Assessing the potential for multi-tiered child benefits in Viet Nam

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Executive summary

Incorporating the informal workforce into the Viet Nam Social Security (VSS) scheme is a high priority for the Government of Viet Nam. However, to date, the Government has struggled to devise incentives that encourage voluntary participation among informally employed people. Only around 250,000 workers were voluntarily insured with the VSS in 2015, leaving some 50 million working age people outside the formal social insurance system.[1] At the same time, in response to widespread low incomes and insecurity among families with children along with high levels of undernutrition, the Government is increasingly recognizing the importance of ensuring that every child can access social protection, and indeed children's "right to social security" is defined in the Law on Children.[2]

Currently, Viet Nam's social security system is characterized by a distinct divide between social insurance on the one hand — which covers those who work in registered establishments and pay contributions — and on the other hand, social assistance for specifically and narrowly defined groups, resulting in low coverage overall. To begin to address this, the Government has embarked on reform processes with ambitious targets, as captured in the recently approved Master Plan on Social Insurance Reform (MPSIR) and the Master Plan on Social Assistance Reform and Development (MPSARD) and their corresponding action plans.

Despite the fact that the MPSIR and MPSARD processes have been undertaken separately, there are clear linkages between them, in particular with respect to two key targets: the MPSIR intends to expand social insurance coverage to 60 per cent of the working age population by 2030; and the MPSARD intends to introduce a child benefit for all children under age 3 by 2025. In this report, we examine the potential for a multi-tiered child benefit to help the Government meet both objectives simultaneously. A multi-tiered child benefit can act as an incentive for workers to join the VSS, while at the same time ensuring children's basic right to social protection. It therefore has great potential to bridge the social insurance–assistance divide and is fully consistent with the Government's objectives of building an integrated multi-pillared or multi-tiered social security system.

Working parents simultaneously confront the high cost of social insurance and the high cost of bringing up children.

As the custodians of Viet Nam's future, it is particularly important that families with children are supported through their childhood and working lives by a comprehensive social security system. Indeed, almost every high-income country —

1 See Nguyen (2015).

2 See Government of Viet Nam (2016).

and, increasingly, many low- and middle-income countries around the world, including in Asia — provides income support for children and families, generally delivered through tax-financed and/or contributory child or family transfers.[3] But so far, no country has introduced child benefits with the express purpose of encouraging formalization.

Bringing up children is costly. Studies in Europe have suggested that the direct costs of having a child amounts to up to one third of the budget of a childless household. For people in Viet Nam's informal economy, the difference in average monthly per capita income between a couple without children and a couple with one child is roughly 600,000 Vietnamese dong (VND). For those living near the poverty line (VND700,000 per person per month), having a child is precisely the kind of shock that can force a family into poverty. Indeed, these costs are reflected in the fact that children more likely than other age groups to be classified as near poor.

At the same time, joining social insurance is costly for working families who are struggling to make ends meet. In Viet Nam, the total contribution rate for employees insured under the VSS is 10.5 per cent of earnings for all cash benefits and health insurance. For voluntarily insured self-employed workers, who must also make up for a portion of the employer's share of contributions, the total contribution for a non-poor worker is at least 26.5 per cent (22 per cent for cash benefits and at least 4.5 per cent for health insurance). This is one of the main reasons why only around one in five working aged parents contribute to the VSS – despite working parents with dependent children making up some 45 per cent of all workers in Viet Nam. Workers currently enrolled in the VSS experience these costs as a welfare loss of between 5.5 per cent (for the bottom quintile) to 6.4 per cent (fourth quintile). In addition, working parents facing the immediate costs of children struggle to overcome their myopia with respect to social insurance benefits they will only receive many years down the line when they reach retirement.

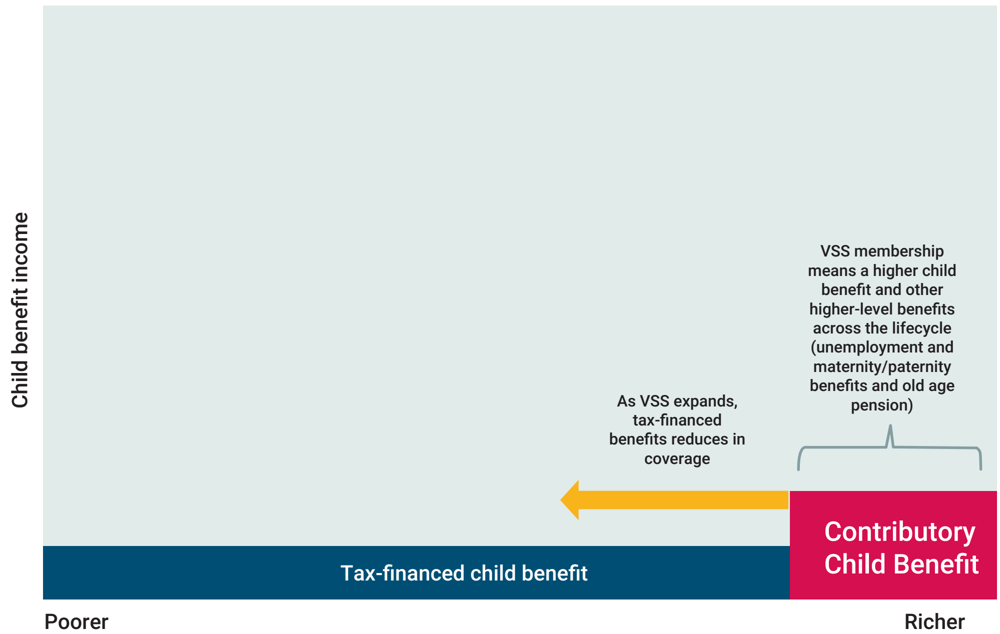
A multi-tiered child benefit can offset these costs, making joining the VSS more attractive while also ensuring all children are adequately protected.

The MPSARD and its accompanying action plan propose the gradual introduction of a universal, tax-financed child benefit to cover all children up to age 3 by 2025. However, the MPSARD targets are ambitious, and so far there is no clear plan for financing this expansion. Further, the plans for expanding the social insurance system rely heavily on assumed growth of the insured population that is equally ambitious and, as of yet, it is unclear how it will be achieved. Multi-tiered child benefits offer great potential to not only reduce the costs of joining the VSS, but also to provide an immediate and tangible benefit, which makes joining social insurance both more feasible and more attractive.

From a design perspective, a multi-tiered child benefit offers an adequate, tax-financed tier-1 benefit to all children outside of the VSS and a higher-rate contributory tier-2 benefit for VSS members. This benefit-tested structure can both encourage formalization and reduce the Government's liability to finance the tax-financed benefit over the longer term, as shown below.

