. Rather, a consistent and comprehensive policy package that addresses several of the different challenges, can help ensure workers' income security in the long-term, without severely compromising their standards of living in the short-term. Some of the key policy changes that should be part of such a package are discussed further in Section 5.



## 4. Data analysis

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Social insurance lump-sum payments in Viet Nam, made mostly before retirement, can significantly jeopardize the function of social insurance contributory systems as a guarantor of old age income security, as outlined earlier in this paper. At the same time, they are not in accordance with International Labour Standards, in particular ILO Convention No. 102.

Policymakers in Viet Nam are keenly aware of such issues and have made efforts to limit workers' access to lump-sum payments. However, such efforts were met with significant resistance from workers. To understand such reactions, we need to first understand workers' needs of and usage of such lump-sum payments. This section will focus on studying the profile of workers who access lump-sum payments and analyzing how this relates to the structure and shortcomings of the current social insurance system.

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►► Lump-sum payments in Viet Nam are made mostly before retirement.

Currently, in Viet Nam, there are four situations upon which an insured person can request to withdraw a lump-sum of its and its employers' contributions to social insurance to date:

- (1) reaching the retirement age without being eligible for a retirement pension;
- (2) having discontinued social insurance payments for at least one year and paid social insurance premiums for less than 20 years;
- (3) settling abroad; and
- (4) suffering from a fatal disease.

Of these, scenario two (termination lump-sum) is a case rarely seen in other countries as it allows insured workers to exit the system and withdraw their contributions (and their employers') at any point in their careers.

Table 3 shows that this specific type of lump-sum payment accounts for the majority of all such withdrawals in Viet Nam. Moreover, the share increased during 2016–2019 compared to 2013–2016, from 82 to 93 per cent, respectively. The number of insured persons who take lump sum payments at retirement due to non-eligibility for a pension is much smaller than the number of those taking it before retirement and follows a decreasing trend.

► **Table 3: Types of lump-sum withdrawals in Viet Nam, 2013–2019**

Types of lump-sum	2013-2016* (Number of persons)	2016-2019* (Number of persons)
Maximum retirement pension	227 983	249 635
Retirement without pension	20 491	46 060
Death non-related to work	131 343	80 443
Termination (one year's wait)	1 871 618	2 295 778
Other reasons*	250 534	59 535
Total lump-sums	2 273 986	2 481 816
<b>Termination lump-sums as percentage of total lump-sums</b>	82%	93%

\* The numbers below represent the total lump-sum withdrawals for the totality of the period,  
Source: ILO estimations based on Vietnam Social Security (VSS) data

This leads to the striking outcome that, 93 out of 100 workers withdrawing lump-sum are using termination lumpsum option.

Secondly, the data shows a significant difference in trends in terms of lump-sum access between the private and public sector, as can be seen in Table 4:

► **Table 4: Lump sum payments by type, public and private sector, 2016–2019**

	Private Sector (Number of persons)	Public Sector (Number of persons)
Retirement without pension	35 628	10 432
Death non-related to work	29 418	51 025
<b>Termination (one year's wait)</b>	<b>2 161 396</b>	<b>134 382</b>
Other reasons	34 977	24 558
<b>Total lump-sums</b>	<b>2 261 419</b>	<b>220 397</b>

