

Assessing the Potential for Multi-tiered Child Benefits in Viet Nam

Shea McClanahan

Ha Noi

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Social insurance and child benefits: exploring linkages



Viet Nam's legal commitment to ensure children's social security

Viet Nam's Law on Children creates ample space for policymakers to draw up policies that ensure that children have access to social security benefits.

“Children who are Vietnamese citizens shall have their social security benefits ensured as regulated by the law and in conformity with socioeconomic conditions of regions where they are living and capacity of their parent(s) or caregivers”.

– Article 32, Law on Children, No. 102/2016/QH of 5 April 2016

Expansion of social insurance is a top priority

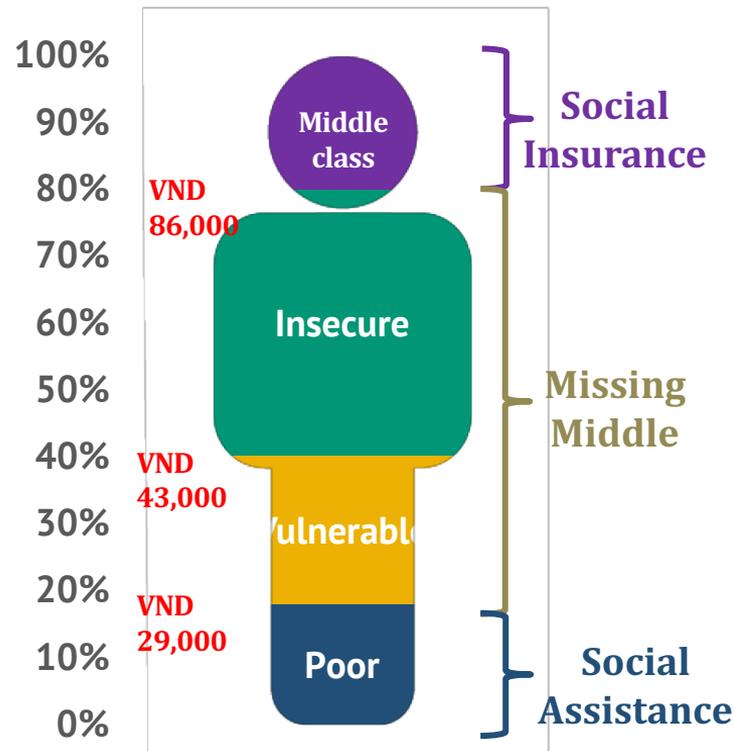
In the context of building an increasingly integrated multi-pillar social insurance system, Resolution No. 28-NQ/TW of 23 May 2018 on Social Insurance Policy Reform sets out specific targets for “accelerating the increase in the number of informal sector workers participating the social insurance scheme.”



Social Security System in Viet Nam

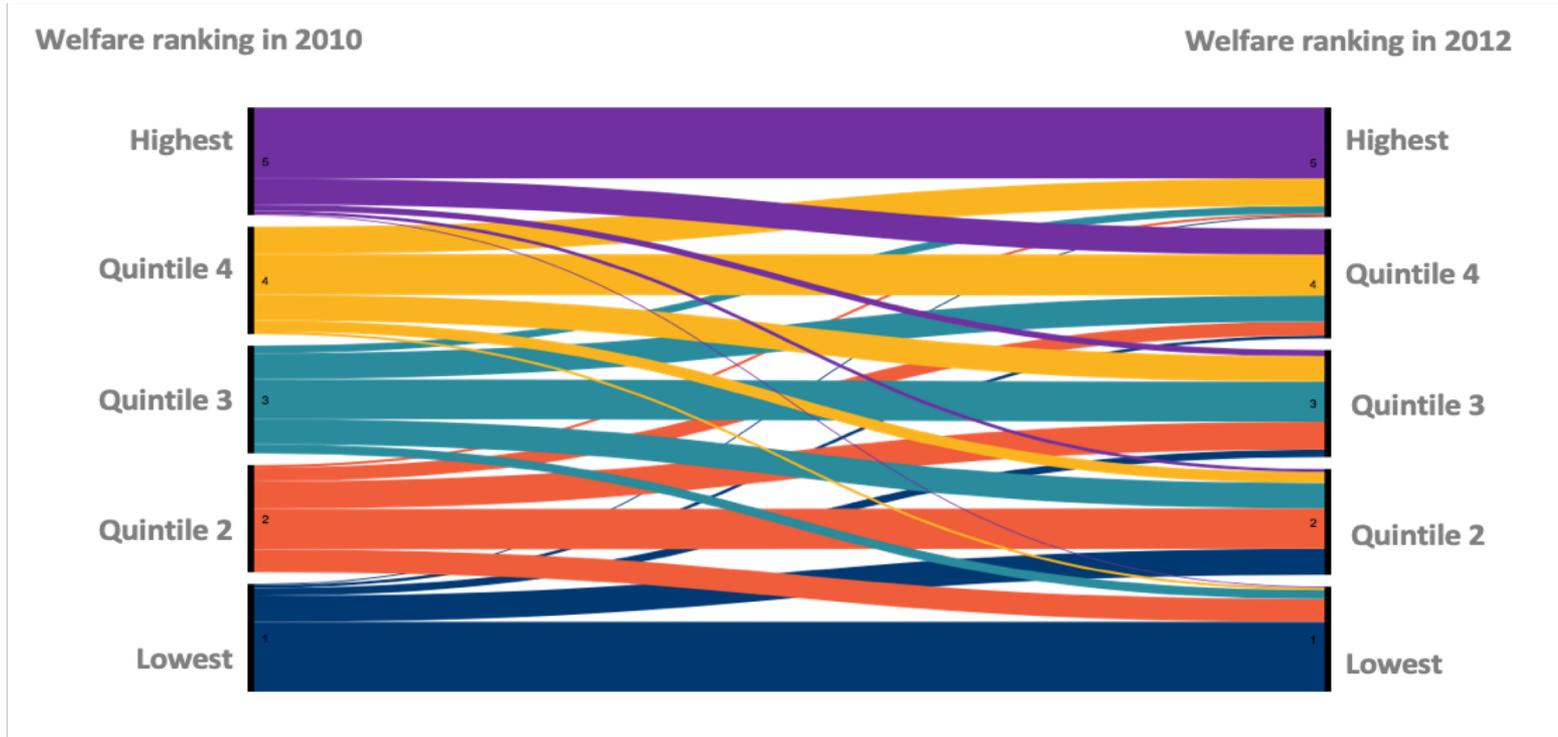
The missing middle in vietnam

- A large proportion of the population in Viet Nam live on low and insecure incomes but are not covered by the social protection system
- Up until now, Viet Nam's social schemes have been marked by the provision of **social assistance** for the poor, while the VSS has been restricted to civil servants and those in the formal economy contributing to social insurance schemes.



Poverty is a dynamic concept

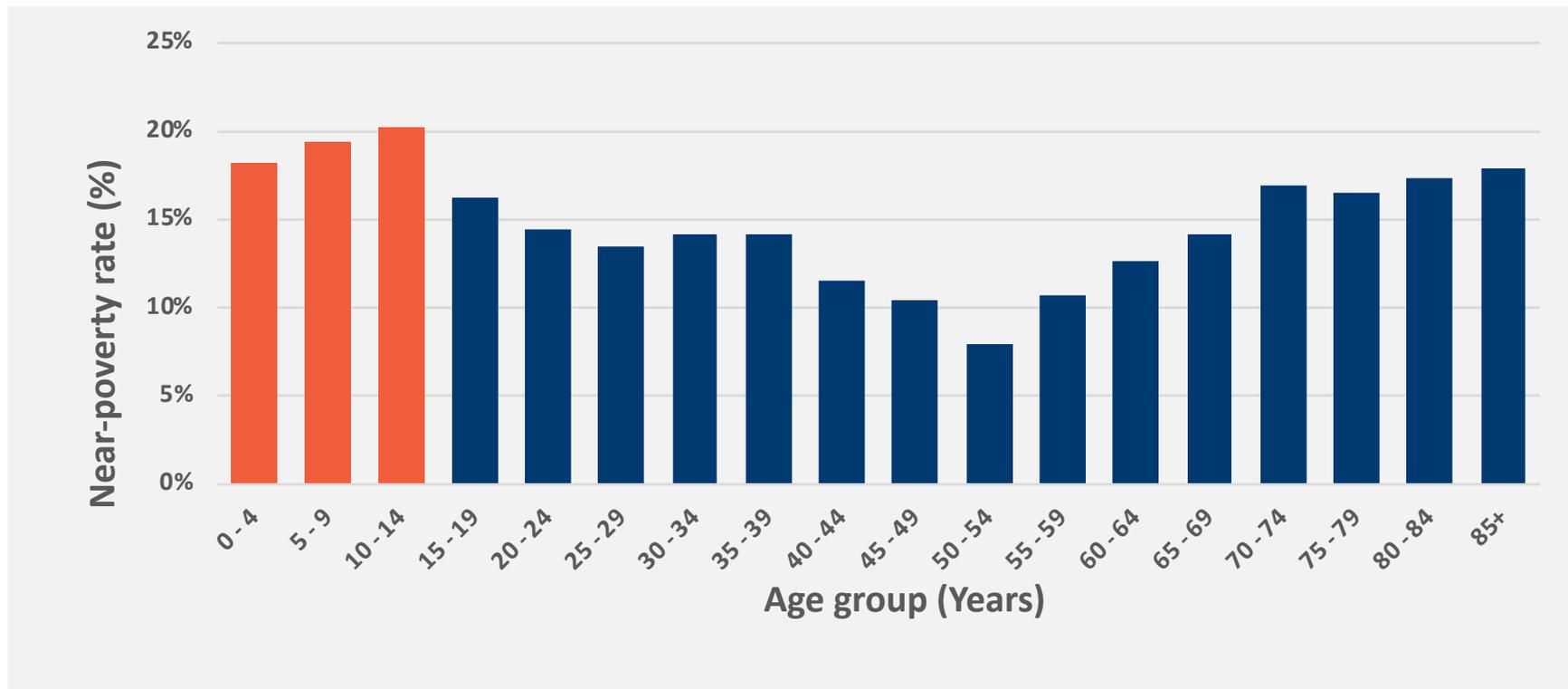
Poverty and income dynamics in Viet Nam, 2010 to 2012