3 See Mutual Information System on Social Protection (MISSOC) (2018), International Social Security Association (ISSA) and Social Security Administration (SSA) (2016, 2017, 2018) and Stanescu and Nemtanu (2015).

Figure ES.1 A multi-tiered child benefit with a benefit-tested tier 1, Viet Nam



Source: Authors.

A multi-tiered child benefit could work in Viet Nam.

To assess the theoretical compensatory effects of a child benefit on current and future VSS contributors, we simulated the likely welfare loss associated with VSS contributions — including the additional cost of a contributory child benefit — on those currently in the system, as well as on all those in the informal economy who would theoretically be eligible to join either as wage earners (paying the compulsory rate) or as non-wage earners (paying the voluntary rate). We subsequently simulated the compensatory effect of applying a multi-tiered monthly child benefit paid at VND175,000 per child to all working parents whose earnings would not permit them to pay into the VSS; and at VND350,000 per child per month for those whose earnings would permit VSS membership.

The results suggest that a multi-tiered child benefit could compensate the vast majority — almost 90 per cent, if the benefit is paid to all children aged 0–15 years — of working parents contributing to the VSS, and that all those receiving a tax-financed child benefit would be better off. The only groups who would not be better off are those at the very highest end of the income distribution. Strikingly, the results also show that a significant proportion — around 20 per cent — of those who would begin paying into the voluntary system at a rate of 34.5 per cent[4] would actually be worse off, even after receiving a relatively generous monthly child benefit of VND350,000 per child, suggesting that the contribution rate for the voluntary scheme could be too high. However, the fact that so many people would still be better off, even after paying a high contribution, attests to the redistributive power of even a modest flat-rate benefit.

4 The contribution rate includes the estimated additional contribution required to finance a contributory child benefit.

In addition, the analysis suggests that a multi-tiered child benefit in Viet Nam would be affordable. While a contributory child benefit would initially cost around 3.9 per cent of insurable earnings, its cost would decrease significantly over time, declining rapidly to just 1.9 per cent of earnings (under status quo assumptions regarding insurable earnings) or even 1.3 per cent of earnings (under reform assumptions regarding insurable earnings).[5] Likewise, the cost of the tax-financed child benefit would also decrease over time, in line with the growth in VSS membership, costing just under 0.2 per cent of gross domestic product (GDP) by 2030.

Introducing a child benefit system in Viet Nam will require making key decisions about the benefit's intended purpose and parameters.

These choices will determine the benefit's likely impact and functionality, including — importantly — the extent to which it can act as an incentive to join social insurance, which will depend on the relative value of the contributory versus tax-financed components. It will also require a more critical examination of the limits of relying too much on voluntary insurance to achieve large coverage gains, as well as opening up discussions on the potential for simultaneously closing gaps through shoring up compliance with existing labour laws and regulations surrounding compulsory insurance.

Most countries have not had the advantage of starting from scratch in mapping out a system of support for children, but rather, must graft programmes atop what are often complex family policy legacies. While there is a certain degree of fragmentation in Viet Nam's social protection system, particularly with respect to the social assistance system,[6] policy makers have a relatively clean slate to begin to lay the groundwork for a multi-tiered child benefit system that not only serves all citizens — since everyone either was a child, will have or care for children, or will one day depend on today's children for care contributes to its growing economy — but reinforces the goal of growing the social insurance system.

Indeed, the time is ripe for discussions to move forward towards implementing a child benefit to reach everyone in Viet Nam. In the context of the recently approved MPSIR and MPSARD, a multi-tiered child benefit has the potential to align the two separate processes by focusing on the convergence of long-term objectives expressed in both proposals. Through a multi-tiered child benefit, the vision expressed in Resolution 28 of "social insurance for all"[7] becomes at once consistent with the MPSARD's roadmap to expanding tax-financed social assistance transfers.

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5 As the child benefit is defined as a fixed amount indexed to inflation, its cost as a percentage of the insurable earnings is highly sensitive to the evolution of the salary subject to contributions; see box 6.1 in section 6.

6 For a review of the social assistance system in Viet Nam, see Kidd et al. (2016).

7 See Resolution No. 28-NQ/TW dated 23 May 2018, of the Seventh Plenum of the XII Central Committee on Social Insurance Policy Reform (Government of Viet Nam, 2018a).

Abbreviations

AUH	Universal Child Allowance (Asignación Universal por Hijo)
AAFF	Family Allowances (Asignaciones Familiares)
CMP	Child Money Program
GDP	gross domestic product
GSO	General Statistics Office
ILO	International Labour Organization
MOLISA	Ministry of Labour – Invalids and Social Affairs
MPSARD	Master Plan for Social Assistance Reform and Development
MPSIR	Master Plan for Social Insurance Reform
OECD	Organisation for Economic Co-operation and Development
PPP	purchasing power parity
UN DESA	United Nations Department of Economics and Social Affairs
VND	Vietnamese dong
VSS	Viet Nam Social Security Organization
VHLSS	Viet Nam Household Living Standards Survey

Introduction

Incorporating the informal workforce into the Viet Nam Social Security (VSS) scheme is a high priority for the Government of Viet Nam (see Box 0.1). However, to date, the Government has struggled to devise incentives that encourage voluntary participation among informally employed people. Indeed, only around 250,000 workers were voluntarily insured with the VSS in 2015, leaving some 50 million working-age people outside the formal social insurance system.[8] Despite poverty rates falling significantly over the last 30 years, many families are still struggling: in 2016, around 62 per cent of households and 70 per cent of children under age 18 still lived on less than US$11 in purchasing power parity (PPP) per person per day and any crisis can hit them hard.[9] In this context, few workers in the informal economy can afford to contribute into the VSS: rather than saving for their old age, their priority is to care for their children.

Box 0.1: Expansion of social insurance is a high 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."

At the same time, in response to widespread low incomes and insecurity among families with children and high levels of undernutrition, the Government increasingly recognizes the importance of ensuring that every child can access social protection.[10] In fact, the Law on Children articulates a "right to social security" for children and opens space for defining that right through additional legislation (see Box 0.2), the contours of which are beginning to take shape in the Government's Master Plan on Social Assistance Reform and Development (MPSARD), which has proposed introducing a child benefit for all children up to the age of 3 years by 2025.

These parallel discussions – concerns about extending social insurance to the informal economy workforce, on the one hand, and ensuring children's right to social security, on the other — rarely intersect in the policy sphere, at least not in terms of practical solutions to address the respective challenges.