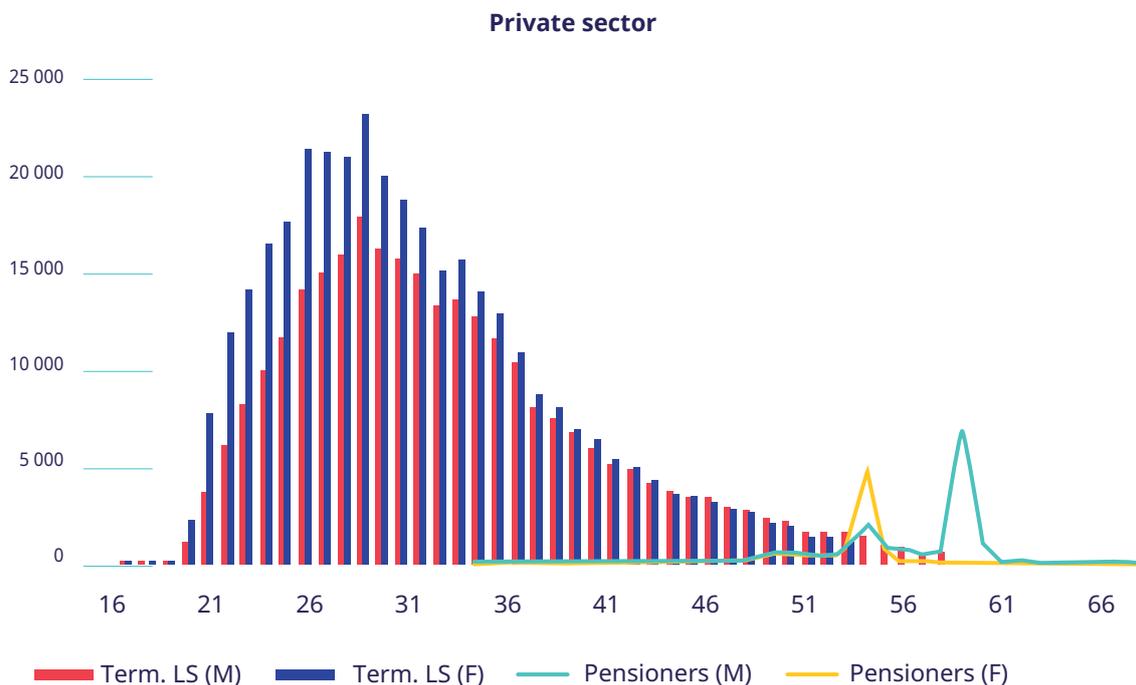
Source: ILO estimations based on Vietnam Social Security (VSS) data

Most termination lump-sums are taken by workers in the private sector. In the public sector, termination lump-sums are less common, probably due to greater job stability.

► Lack of income security upon job losses is a key driver of lump-sum withdrawals.

Data also show that termination lump-sums are particularly appealing at young ages and among women. In fact, Figure 1 shows that most lump-sum withdrawals are taken by young insured persons, and by women to a greater extent.

► **Figure 1: Number of new retirement pensions and termination lump-sums by sex and age (years) Viet Nam, 2019**



Source: ILO estimations based on Vietnam Social Security (VSS) data.

Figure 1 shows that most persons opting for a lump-sum are aged 20–39 years. This early take-up of lump-sum benefits is an expected pattern, because it is precisely at young ages when myopia about the need for a retirement pension in old age is more common. Mandatory social insurance systems are conceived to avoid myopia and encourage workers to contribute in advance without waiting until older ages, when it may be too late to secure an adequate pension. On the other hand, if workers have weak expectations of building a sufficient record of contributions to qualify for a retirement pension, they may have an additional incentive to take termination lump-sums.

The other important factor highlighted in Figure 1 is the significant gender differences when it comes to accessing lump-sum payments. In 2019, about 69 per cent of termination lump-sums taken out were received by women under the age of 35.

### ►► Women’s preference for lump-sum payments is a combination of their weaker labour market perspectives<sup>6</sup> and larger burden of care.

This becomes particularly relevant when it comes to childbirth. In fact, many women interviewed for a recent ILO-Vietnam Women Union (VWU) report<sup>7</sup> pointed to a need for short-term liquidity to cope with expenses related to the birth and raising of children.

Quantifying the impacts of the decision to take a lump-sum versus a deferred pension of workers’ lifetime earnings is key to understanding the magnitude of shortcomings associated with taking a lump-sum payment from social insurance. Table 5 presents six different profiles, defined by three levels of wage (low, medium and high) and two contribution periods (young and old).

► **Table 5: Workers' profiles**

Wages (at age 30 or 50) (VND)	Contribution period	
	Age 30 to 34 (Young)	Age 50 to 54 (Old)
2 600 000 (low)	Young - Low	Old - Low
4 550 000 (medium)	Young - Medium	Old - Medium
9 100 000 (high)	Young - High	Old - High

Source: ILO estimations

<sup>6</sup> Which make them less likely to accumulate enough year of contributions to be entitled to a retirement pensions.

<sup>7</sup> ILO (2021), Betina Ramírez López and Camila Arza, Adapting social insurance to women’s life courses: A gender impact assessment of Viet Nam, [https://www.ilo.org/hanoi/Whatwedo/Publications/WCMS\\_819801/lang--en/index.htm](https://www.ilo.org/hanoi/Whatwedo/Publications/WCMS_819801/lang--en/index.htm)

The estimates of lump-sum and pension values are based on the following assumptions:

- ▶ Earnings are assumed to increase 4 per cent, per year.
- ▶ Inflation increases (used in determining average earnings and indexing pensions) are assumed to equal 2 per cent, per year.
- ▶ Rate of return on invested funds is assumed at 5 per cent.