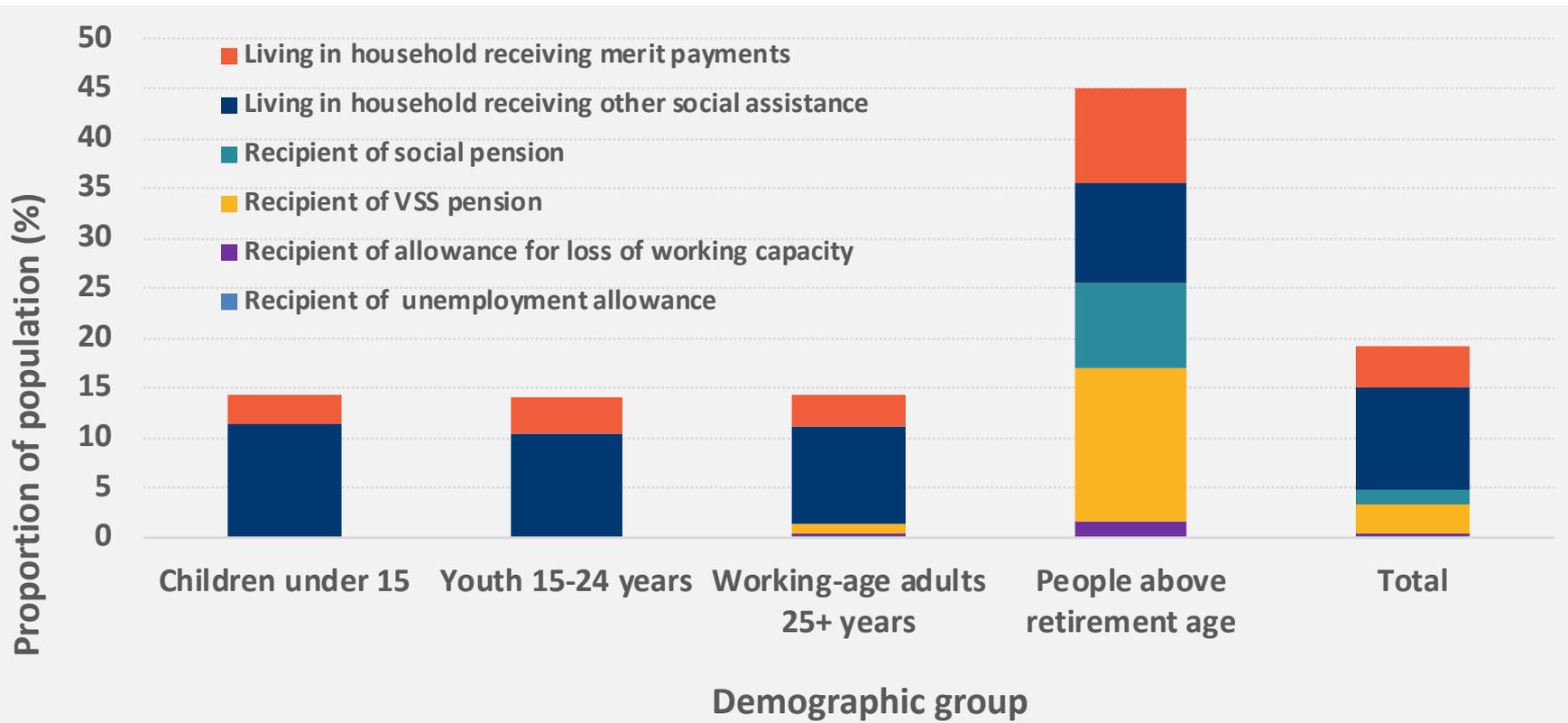
Children are more likely to be poor



Near-poverty rates across age groups in Viet Nam based on MOLISA near-poverty line



Access to social transfers across age groups



Reform context



- **MasterPlan for Social Insurance Reform (MPSIR)**
 - as expressed in Resolution 28 and accompanying Action Plan
- **MasterPlan for Social Assistance Reform and Development (MPSARD)**
 - as expressed in Decision 488 and accompanying Action Plan

MPSIR coverage targets



	Up to 2021	Up to 2025	Up to 2030
% of working age population participating in social insurance schemes	35%	45%	60%
% of working age population in unemployment insurance scheme	28%	35%	45%
% of persons above normal retirement age entitled to a pension, monthly insurance benefits and social allowances	45%	55%	65%

MPSARD coverage targets

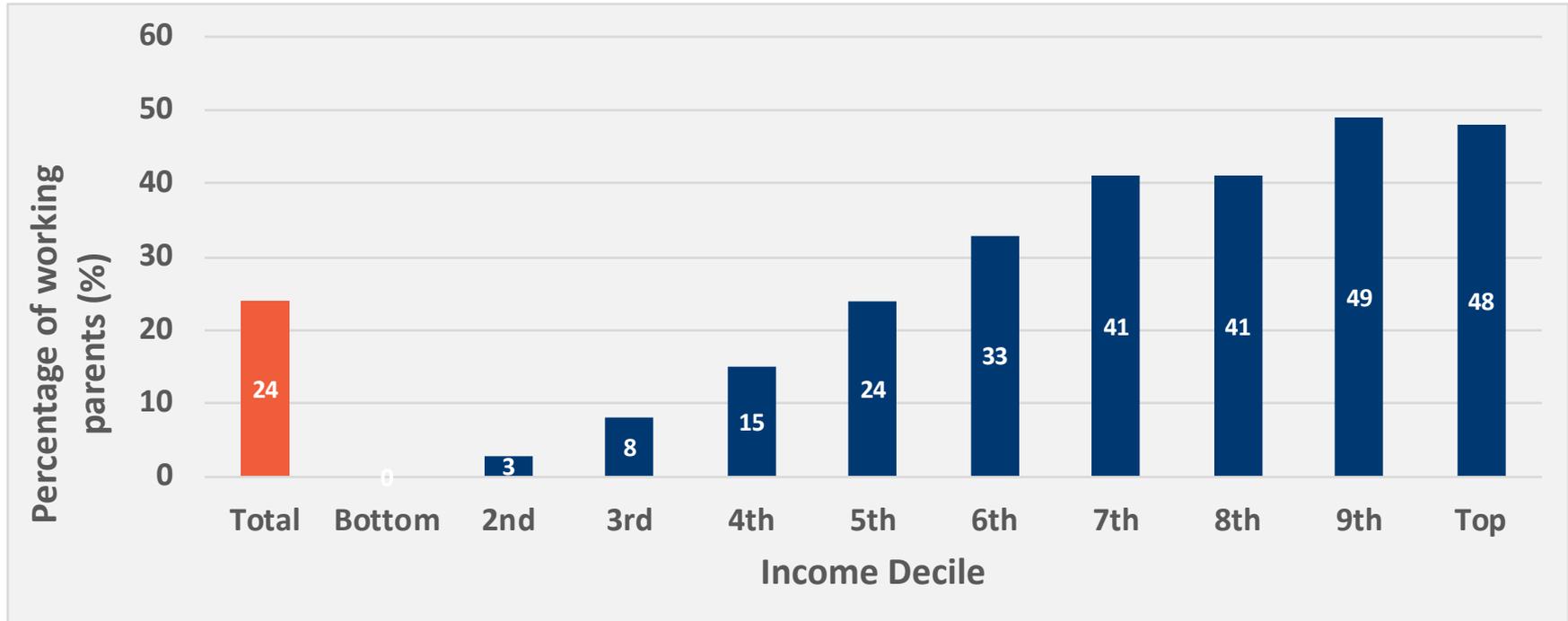
	Eligibility/coverage	Transfer Values
Social pension	Age of eligibility gradually reduced to 75 (70 for ethnic minorities); inclusion of social insurance pensioners with low pensions ⁵	Gradually increased to 11% of GDP per capita (21% for those with severe disabilities)
Disability benefits	Gradually increase coverage to 100% of disabled persons of working age and their caregivers (1.8% of persons of working age) ⁶	Gradually increased to 10% of GDP per capita (20% for those with severe disabilities)
Carers' benefits	Those unable to work due to their care responsibilities for persons with disabilities	Increases to 20% of GDP per capita
Child benefits (including disability)	A child benefit for children up to 36 months and gradually expand to include all children younger than age 6 years; A child benefit for all children in special circumstances (as legally defined), regardless of age	Set at 5% of GDP per capita for all children, but rises to 10% for children in special circumstances and 20% for children with disabilities, or children of single parents)
Benefit for persons with HIV/AIDS	Persons with HIV/AIDS living in poor families initially and gradually expanded to include those in near-poor families	Set at 8% of GDP per capita, then raised to 10%