8 See Nguyen (2015).

9 Based on analysis of VHLSS 2016.

10 See, for example, Department for International Development et al. (2011).

Box 0.2: 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

In this context, this paper explores the viability and potential of a multi-tiered child benefit to help bridge the gap between the social insurance and social assistance systems, while also investing in Viet Nam's families and children, the future labour force. Section 1 offers an overview of the social protection system in Viet Nam. Section 2 describes the framework for reform laid out in the MPSARD and MPSIR. Section 3 outlines the situation of working parents in the informal economy and their children. Section 4 offers an overview of child benefits from a global and regional perspective. Section 5 introduces and develops a proposal for a multi-tiered child benefit to achieve the twin objectives of offering social protection benefits to all children while simultaneously strengthening the social insurance system by extending coverage to workers in the informal economy. Section 6 simulates the potential impacts of contributions and benefits on the welfare of working parents in the informal economy and their children, and the costs of a potential multi-tiered child benefit in Viet Nam. Section 7 explores the implications of this analysis for the design of a multi-tiered child benefit system in Viet Nam. Section 8 concludes.

1. Overview of Viet Nam's social security system

Viet Nam's social security system has undergone significant change in recent decades, including the reform and expansion of its social insurance system and a marked expansion in the scope and coverage of its social assistance system. This includes the introduction in 2004 of a social pension that now reaches all persons aged 80 and above while in some provinces with surplus income, the age of eligibility is lower.

Despite this progress, the social security system is characterized by a distinct divide between social insurance – covering those who work in registered establishments and pay contributions – on the one hand, and on the other hand, social assistance for specifically and narrowly defined groups. Generally speaking, formal-sector workers with contracts of at least one month can expect to be protected against loss of income due to old age, disability, survivorship, ill health, employment injury or unemployment in line with provisions of the Social Insurance Law No. 58,[11] provided the employer is in compliance.

Unlike the social insurance system, which is organized around lifecycle risks, the social assistance system is constructed around a logic of ensuring basic needs for persons in difficult circumstances. It consists of three components: regular transfers; emergency assistance; and social care and social work. Regular transfers comprise the largest component and include targeted cash support for certain groups of children (such as orphans and children with disabilities), persons with disabilities, single parents, persons living with HIV/AIDS, and older persons aged 60–79 who lack any means of support as well as the universal social pension for all persons aged 80 and above. By design, the social assistance programmes have relatively small target populations. However, even when the programme's design implies 100 per cent coverage — as with the Government's flagship social pension for those over age 80 — administrative and other barriers to access can prevent full achievement of the targets.[12]

Viet Nam has made significant progress in recent decades, going from among the poorest countries in the world to middle-income status, with incomes rising substantially and a significant reduction in poverty. However, a large proportion of Viet Nam's population still lives on low and insecure incomes. Analysis of VHLSS data from 2016 suggests that some 14.5 per cent of people live on incomes of less

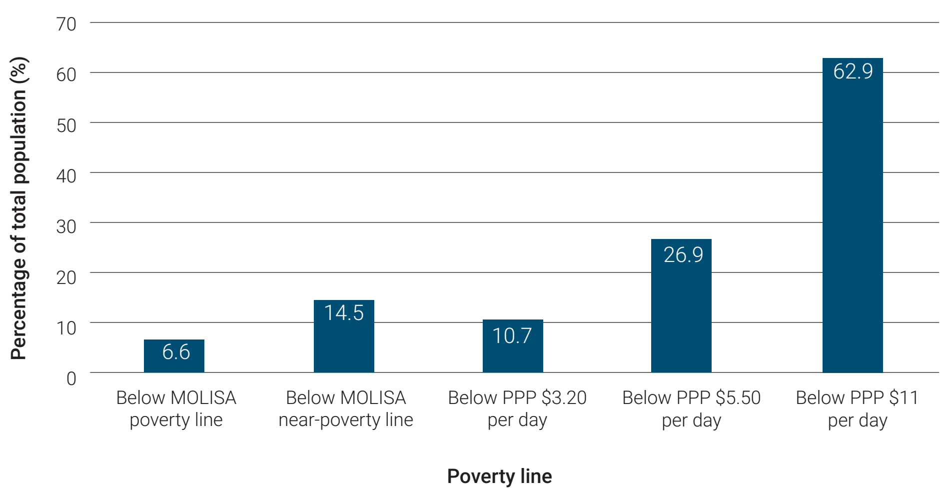
11 See Government of Viet Nam (2014).

12 See Kidd (forthcoming). Data sources on the effective coverage of the social pension are contradictory, with estimates ranging from around 60 per cent to 100 per cent.

than VND1,000,000 per person per month and would fit the definition of "near poor" by the Ministry of Labour, Invalids and Social Affairs (MOLISA), and 6.6 per cent live below MOLISA's poverty line of VND700,000 per person per month.[13]

However, if we consider the international poverty line for lower-middle income countries of PPP US$3.20 per person per day, 11 per cent of people are classified as poor, with per capita income under VND29,000 per day; using the international poverty line for upper middle-income countries of PPP $5.50 per person per day (approximately VND49,850), 27 per cent would be classified as poor. Figure 1.1 shows the proportion of the population living under different national and international poverty lines, which, by some international measures, reach nearly 63 per cent.

Figure 1.1: Population living in poverty, by different poverty lines, Viet Nam (%)



Source: VHLSS 2016.

Furthermore, people's incomes are volatile and highly insecure. Rather than thinking of "the poor" as a static, reachable group, it is more accurate to view poverty as a constant risk faced by everyone throughout their lives as their circumstances change.[14] Even over a very short period, many people in Viet Nam move in and out of poverty, and up and down the income distribution, as figure 1.2 shows.

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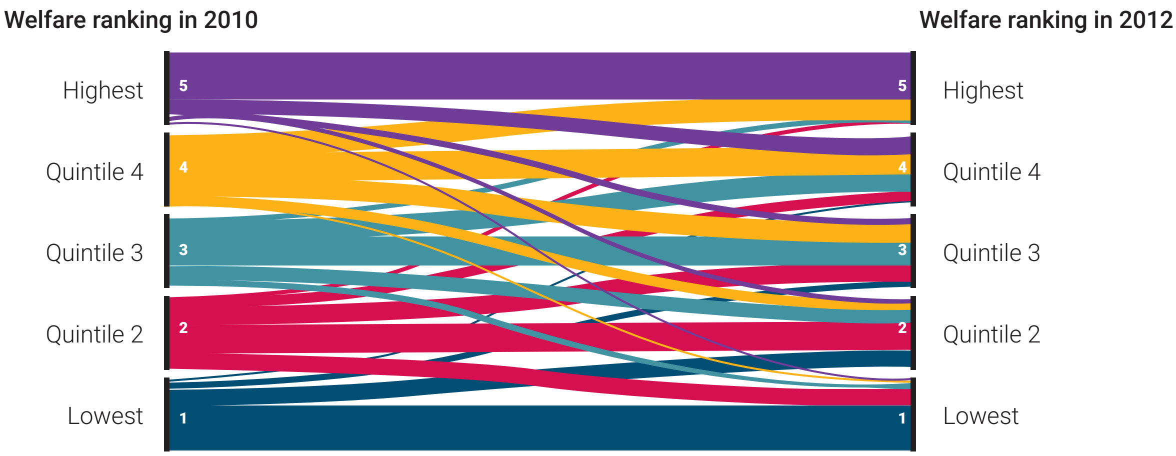
13 The poverty lines are set out in Decision No. 59/2015/QD-TTg of November 19, 2015, and are valid from 2016–20. The rates cited are for rural areas. The corresponding thresholds for urban areas are higher: VND900,000 (poverty level) and VND1,300,000 (near-poverty line), respectively