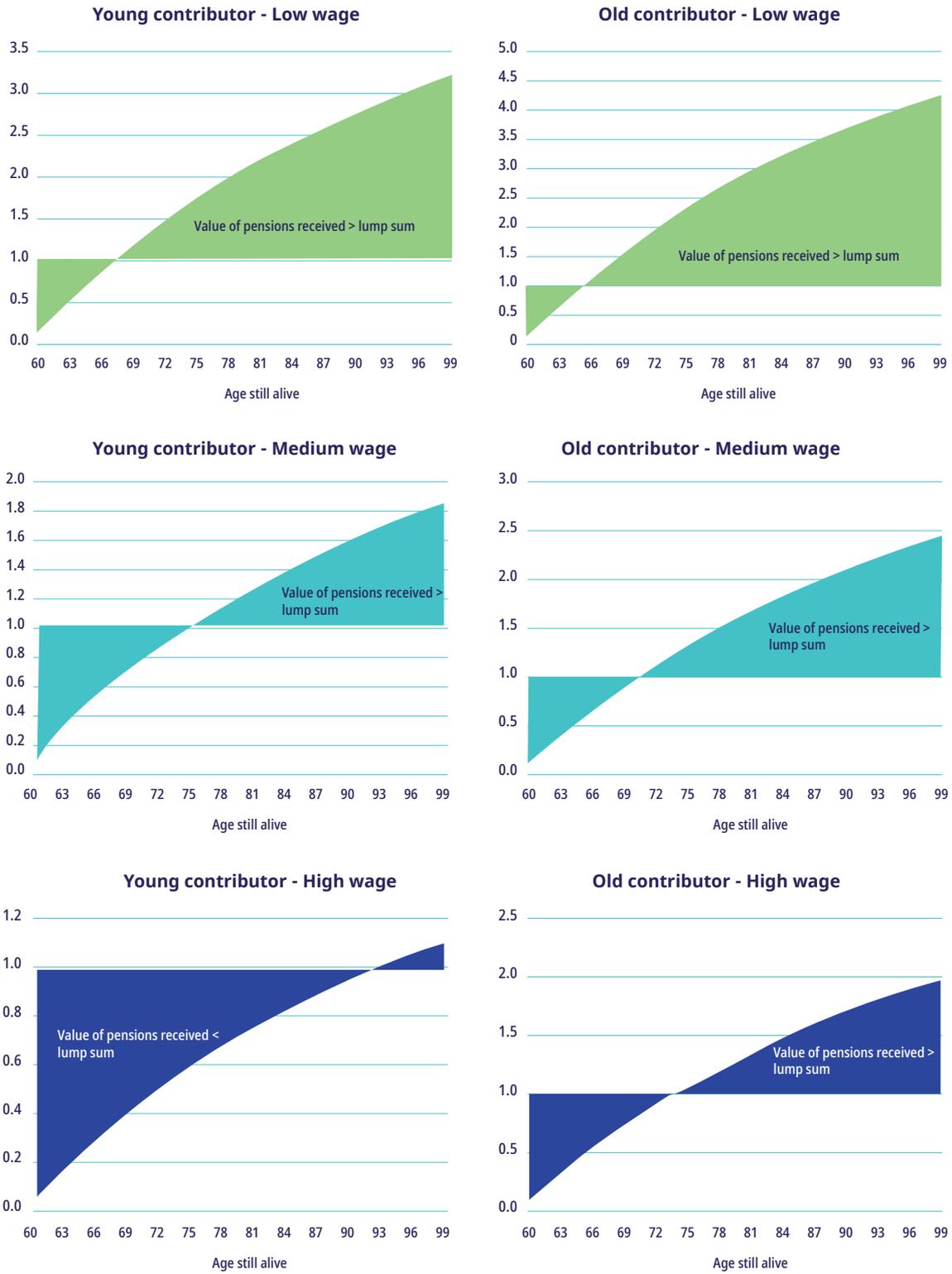
The six representative individuals corresponding to the different combinations of the two dimensions (wages and age) are assumed to contribute for five years and then stop, for simplicity.

Under the lump-sum scenario, the six persons are assumed to take their lump-sum from the social insurance scheme one year after their termination, and to invest it.