A focus on working families with children

Very few working parents contribute to VSS

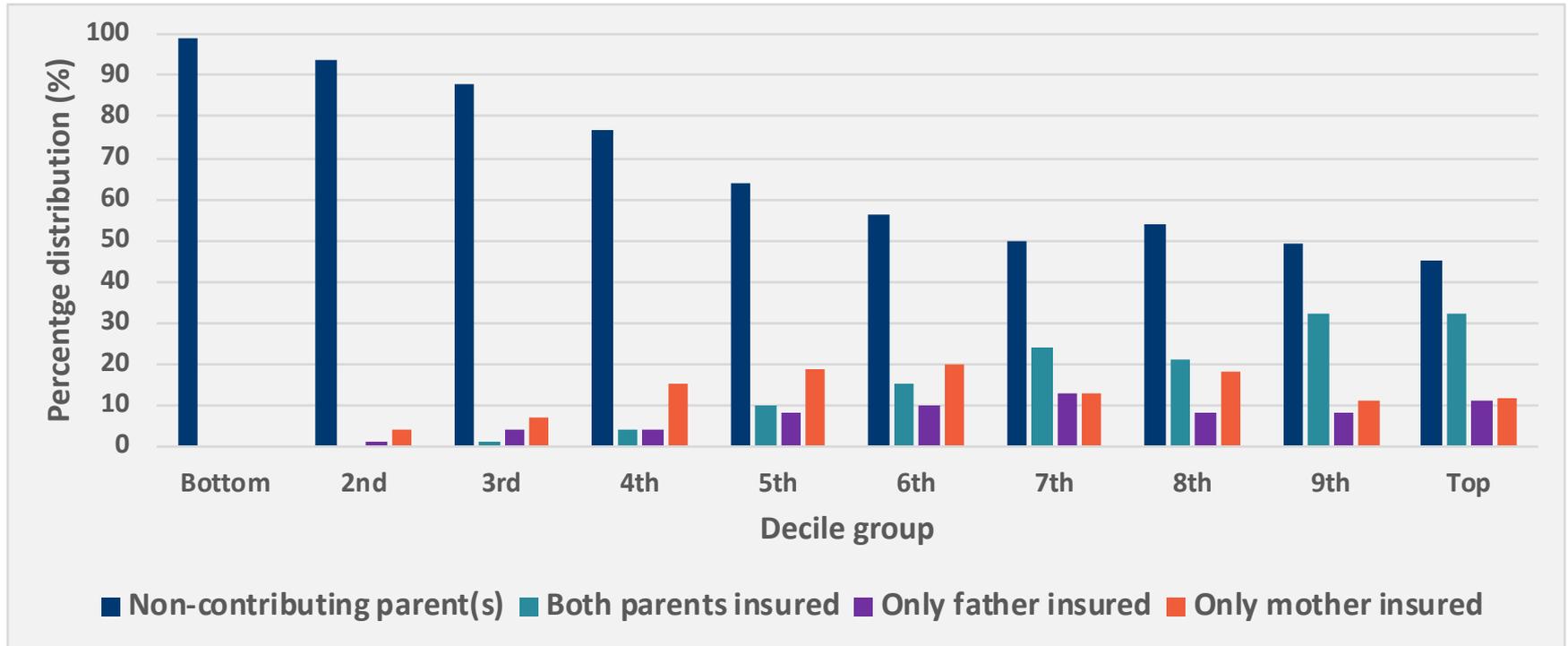


Percentage of working parents who contribute to VSS, by HH per capita income



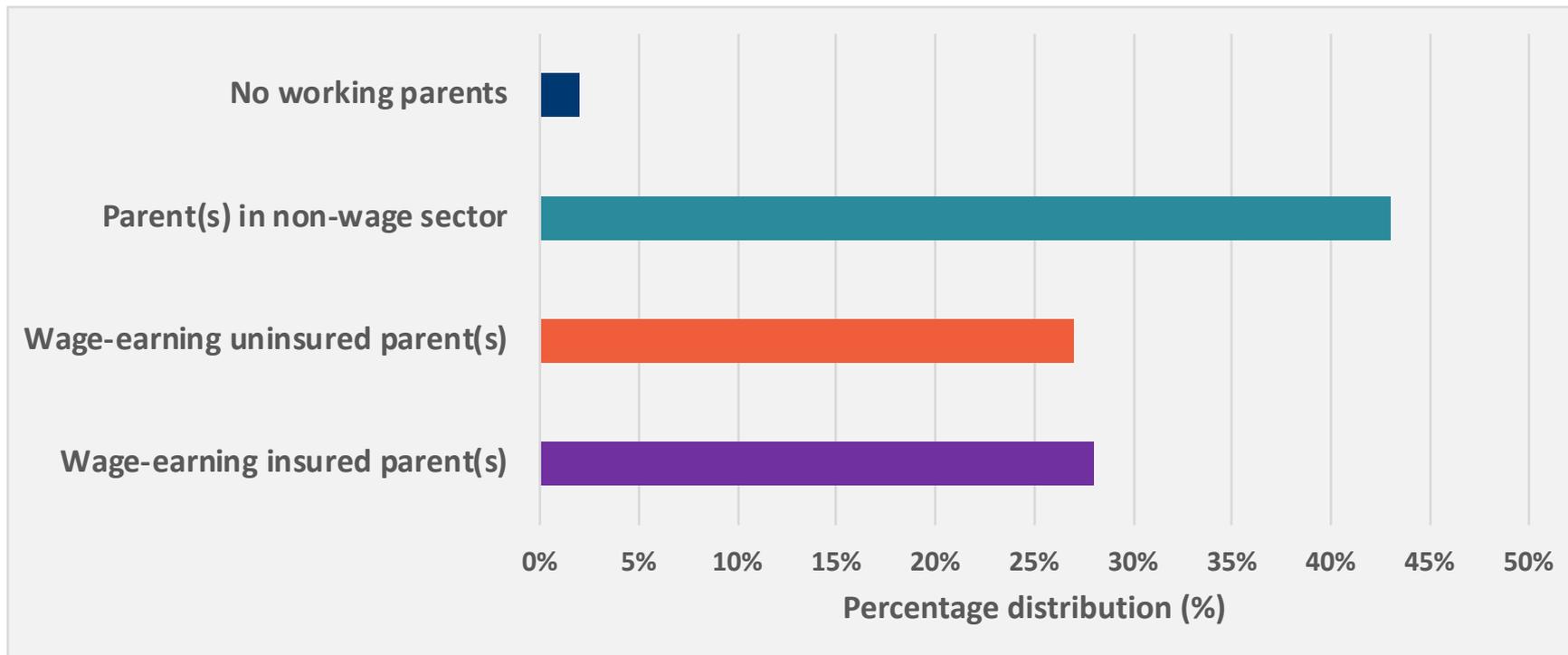
The likelihood of being insured rises with income

Percentage distribution of children by insurance status of parents, across the income distribution



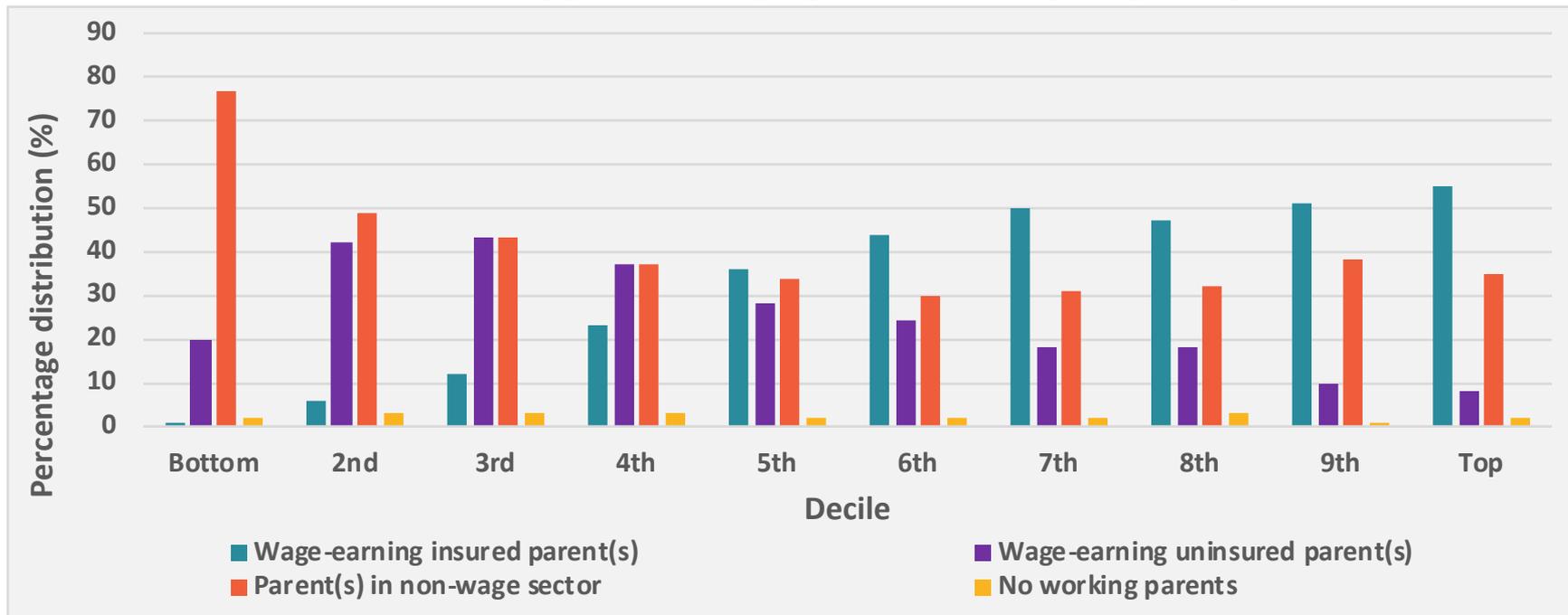
Parents' employment status

Percentage distribution of children by their parents' employment status



Children with informally employed parents are more likely to be poorer

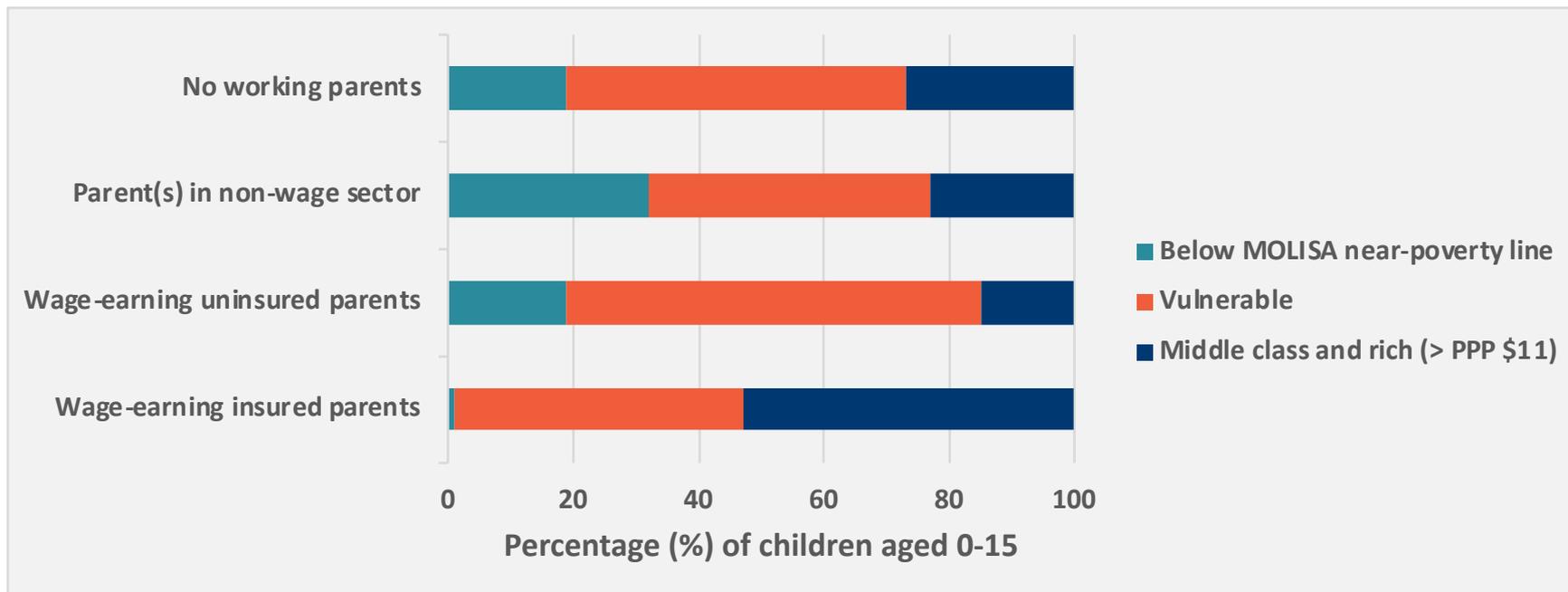
Income distribution of children by parents' employment status, by HH per capita income



Vast majority of children live on less than VND 3.03 million/month



Percentage of children classified as near-poor, vulnerable or middle class / rich, according to parents' employment status