14 See Knox-Vydmanov (2014).

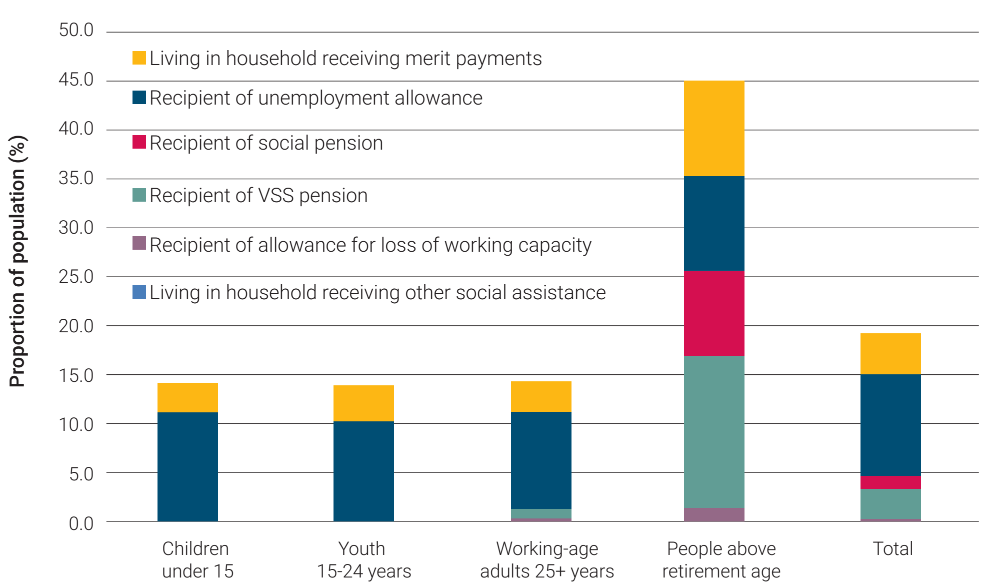
Figure 1.2: Income and poverty dynamics, Viet Nam, 2010–12



Source: Analysis of VHLSS 2010 and 2012.

This dynamic is reflected in low overall coverage of the social protection system, where less than 20 per cent of all households in Viet Nam have a beneficiary of any social protection programme, as shown in figure 1.3. Indeed, there are large coverage gaps across all ages, but younger generations and people of working age are distinctly disadvantaged in Viet Nam's existing social protection system, with more than 85 per cent living in households with no access to any social protection. Meanwhile, some 45 per cent of older persons receive some form of social protection, with VSS pensions, social pensions and merit payments accounting for the difference between coverage rates among the elderly and those among younger cohorts.

Figure 1.3: Population with access to social protection, by age group, Viet Nam (%)



Source: Based on VHLSS 2016.

In effect, by providing social assistance for "the poor" — including those who may move in and out of poverty — and restricting social insurance coverage to civil servants or relatively high-income workers in the formal economy, the system current excludes many people in the so-called "missing middle" who are still struggling.

2. Framework for reform: The MPSIR and MPSARD

To begin to address the challenge of low coverage, recent reform processes have set the stage for continuing expansion and greater integration of the social insurance and social assistance systems in Viet Nam, as captured in the recently approved Master Plan on Social Insurance Reform (MPSIR)[15] and the Master Plan on Social Assistance Reform and Development (MPSARD)[16] and their corresponding action plans.[17]

The overall objective of the MPSIR is to establish social insurance as the main pillar of social security in Viet Nam, advancing "toward the goal of social insurance for all".[18] Its specific targets include increasing social insurance coverage to 60 per cent of the working age population by 2030.

The expansion of social insurance coverage implies the gradual incorporation of workers from the informal economy into the system. Indeed, the MPSIR sets targets for ensuring that of the 60 per cent of the working age population covered under social insurance, at least 5 per cent reflects voluntary participation by farmers and informal workers. Given that the rate of informal employment (including agriculture) hovers around 75–80 per cent in Viet Nam,[19] these are ambitious targets.[20]

For its part, the MPSARD action plan would expand the population covered by the social pension,[21] disability benefits, carers' benefits, child benefits and persons with HIV/AIDS, including proposals for increasing the transfer values. MPSIR and MPSARD targets are summarized in table 2.1.

15 As expressed in Resolution No. 28-NQ/TW dated 23 May 2018, of the Seventh Plenum of the XII Central Committee on Social Insurance Policy Reform (Government of Viet Nam, 2018a).

16 As expressed in Decision No. 488/QD-TTg dated 14 April 14 2017, on approval of the "Master-plan on social assistance reform and development for the period 2017–2025 with vision to 2030", hereafter referred to as "MPSARD" (Government of Viet Nam, 2017).

17 See MOLISA (2018).

18 See Objective 2.1, "Overall objective", in Government of Viet Nam (2018a).

19 See ILO and GSO (2016), ILO (2017) calculations and VHLSS 2016.

20 VSS membership is also increasing: from 2009–15, compulsory membership went from under 9 million to more than 12 million people, an increase of 38 per cent but, even so, almost 80 per cent of the working-age population remains outside the VSS. Voluntary enrolment also increased, from around 41,000 members to around 250,000 members, but still only represents around 2 per cent of total social insurance enrolment, and many of these were most likely previously covered under the compulsory system. See Nguyen (2015).

21 In addition, the MPSIR action plan foresees a gradual increase in the retirement age of eligibility for the social insurance old age pension, from age 60 (men) and age 55 (women) to age 62 (men) by 2028 and age 60 (women) by 2030. Closing the gap in pension coverage will require an even steeper reduction in the eligibility age for the social pension from age 80, although the rate of reduction has not yet been determined. The MPSARD action plan outlines a reduction in the social pension age of eligibility to 75 (70 for ethnic minorities) by 2025, but the MPSIR assumes an even faster reduction to age 71 by 2030, and discussions are ongoing.