Under the pension scenario, the six persons are entitled to a pension from age 60 based on the five-year contribution period with an accrual rate equal to 1.5 per cent and a prorated minimum pension (full minimum pension available after 20 years of contributions).

At a given age where an individual is still alive, a ratio of the cumulated value of all amounts of pensions received to the invested value of the lump-sum is calculated. A ratio less than 1 means that the total of pensions received is worth less than the lump-sum, while a ratio greater than 1 means that the total of pensions received is worth more. Figure 2 shows the evolution of that ratio according to the age at which the individual is still alive, for each one of the six profiles.

► **Figure 2: Ratio of the cumulated value of pensions received to the invested value of the lump-sum**



The above figures suggest that the attractiveness of the lump-sum increases with the size of earnings and decreases with age.

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▀▀ The cumulative value of lump-sums would not be sufficient to provide adequate protection for most workers and scenarios.

Looking at it from another angle, for instance in the case of the Employees Provident Fund in Malaysia (EPF), a recent survey conducted revealed that more than 70 per cent of its members would have exhausted their EPF moneys within three years of withdrawing their lump-sum on retirement at aged 55. As a consequence, they will have to rely on the government's social assistance pension for the poor. This is obviously a bad outcome for both workers and the State. Who is bearing that cost ultimately? The worker, for sure – but the rest of society as well who will bear the cost of social pension programmes which are means-tested, and taxpayers pay for.

To conclude, the patterns discussed above highlight that access to lump-sum payments are significantly determined by job security and the burden of care experienced by different groups of workers. At the same time, it is also clear that, in most cases, accessing lump-sum payments will negatively affect workers' old age income security, which is the key objective of any retirement pensions system. These results present valuable insights into potential policy action to address the challenge in Viet Nam.



## 5. Conclusion

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Lump-sum withdrawals from social insurance are a feature of some countries' social security systems around the world, including Viet Nam's. Their main goal is to provide individuals who contribute to social security systems with a way to access savings before their retirement pensions are due. This can be done for several reasons, whether it is because individuals feel they are better equipped than their government to manage their retirement savings, because they have an urgent need of additional liquidity (for instance to mitigate risks during their work life such as unemployment spells or maternity), or other reasons.

However, as highlighted in this paper, this instrument comes with significant drawbacks which can, on one hand reduce the income of individuals upon retirement, and on the other hand also risk the sustainability of the whole system.

In the past, efforts by policymakers in Viet Nam to limit access to lump-sum withdrawals, in particular earlier in workers' careers, were met with swift opposition.

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Workers' access to lump-sum payments is strictly connected to their levels of income insecurity. Two particular life contingencies seem to drive a large share of lump-sum withdrawals: job loss and childbirth.

Therefore, it is not surprising that workers opposed so vehemently in the past to proposed reductions in access to such payments, as they are essential for them to ensure income security and liquidity through some of the most challenging moments of their working lives.

This is a first important takeaway: workers in Viet Nam access lump-sum payments to ensure income security at different stages of their careers. This is an important realization, as the main goal of social insurance, is to ensure workers' income security throughout their life cycle and when they are faced with several contingencies.

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Workers in Viet Nam use lump-sum payments from social insurance to a great extent to replace features of the social insurance system which are either absent, or not strong enough.

Thus, instead of focusing the policy discussion on limiting workers' access to lump-sum withdrawals, a key question for policymakers is:

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►► How to strengthen the social insurance system so that workers have less need to access lump-sum payments to ensure their income security before old age?

Accessing lump-sum payments in a large share of cases in Viet Nam appears to be a response to short-term income shortages, which acts in combination with workers' inherent myopia that leads to large numbers of yearly termination withdrawals from social insurance.

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►► Making the social insurance scheme more attractive for workers by strengthening short-term benefits should be a priority.

There are two social insurance short-term benefits particularly suited to meeting the key needs of workers that currently trigger the use of lump-sum payments: the introduction of a child/family benefit, and raising and expanding unemployment benefits.

The first could be conceptualized as the introduction of a multi-tiered child benefit into the existing social security system. The contributory component of such a benefit would provide immediate income support for the millions of families who already have children of eligible age, thus acting as a dual motivator for young workers to join or remain in the system (instead of accessing lump-sum payments).

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►► Providing families with a monthly benefit based on the number of children as well as better access to pre-kindergarten childcare, could increase entry rates into the social insurance compulsory system and at the same time reduce exit rates, thus contributing in a two-fold manner to the expansion of coverage.