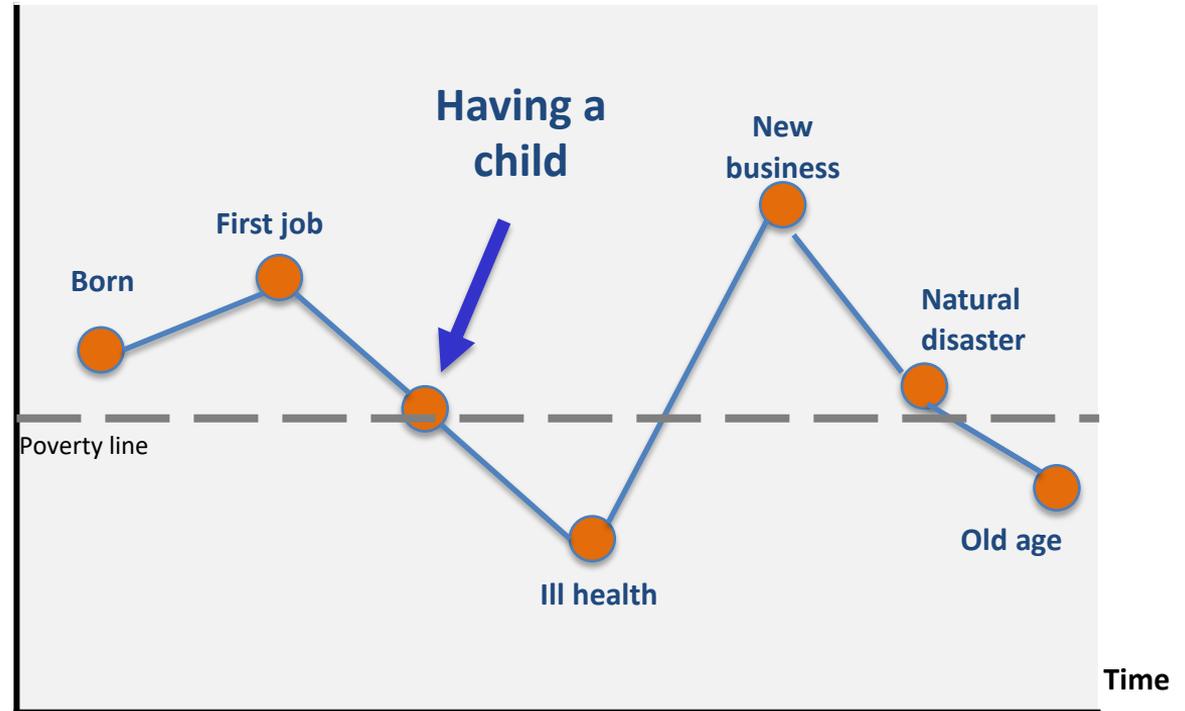
A multi-tiered child benefit for multiple objectives

The high cost of bringing up children

Having a child is a shock to any family's finances, regardless of the household's prior position.

But for those at the margins, a child can mean the difference between having enough and living in poverty.

Wellbeing



Traditional rationale for child benefits



Around the world, a core purpose of a child benefit is to *compensate parents for the extra costs of having a child*, where children are viewed as a collective responsibility and a collective investment.

But, can they do more?

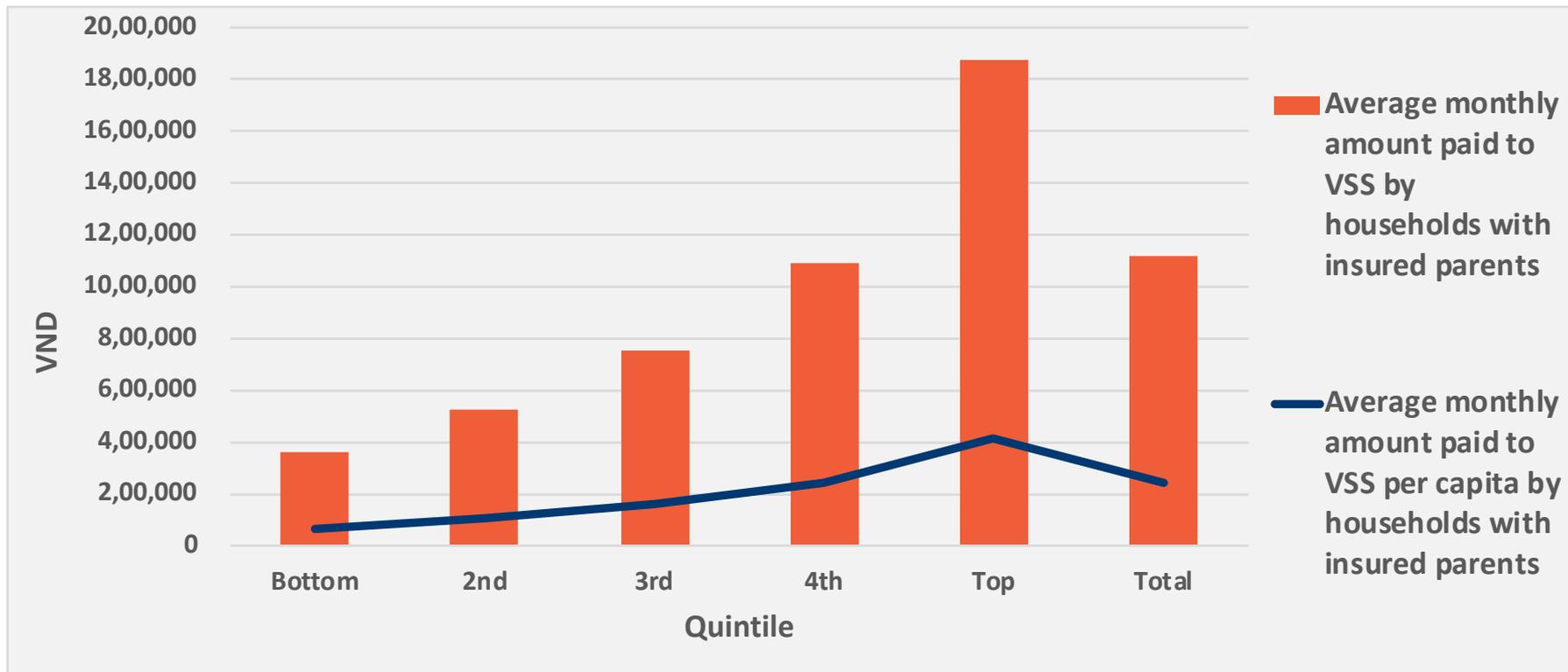
The high cost of joining VSS

The cost of enrolling in social insurance —from 10.5% to over 26.5%— is experienced as a welfare loss to the household and acts as a steep deterrent for people working in the informal economy.

Contingency	Compulsory (Employees)	Voluntary (Self-employed)	Employers
Old age and survivors	8.0%	22%	18%
Unemployment insurance	1.0%	N/A	1%
Employment injury	N/A	N/A	1%
Health insurance	1.5%	4.5%	3%
Total	10.5%	26.5%	23%

Source: VSS regulations.

Average monthly amount paid to VSS at a 10.5% contribution rate

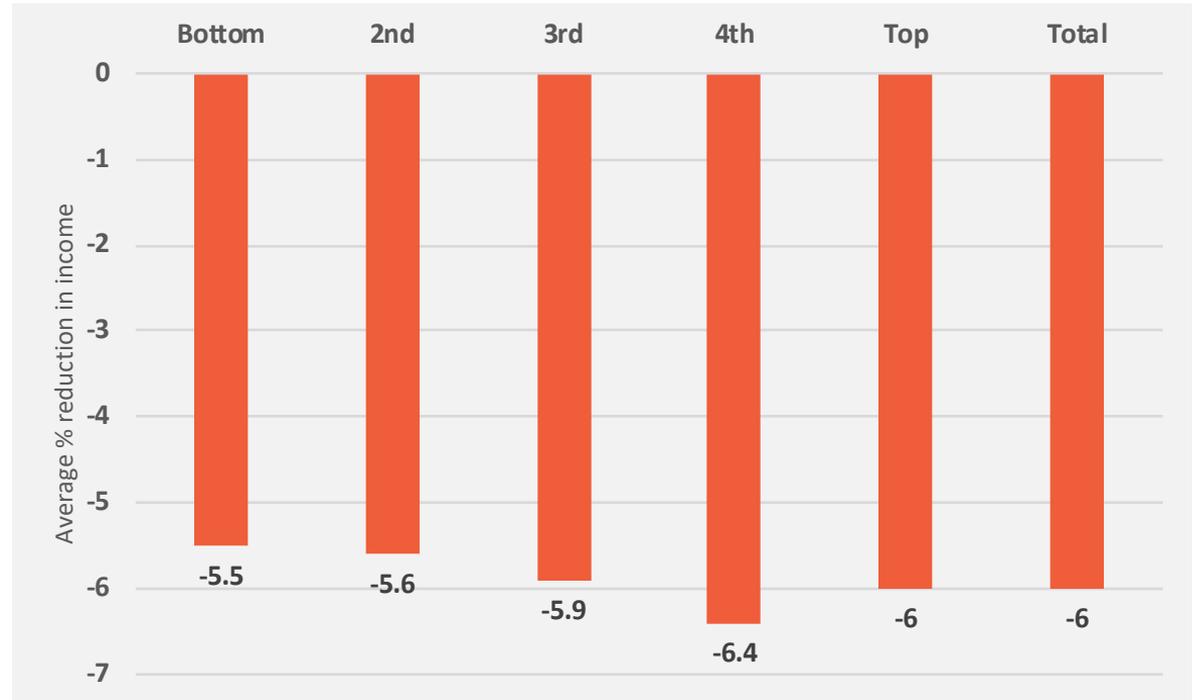


VSS contributions result in a welfare loss



Currently contributing VSS households experience an estimated net welfare loss of between 5.5 per cent (for the bottom quintile) to 6.4 per cent (4th quintile).

Average reduction in HH per capita income (10.5% contribution)



Conventional approaches to incentivising participation



Overcoming myopia is key challenge for voluntary and mandatory systems alike since cost is high and benefits are long in the future.

- **Short-term benefits** (maternity/paternity, health) attempt to reduce the distance between payment of contributions and receipt of benefits by since the risks appear ‘nearer’
 - *But, risks still unlikely at any given moment*
- **Premium subsidies** or matching payments attempt to reduce the cost of joining
 - *But, risks still distant and the subsidy is ‘implicit’ and may not be appreciated*

A multi-tiered child benefit offers a novel approach



A multi-tiered child benefit, unlike many other social insurance cash benefits, is immediate for the millions of people who already have children of eligible age.

And, unlike premium subsidies, which may not be visible, a multi-tiered child benefit instantly offsets the losses associated with a social insurance contribution in a tangible way while also guaranteeing the right to social security.