Table 2.1: Key targets of the MPSIR and MPSARD, Viet Nam

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

MPSARD Targets to 2025 Target type	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	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)	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 A child benefit for children up to 36 months;	Increases to 20% of GDP per capita
Child benefits (including disability)	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%

Source: MPSIR (Resolution No. 28-NQ/TW dated 23 May 2018) and MPSARD action plan.

While both master plans embrace an overall strategy of expanding social protection coverage, the MPSIR and MPSARD processes have been undertaken separately, despite the clear linkages between them. Indeed, achieving a number of targets may require rethinking the governance and administration systems currently in place.

Plans for the continued expansion of the multi-tiered old-age pension system are a welcome development and mean that everyone can look forward to income security later in life. However, greater effort is needed to ensure that adequate protection is provided across the lifecycle, from childhood and throughout working life.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3. A focus on working families and their children

Working parents with dependent children make up some 45 per cent of all workers in Viet Nam. As the custodians of Viet Nam's future, it is particularly important that these families are supported through their childhood and working lives by a comprehensive social security system.

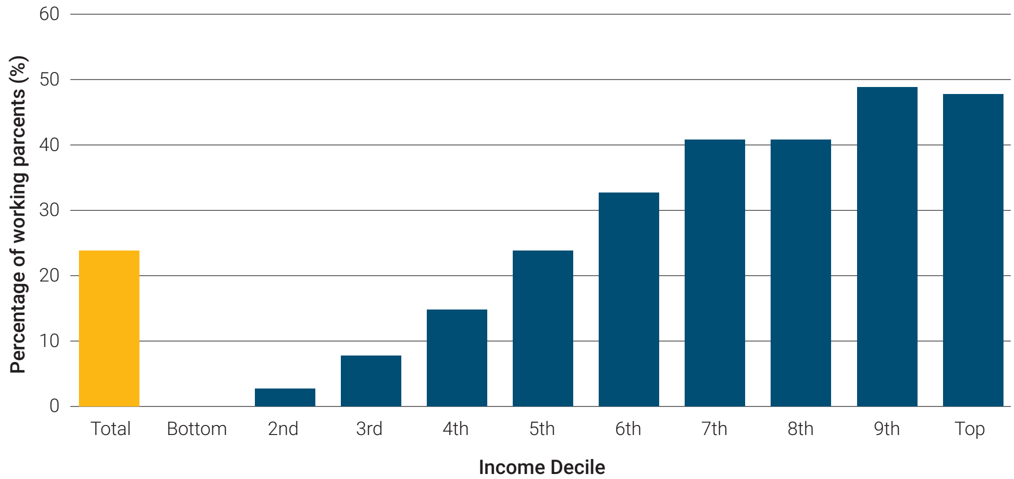
Very often, these families work in the informal economy. The challenges facing the informal economy workforce are well documented and pose significant barriers to their incorporation into the social insurance system.[22] People working informally are much more likely to have low incomes and lower levels of education, be self-employed, and work in non-standard employment, including in part-time and temporary work. They often face irregular (very short or excessively long) hours, where they are more likely to be exposed to work-related health and safety risks. All of these factors pose challenges for incorporating informal economy workers into the social insurance system, where participation depends not only on being registered but on regularly paying contributions and meeting minimum qualifying periods.

Unfortunately, reflecting these labour market dynamics, very few working parents are contributing to the social insurance system. By 2016, only 24 per cent of working age parents were contributing to the VSS, as shown in figure 3.1.[23] Furthermore, most of those who do, though they are paying contributions, will only benefit from the system many years down the line when they reach retirement, and only if they have accumulated sufficient contributions to qualify for a pension.

23 See ILO (2018).

24 While low, analysis of the VHLSS 2016 suggests that working age parents contribute at higher rate than the overall working age population, where only 19 per cent of workers over age 15 are contributing to the VSS.

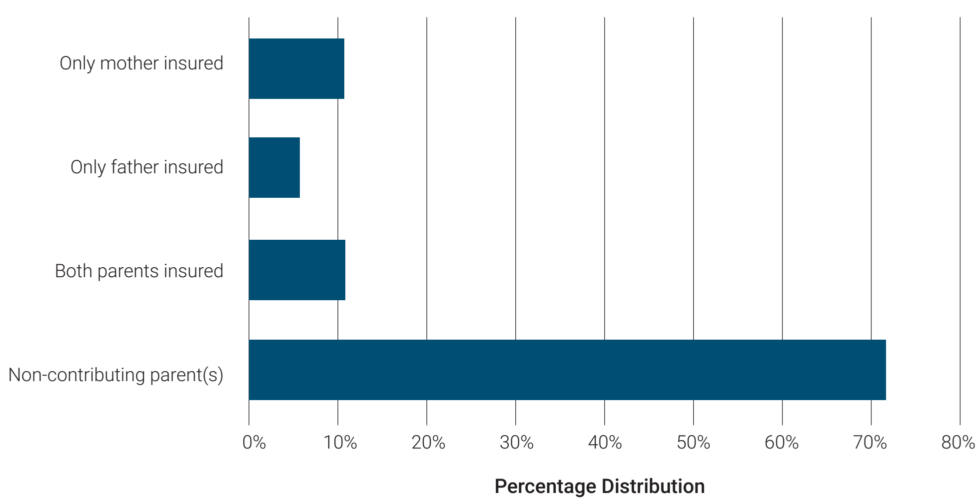
Figure 3.1: Working parents (with one or more children) who contribute to social insurance, by household per capita income decile, Viet Nam (%)



Source: Based on VHLSS 2016.

Most children in Viet Nam similarly find themselves outside the social insurance system altogether. As shown in figure 3.2, nearly three quarters (72 per cent) of children in Viet Nam have no parent enrolled in social insurance. Among those who do, 11 per cent have two insured parents, 6 per cent live with an insured father only, and 11 per cent with an insured mother only.