The second social insurance programme well positioned to reduce workers' need to access lump-sum payments is unemployment benefits. As job loss represents for workers in most cases the greatest challenge to their income security, having access to suitable unemployment benefits is key to overcome those challenges. When unemployment benefits are not available or insufficient, workers are forced to find alternative sources of income to meet consumption needs. This can result in depletion of savings, transitioning to informal jobs and in the case of Viet Nam, exercising the right to make a lump-sum withdrawal of social insurance contributions to date.

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►► Expanding coverage and increasing the levels<sup>8</sup> of unemployment benefits in Viet Nam could be a key policy to provide fewer incentives for workers to take out lump-sum withdrawals from social insurance.

This would allow workers to retain their rights and entitlements for retirement pensions and old age income security. On aggregate, this could also lead to a decrease in exit rates from the social insurance system, which will be one of the keys to expand social insurance coverage in Viet Nam in coming decades.

This passive component of unemployment insurance (unemployment benefits) should be complemented by stronger and more effective activation mechanisms and policies. Providing better access to vocational training, job placement services and credit could help a subset of the workers find new jobs faster that match their profiles, and thus reducing their need to access lump-sum withdrawals to ensure their income security.

It is important to add that the available empirical evidence suggests that it is unlikely that increasing benefits (such as unemployment or child benefits) will have a negative impact on labour supply, as underlined by recent study of Viet Nam's cash transfer programmes<sup>9</sup>.

In parallel, considering options to slowly and gradually reduce workers' access to lump-sum payments needs to remain on the table. However, instead of making lump-sum payments suddenly unavailable for workers – which was not feasible in the past from a societal point of view, and which could lead to significant negative short-term consequences such as a sudden spike in lump-sum withdrawals and erosion of trust in the system – new approaches need to consider smaller steps which, combined with other measures to strengthen the benefits provided by the compulsory social insurance system, can better suit workers' needs and thus be more likely to be accepted.

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8 Despite high replacement rates for unemployment benefits, the definitions of insurable earnings in Viet Nam still lead to a scenario where many unemployment benefits remain low in value, when compared to the cost of living (and the true value of workers' salaries before losing their jobs).

9 Cuong Viet Nguyen and Finn Tarp (2023), Cash Transfers and Labor Supply: New Evidence on Impacts and Mechanisms.

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►► Gradually increasing the period of time workers must wait between terminating their social insurance payments and withdrawing their contributions could contribute to reduce incentives for workers to take out lump-sum payments.

For instance, one could think of a calendar, where each year, the waiting period required to receive a termination lump-sum payment could increase by one month. As workers must currently wait 12 months between terminating their social insurance contributions and taking out their lump-sum payments, this means that after six years, the waiting period would increase by 50 per cent, providing workers with less incentives to take out lump-sum payments. However, with a gradual, one-month approach, it is possible that such change is more likely to be accepted by workers, as they will not feel that it is a significant shock to the system and, most importantly, their rights.

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►► Another option would be to gradually reduce the share of total social insurance contributions workers can access via lump-sum payments.

Again, the key here would be to study options which gradually implement such changes, rather than abrupt changes in direction. For instance, a schedule is possible where, each year, the share of contributions workers can access through lump-sum payments would be slowly reduced. If each year the share of contributions workers can withdraw is reduced by 10 per cent, this could be seen as an acceptable change as, even after five years, workers can still withdraw the majority (50 per cent) of contributions in case of need. At the same time, this would represent a significant change, presenting further incentives for workers to remain in the social insurance system.

It is clear, both from empirical evidence and the challenges faced in the past by policymakers, that reducing the number of workers taking lump-sum payments from social insurance in Viet Nam will require a comprehensive policy package. Such a package must present a mix of measures that increase the support that workers receive from social insurance through other benefits, while gradually reducing their ability to access social insurance contributions before retirement. The details of such a package must be thoroughly discussed with workers and employers alike, to ensure their support and the likelihood that such a package can be accepted by society at large.

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▀▀ Social dialogue must remain at the core of all social insurance policy discussions, and the issue of lump-sum payments should be no exception.

Ensuring that a smaller share of workers takes out social insurance contributions as lump-sum payments in the future will be key to ensuring both workers' old age income security and the financial sustainability and predictability of the pension system as a whole.

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▀▀ A successful package that addresses the issue of social insurance lump-sum payments in Viet Nam must be one that promotes workers' old age income security without jeopardizing their standards of living during their contributory careers.

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