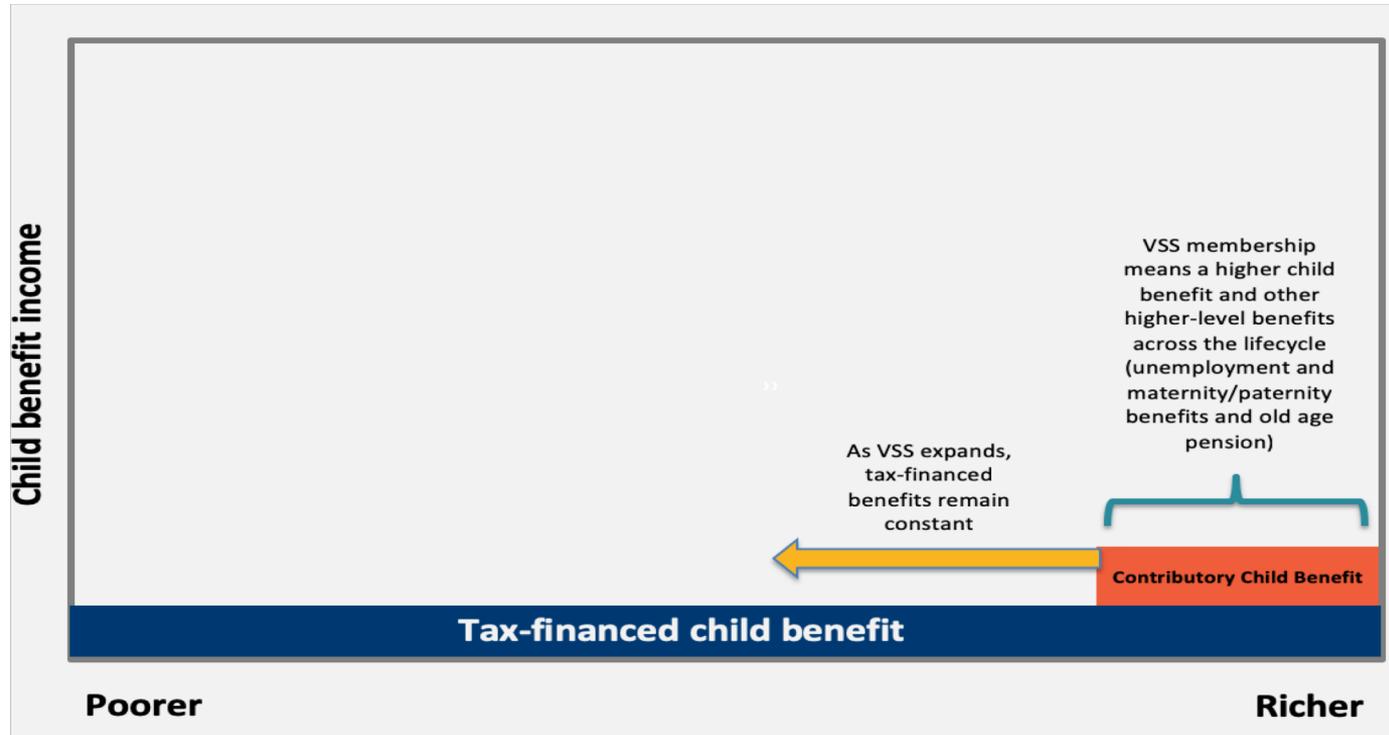
How would it work? Basic two-tier design



- **Tier 1:** an *adequate, guaranteed* benefit, financed from general taxation
- **Tier 2:** a *higher-rate benefit* for those who are able to pay social insurance contributions

Two models for universal coverage

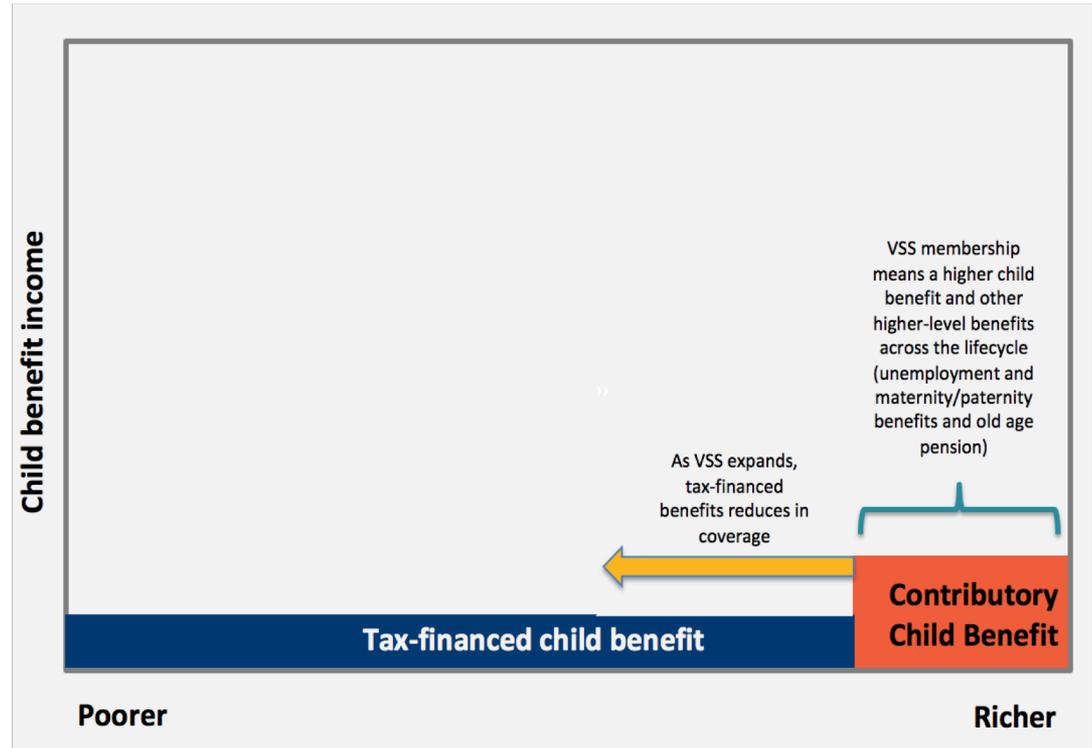
Model 1: A multi-tiered child benefit with a universal tax-financed tier 1



Model 2: A multi-tiered child benefit with a benefit-tested tier 1

Potential advantages of benefit-tested model

1. **Size and cost of the tax-financed component reduce** over time as more people join VSS
2. Basic structure already under consideration for the **social pension**
3. An **attractive alternative to poverty targeting** that is administratively simple and achieves universal coverage



Additional considerations



Political economy:

Likely to generate broad support since everyone benefits both **directly** (*because everyone was once a child*)

and **indirectly** (*because everyone benefits from a stronger future workforce, the basis of a strong economy, and most people will be eventually be support by younger generations*).

Other considerations

Gender equality:

Can be part of a gender-responsive policy package

Other policy objectives:

Can provide a canvas on which to pursue other policy objectives

Could a multi-tiered child benefit work in Viet Nam?

Approach and methodology

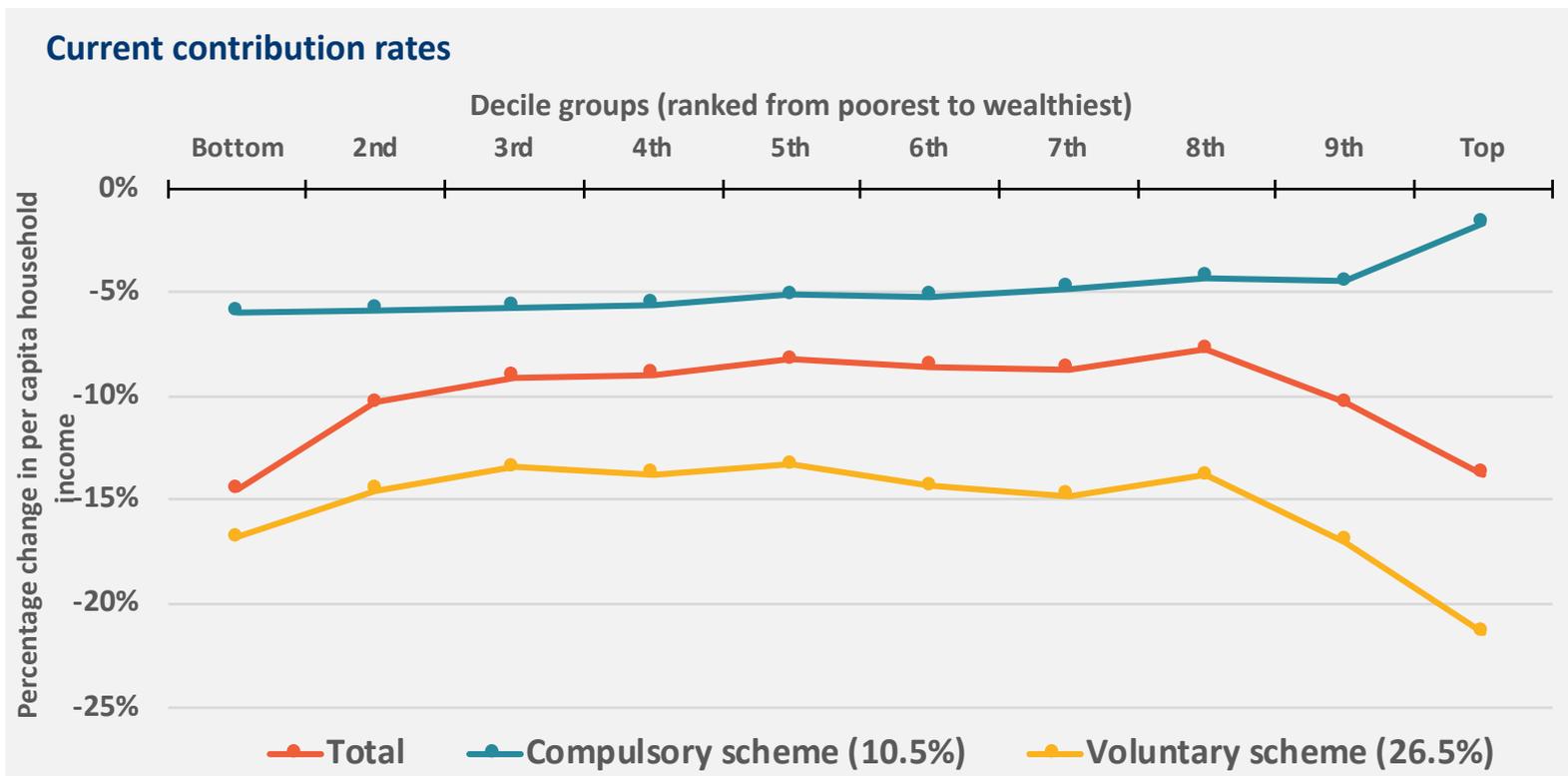


1. Assess the likely impacts of a status quo VSS contribution on parents working in the informal economy
2. Explore the potential compensatory effects of a multi-tiered child benefit