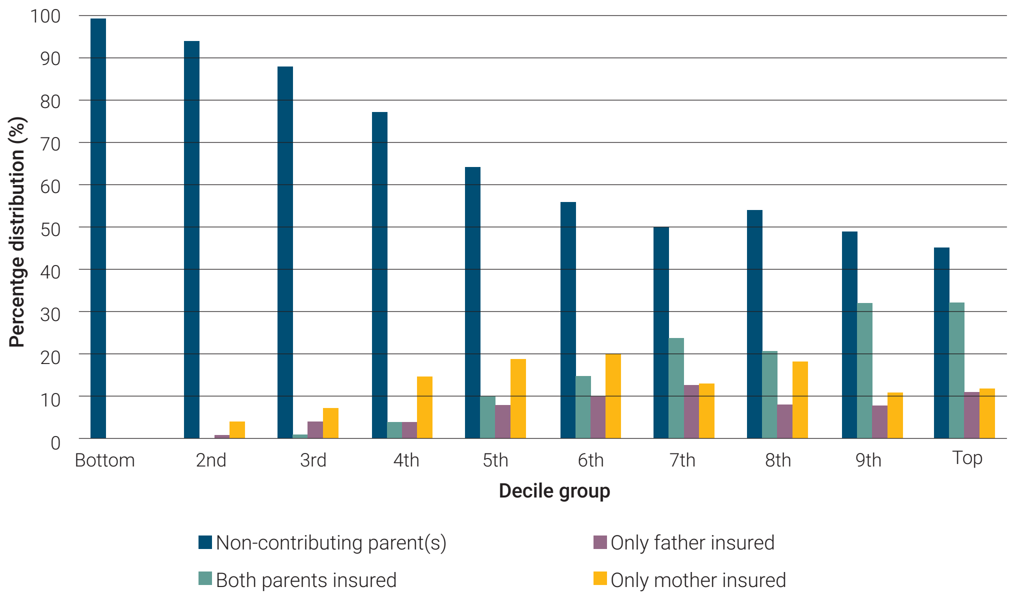
Figure 3.2: Distribution of children, by social insurance status of parent(s), Viet Nam (%)



Source: Based on VHLSS 2016.

Furthermore, coverage rates for social insurance vary significantly across the income distribution, as shown in figure 3.3. The likelihood of being uninsured declines significantly as household income rises: almost no children in the bottom decile have insured parents compared with 54 per cent per cent of children in the top decile. Children in higher deciles are also more likely to have two insured parents.

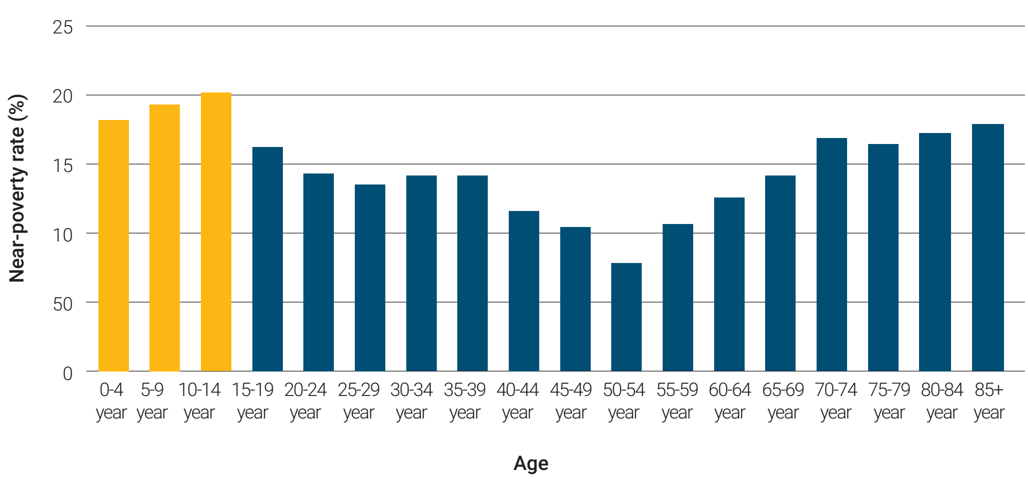
Figure 3.3: Distribution of children, by social insurance status of parent(s) and decile group of households ranked based on per capita income, Viet Nam (%)



Source: Based on VHLSS 2016.

Childhood is a particularly vulnerable time and is made worse by the fact that children in Viet Nam are more likely than people of working age or older people to be classified as near poor, as shown in figure 3.4. In addition, the age group least likely to be at risk of poverty is between age 45 and 54, which is generally after people's children have grown up and before they enter old age.

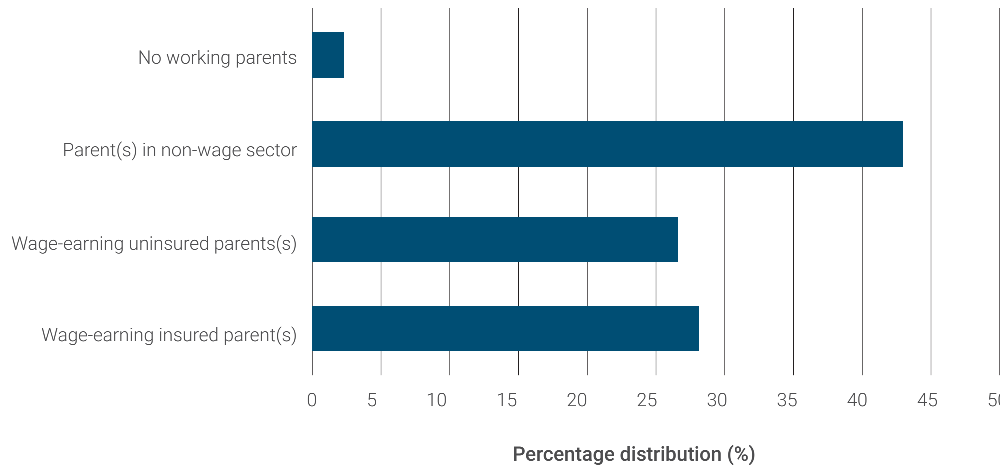
Figure 3.4: Population living below MOLISA near-poverty line, Viet Nam (%)



Source: Based on VHLSS 2016.

The likelihood of a child being poor is directly linked to the employment status of the child's parents. Overall, only around 28 per cent of children have at least one parent in formal wage employment, compared with seven in ten whose parents work in informal employment, either as wage earners (27 per cent) or as self-employed or own-account workers in the non-wage sector (43 per cent). Figure 3.5 shows the distribution of children in Viet Nam according to the employment status of their parents.

Figure 3.5: Distribution of children, by employment status of parent(s), Viet Nam (%)

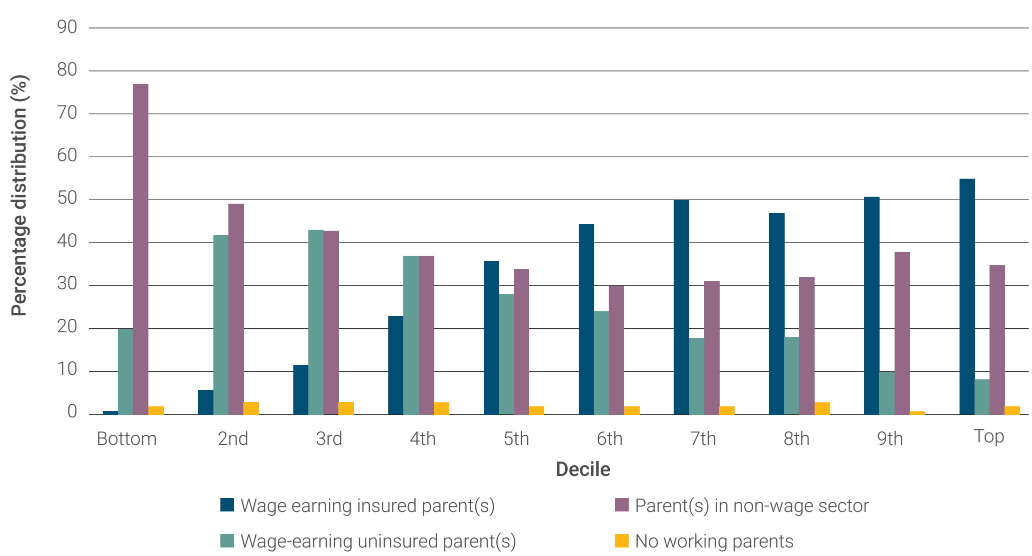


Note: Parents include children's biological parents (mother and/or father) or, if neither mother nor father reside in the household with the child, their main caregiver. Around three quarters of children with no working parents are living with their grandparent(s).

Source: Based on VHLSS 2016.

There are also large disparities across the income distribution, where children with parents who are either informally self-employed (non-wage earners) or in informally employed (wage earners) are more likely to be in the lower income deciles, reflecting their parents' less stable income and greater insecurity, as shown in figure 3.6.

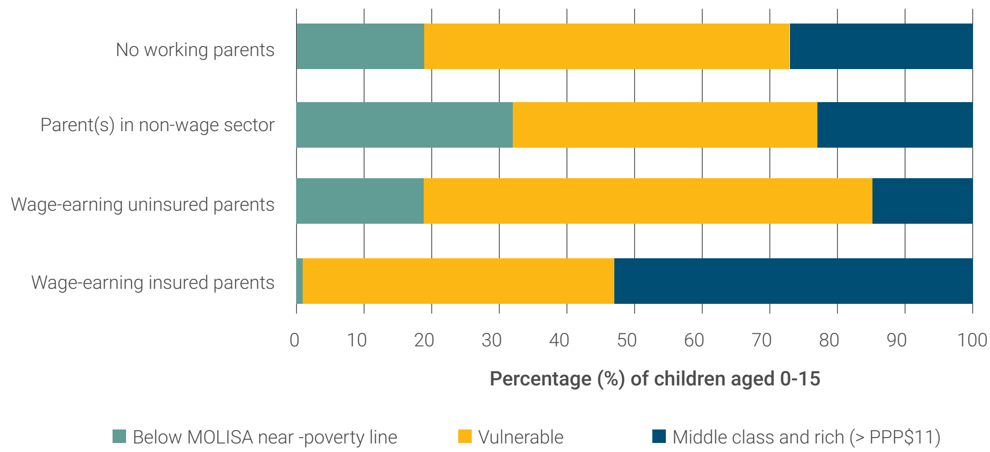
Figure 3.6: Income distribution of children, by employment status of parent(s) and household per capita income decile, Viet Nam (%)



Source: VHLSS 2016.

Poverty and insecurity are not confined to families in the informal economy. Significant proportions of children are either vulnerable or near-poor, regardless of whether their parents work in the formal or informal economy, or as wage earners or non-wage earners, as shown in figure 3.7. However, many more children of parents working in the informal economy are near poor: around one third of children with non-wage earning (self-employed) parents and around one fifth of children with wage-earning uninsured parents are below the official near-poverty line.

Figure 3.7: Children (age 0–15) classified as near-poor, vulnerable or middle class and rich, by the employment status of parent(s), Viet Nam (%)



Source: VHLSS 2016.

What is striking about figure 3.7 is how many families of VSS members themselves are struggling to get by. Indeed, a full 46 per cent of children of VSS (wage-earning insured) parents could be considered vulnerable, living on monthly per capita incomes of between VND1 million and VND3.03 million. In other words, being a member of the VSS comes at a high relative price for many. A summary of the median household per capita income of children based on the employment status of their parents is provided in table 3.1.

Table 3.1: Median household per capita income of children, by decile group and employment status of their parent(s), Viet Nam (VND)

Decile	Wage-earning insured parent(s)	Wage-earning uninsured parent(s)	Parent(s) in non-wage sector	No working parents
Bottom	830 277	741 583	604 861	742 291
2nd	1 154 277	1 083 145	1 070 708	1 067 976
3rd	1 505 952	1 488 550	1 486 041	1 458 333
4th	1 875 000	1 876 527	1 873 937	1 818 000
5th	2 303 633	2 251 187	2 264 687	2 270 833

Decile	Wage-earning insured parent(s)	Wage-earning uninsured parent(s)	Parent(s) in non-wage sector	No working parents
6th	2 745 833	2 750 833	2 687 583	2 725 000
7th	3 287 500	3 242 222	3 288 472	3 344 642
8th	3 941 600	3 823 333	3 961 416	3 971 527
9th	4 936 083	5 019 700	5 028 833	4 925 000
Top	7 716 666	7 225 380	7 791 666	7 746 111

Source: VHLSS 2016

Clearly, the vast majority of Viet Nam's working families would benefit from additional support provided through an expanded social security system that offers protection across the lifecycle, but particularly during childhood and early working life and parenthood. One way to do this is through a child benefits system that pays benefits with respect to all children. The next section reviews international experiences with implementing child benefits, with a focus on key design features.

4. Child benefits from a global and regional perspective

Almost every high-income country — and, increasingly, many low- and middle-income countries around the world — provides support for children and families, delivered through a variety of programmes delivering cash and in-kind benefits.[24] All family and child benefits systems around the world reflect an underlying policy logic that can often be deduced from the design of the policies themselves.[25] In European welfare systems, for example, family policies have coalesced around three main policy objectives: income redistribution, pronatalism and equal opportunities.[26] These multiple objectives are frequently met through a combination of policies aimed at meeting both the direct costs of having or bringing up children — i.e. those related to food, clothing and other necessities — as well as other indirect costs related to their care, such as a caregiver's foregone income due to unpaid care work, which fall outside the scope of the current analysis.[27]

The discussion that follows considers only cash benefits delivered through the social security system, as opposed to the tax system,[28] and does not consider in-kind benefits or services, such as free childcare, health services or school lunches; nor does it examine cash transfers (conditional or otherwise) that may form part of a country's social protection system for families, but which fall outside the (statutory) social security system.[29] Further, in considering direct cash benefits paid to parents with respect to children, the paper in effect considers benefits whose primary purpose is compensation for the direct costs of children through some form of horizontal redistribution (from childless persons[30] to parents).[31] In this sense, direct support with respect to all children should be viewed as a means of balancing the costs of raising children (which, absent adequate social protection, are borne entirely by their parents and relatives) against the collective benefits of children for society at large — as the future workforce, the future tax base, and as future caregivers for ageing elders (whether or not the elders were parents themselves).