Simulated impacts of a VSS contribution



Average percentage reduction in HH per capita income among informal economy families



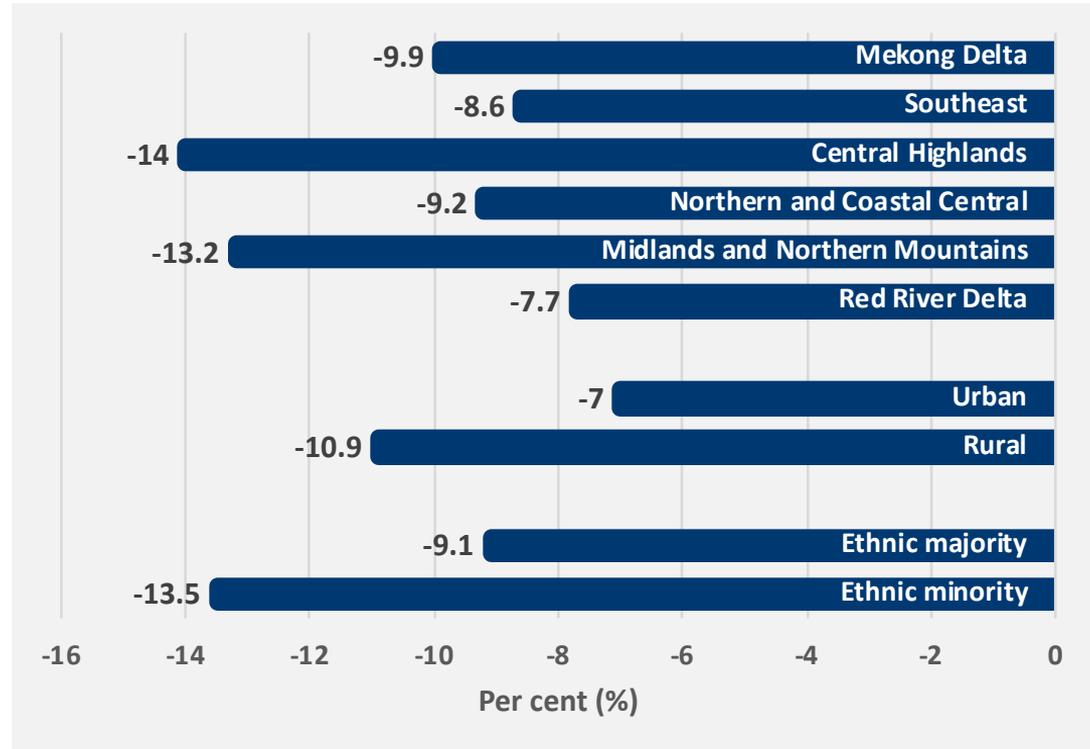
The impacts of a VSS contribution would vary by background characteristics

The effects would be significantly larger for

- people working in **rural** areas
- members of **ethnic minorities**
- and for people living in the **Central Highlands** and **Midlands and Northern Mountains** regions.



Average percentage reduction in HH per capita income



Child poverty would also rise significantly if informal economy workers were suddenly incorporated into the VSS.

If uninsured parents had to contribute 10.5 per cent or 26.5 percent (according to their employment status), *child poverty could be expected to rise from 31.9 per cent (MOLISA near poverty rate) to **37.7 per cent** among this group of children, an increase of 18 per cent.*

But, what if all parents received a child benefit?



Parameters for hypothetical multi-tiered child benefit transfer values and child age eligibility groups

Scenarios	Tax-financed tier 1	Social insurance tier 2
Option 1		
Ages	0-15	0-15
Values	VND 175,000	VND 350,000
Option 2		
Ages	0-6	0-15
Values	VND 175,000	VND 350,000
Option 3		
Ages	0-3	0-15
Values	VND 175,000	VND 350,000

A tier-2 child benefit would require an additional contribution



Additional contribution scenarios based on actuarial analysis

	Wage earners	Non-wage earners
VSS with child benefit	12.45% (=10.5+1.95)	30.4% (= 26.5+3.9)

Four 'treatment groups' defined



Group 1: at least one wage-earning parent in the informal economy moving into the compulsory VSS scheme (income > basic wage)

Contribution: 12.45%
Benefit: VND 350K/child

Group 2: non-wage working parents moving into the voluntary VSS scheme (income > basic wage)

Contribution: 30.4%
Benefit: VND 350K/child

Group 3: at least one parent who is already insured and contributing to the VSS (income > basic wage)

Contribution: 12.45% (up from 10.5%)
Benefit: VND 350K/child

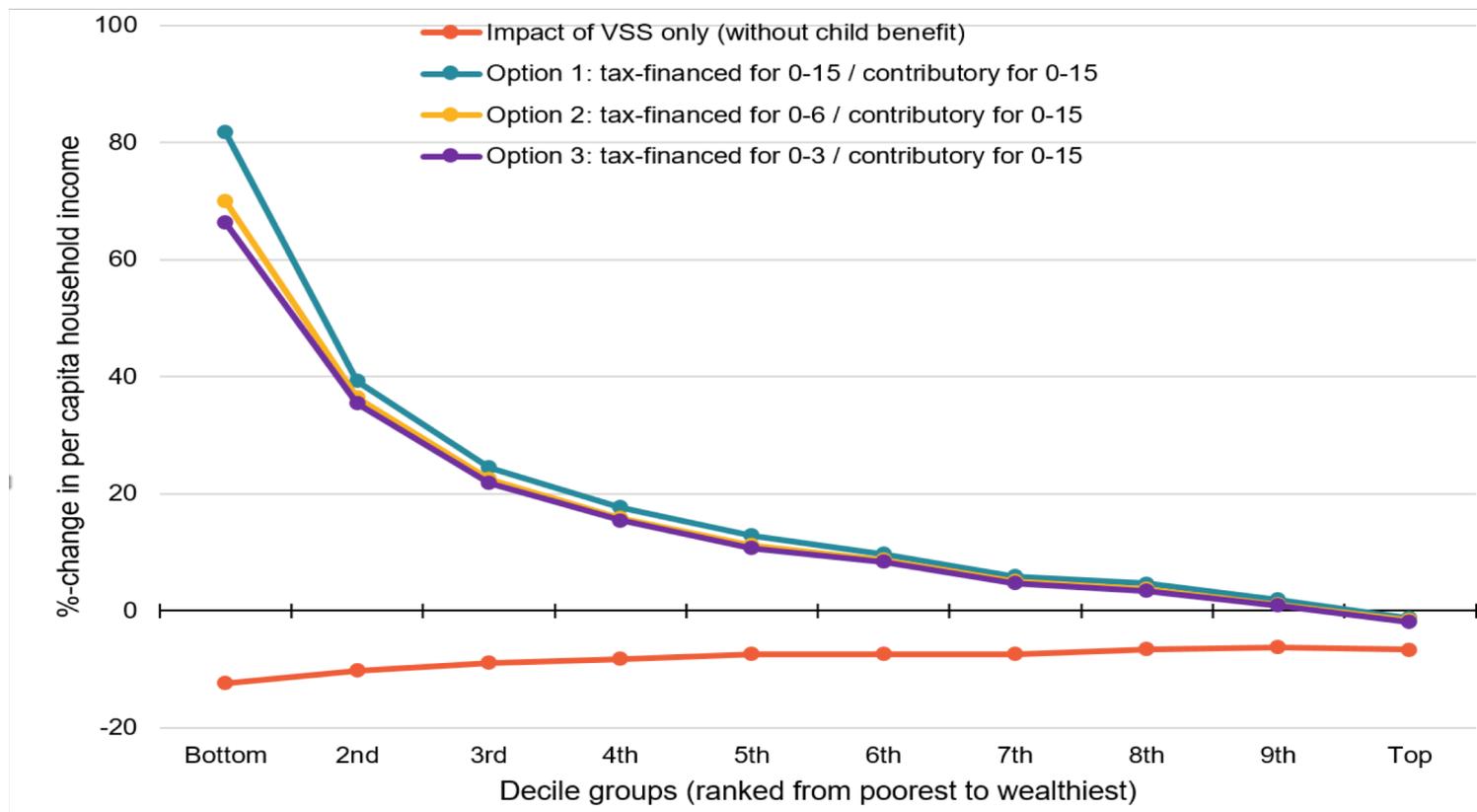
Group 4: parents would be unable to contribute into the VSS (income < basic wage)

Contribution: None
Benefit: VND 175K/child

Compensatory effect of a child benefit



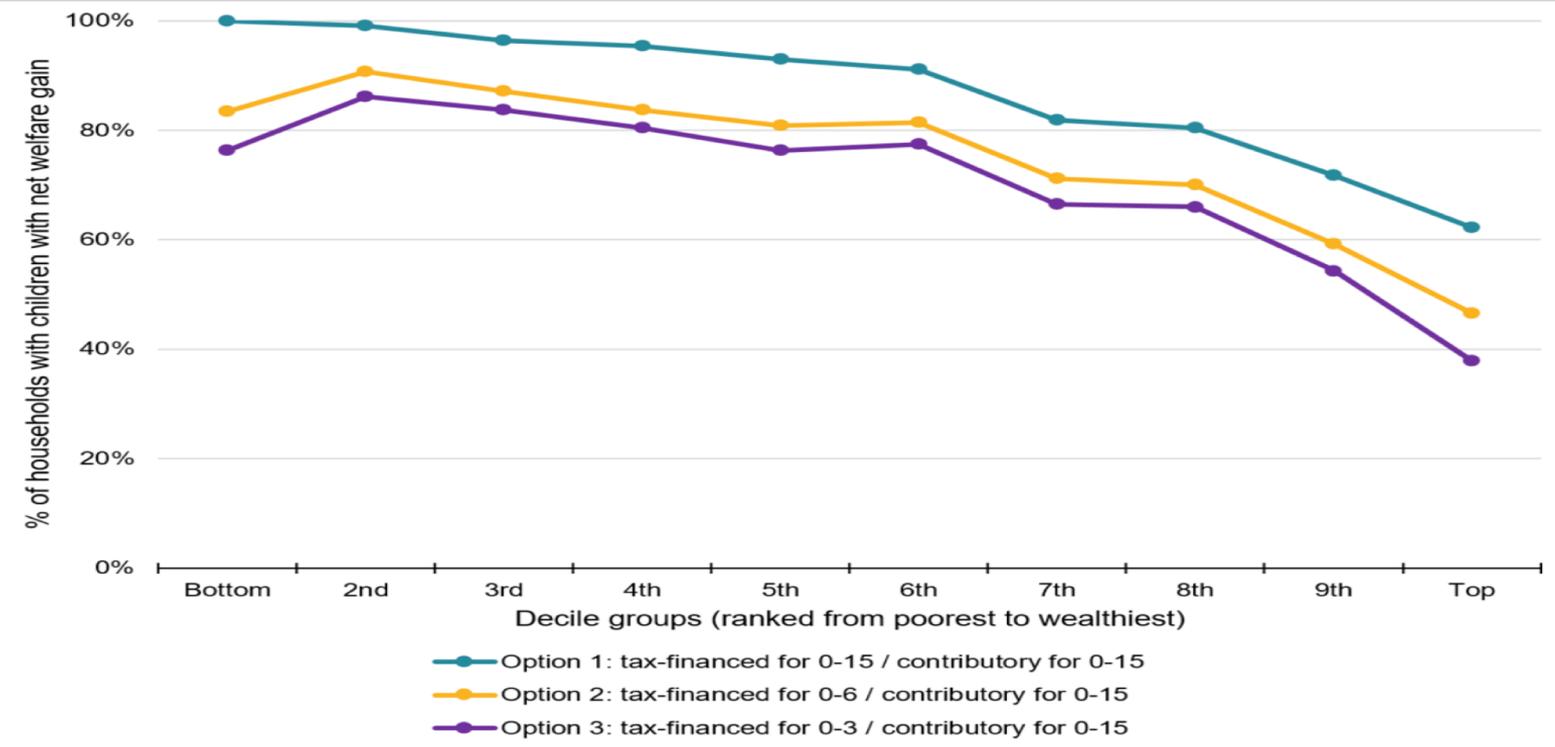
Relative change in welfare after a child benefit, compared with only a contribution



The vast majority of households would be better off



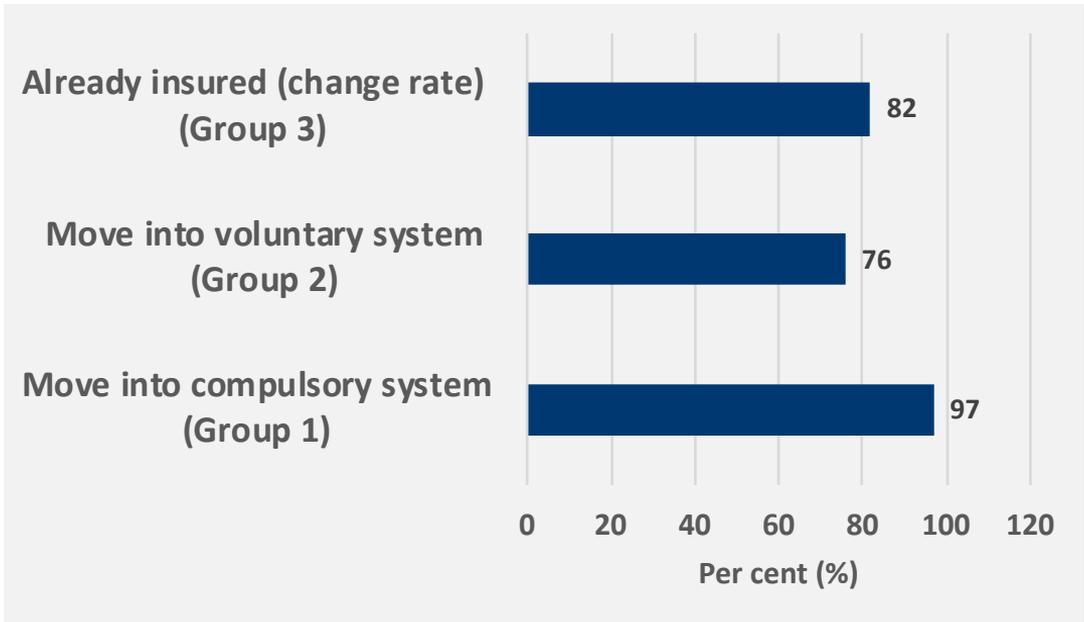
Proportion of HHs with children that would gain under each scenario, by income



Net impacts for those receiving tier-2 contributory benefit

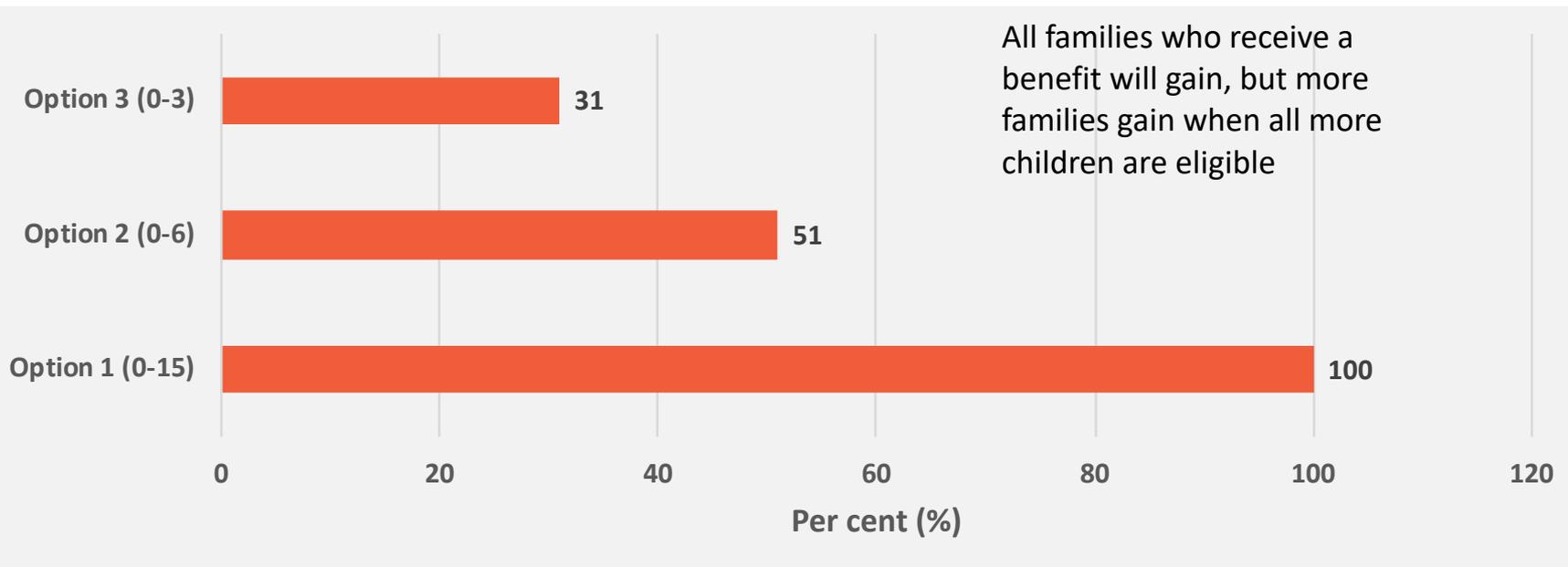
- 97% of those moving into the compulsory system (12.45% contribution) are better off after a child benefit
- But, only 76% of those moving into the voluntary system are, meaning **24% of non-wage earning parents in the informal economy would be worse off even after receiving a higher-rate child benefit**

Percentage of HHs with children that would have a net gain after a contribution and tier-2 contributory child benefit



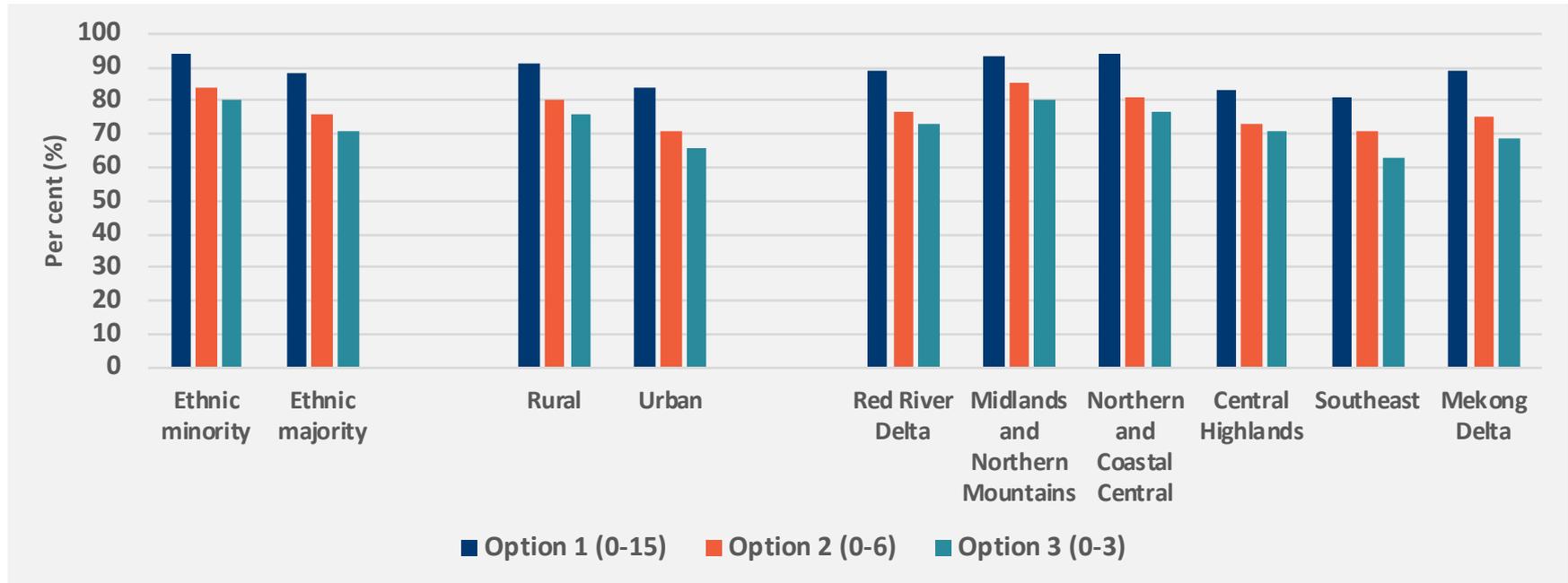
Net impacts on those receiving a tier-1 tax-financed benefit

Percentage of HHs that would gain after receiving a tier-1 benefit, according to the age eligibility of children



The impacts would vary based on ethnicity and geography

Percentage of HHs that gain under 3 scenarios, by background characteristics

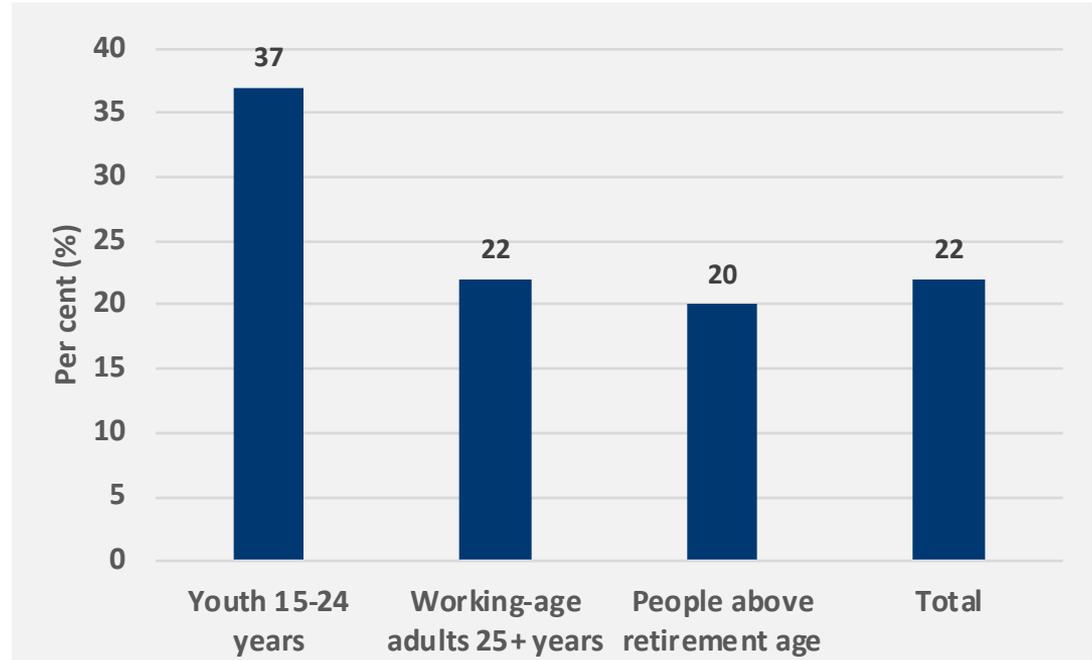


Magnitude of the impacts

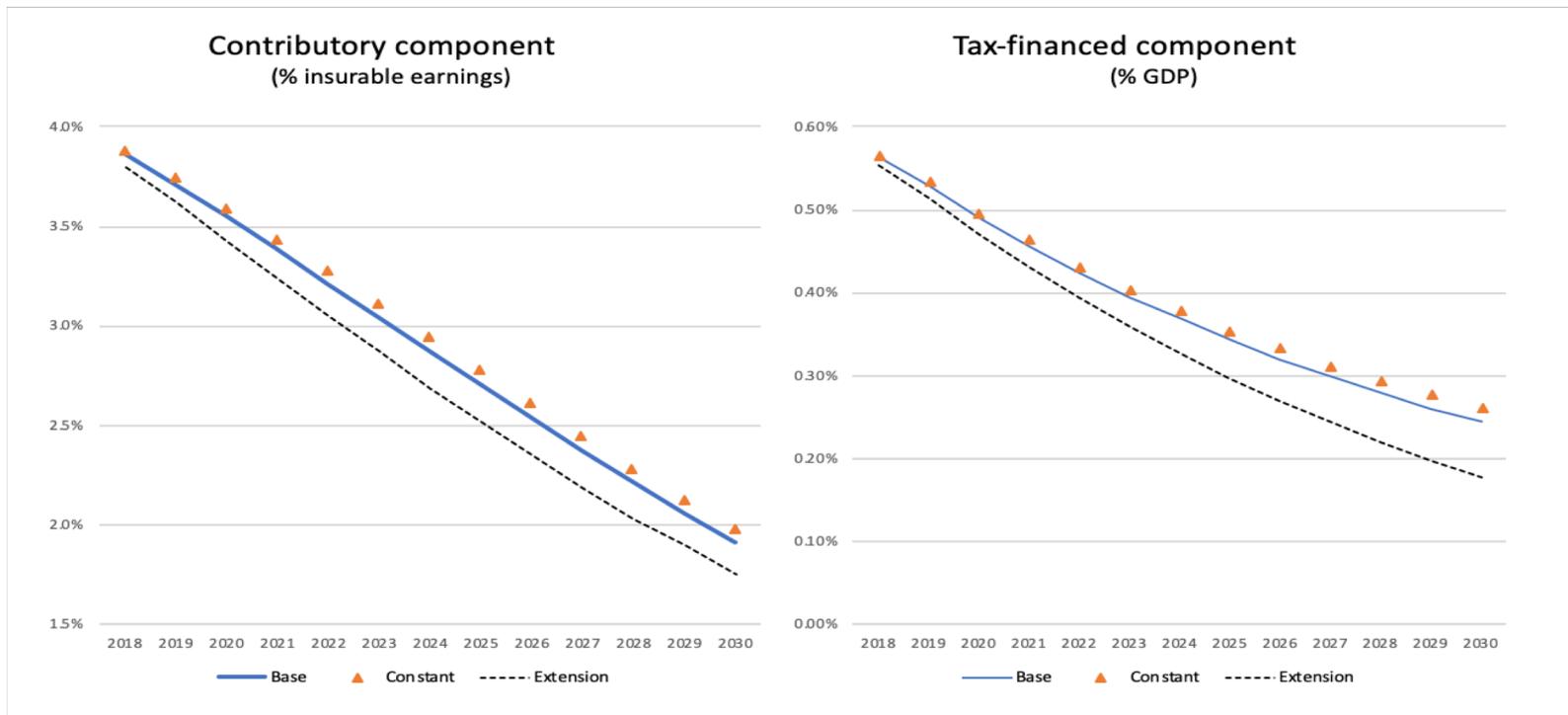


Simulated average percentage change in HH per capita income, by age of head of HH

Households headed by **younger parents aged 15-24 years** would experience the largest gains from an Option 1 child benefit (a **37 per cent increase, on average**), suggesting that the multi-tiered child benefit would be effective for a key target group it is intended to support.

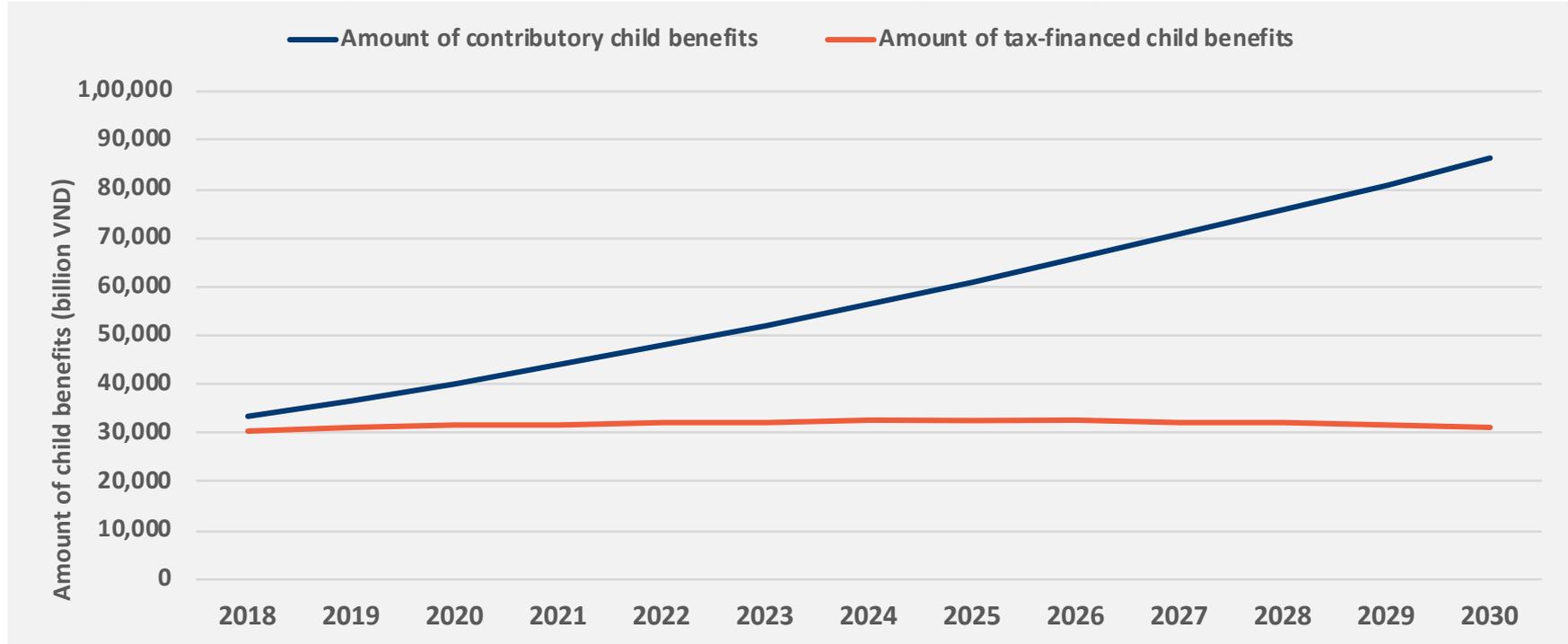


Cost of a multi-tiered child benefit



Tax-financed obligations reduce over time

Projected total outlays for child benefits for all children aged 0-15 (Option 1), to 2030



Implications for designing a multi-tiered child benefit in Viet Nam

First order questions



- What is the benefit's intended (core) purpose?
- What are the key constraints (e.g. financial) that could impact on design?

Key design decisions (1)



- **Overall structure of the child benefit system:** Will the system be a simple tier 1 universal flat rate scheme; a multi-tiered scheme with a universal tax-financed tier 1; or a multi-tiered scheme with a benefit-tested tier 1?
- **Financing:** How will the tier 1 benefit be financed? Via general revenues? An earmarked tax? How will the tier 2 social insurance benefit be financed? With an additional contribution from employees? Employers? Both? Will further reforms be necessary to create space to encourage participation by lower income workers?
- **Eligibility:** Which age groups will be targeted? Will there be a minimum qualifying period?

Key design decisions (2)



- **Benefit values:** What will the benefit reference be if flat-rate universal? If multi-tiered, what will be the size of the difference in values between tier 1 and tier 2? Should the benefit level vary with the number or order of children? Should the tier 2 social insurance benefit level vary with the insured parent(s)'s income?
- **Administrative organization:** Which agency, department or body will be responsible for administering the tier 1 and/or tier 2 benefits? If different, what sorts of mechanisms can be put in place to ensure coordination? If the same, what does this mean for the administration of other transfers?

Thank you