24 See MISSOC (2018), ISSA and SSA (2017, 2018) and Stanescu and Nemtanu (2015).

25 See Lewis (1997).

26 See Hantrais (2004) and Bennett (2006).

27 See Bennett (2006) and Letablier et al. (2009).

28 Many countries, especially high income ones, use tax credit and tax deductions or allowances to reduce the tax burden on families with children.

29 See ILO (2014) for a discussion of the conceptual distinction between social protection and social security.

30 Here, the category of childless persons includes persons not currently bringing up dependent children.

31 See Bennett (2006) and Hantrais (2004).

As with other social security transfers, child or family benefits may be tax financed (non-contributory), financed from social contributions through the social insurance system, or some combination of these. Within those broad categories, design structures may vary significantly. Child benefits systems around the world reflect these broad design features, with notable regional trends. For example, in general:[32]

1. **European countries** account for the vast majority of countries offering tax-financed universal family benefits, as do Australia, New Zealand, Canada and Israel. A few countries in Europe have contributory family allowances, and some finance universal benefits through the social insurance system. Outside the Organisation for Economic Co-operation and Development (OECD), only Panama and Libyan Arab Jamahiriya have national universal schemes anchored in legislation.
2. In **Africa**, at least 24 countries have mandatory contributory family allowance schemes for formal-sector workers, financed primarily through relatively high employer contributions (6.3 per cent on average, ranging from 1.5 per cent in Cape Verde to 12 per cent in Central African Republic).
3. In **Latin America and the Caribbean, Central Asia and other parts of Asia**, the dominant trend is to provide tax-financed means-tested benefits to families with children, while some countries combine these with (contributory) employment-related systems.[33]

Tax-financed (non-contributory) child benefits may be means tested or poverty targeted (where only those with incomes below a defined threshold qualify), or they may be “affluence tested” (where a light means tested effectively excludes upper income quintiles) or universal and paid to everyone with dependent children. Further, tax-financed non-contributory child benefits may be financed via taxes from general revenues (as in South Africa), from a specific dedicated tax (as in Mongolia, see box 4.1), or they may even be financed by contributions via solidarity funds or other mechanisms that originate from (potentially someone else’s) social insurance contributions, as discussed below.

Box 4.1: Tax-financed child benefits in Mongolia

According to the ILO, Mongolia’s social protection system is among the most progressive and comprehensive in Asia. A key component is the Child Money Programme (CMP), a universal child benefit for all children aged 0 to 17.

The CMP is financed from taxes on mineral rents through the Human Development Fund and pays a monthly allowance of 20,000 Mongolian tugriks (around US$10 in 2016) via direct bank transfer. By 2012, the CMP had achieved nearly 100 per cent coverage (ILO 2016).

32 General trends based on analysis of ISSA and SSA (2016, 2017).

33 Notable exceptions to these broad regional trends include South Africa’s tax-financed Child Support Grant, which is affluence tested, and Mongolia’s tax-financed universal Child Money Programme (see box 4.1).

In turn, contributory child benefits (frequently called "family allowances") may be financed via an employer contribution, a contribution from the insured person or a combination of both. Historically, most contributory child and family allowances were financed solely based on an employer's contribution, and this is still the case in the vast majority of contributory programmes.[34] Where employees do contribute alongside their employers, more often than not (in 10 of the 13 cases for which global data is available[35]), they do so through a global contribution to either the whole social security system or to a different programme or fund, a portion of which is then diverted to child benefits. Only in Greece, Tunisia, and Sri Lanka is there a dedicated contribution from both employee and employer to finance child benefits.[36] Box 4.2 describes the basic contours of Tunisia's family allowance programme. Notably, self-employed persons are excluded, which frequently occurs when programmes are employment related. However, the social insurance system can be used to finance universal benefits. Interestingly, several programmes in Europe that are often classified as universal because they are paid to all citizens or residents — including in Liechtenstein, Malta, Belarus and the Republic of Moldova — are in fact financed from social insurance contributions.[37]

Box 4.2: Key design features of Tunisia's contributory family allowances

Covered population: Most categories of private-sector employees are covered, although self-employed persons, household workers and employees of small farms are excluded.

Financing: For employees, financing is 0.89 per cent of gross earnings; for employers it is 2.21 per cent of gross payroll.

Eligibility: Children younger than age 16 are eligible, with upper age limits under certain conditions; there is no age limit if the child is disabled. Benefits are paid for up to three children.

Benefit: For the first child, the benefit is 18 per cent of the employee's quarterly earnings; for the second child, 16 per cent; and for the third, 14 per cent. Benefits are paid quarterly.

Administration: The National Social Security Fund, under the supervision of the Ministry of Social Affairs, administers the benefits.

34 See, for example, Schelkle (2012) for a discussion of the history of employer-provided family allowances in the context of welfare state (and welfare capitalism) development in high-income countries.

35 According to author's analysis of ISSA and SSA (2016, 2017), which covers over 190 countries.

36 Ibid.

37 Ibid. These systems also reflect the progressive shift in Europe towards an understanding of children as a public or collective responsibility, where the systems might preserve relics from a private financing regime (contributions-benefits) mixed with public benefits designs (universal); see also Schelkle (2012). These cases demonstrate that, over time, if the social insurance insured population grows large enough (i.e. is nearly or effectively universal), the distinction between insured and uninsured becomes less relevant, such that redistribution to those outside the system (especially children) does not threaten the perception of earned entitlements characteristic of social insurance systems, since everyone will presumably be incorporated eventually when they join the labour market.

In addition, some countries have a combination of tax-financed and contributory child or family benefits. In only four countries — Belgium, Japan, Liechtenstein and Switzerland —are these mixed systems designed in a way that achieves universal legal coverage.[38] Other examples of mixed systems can be found in Latin America, which developed social insurance systems relatively early, and, because the different benefits were frequently designed haphazardly and independently of each other, the systems suffer from low coverage and/or inherent incentive problems. For example, Argentina's Universal Child Allowance (or AUH by its Spanish acronym), which grew out of a major economic crisis, was introduced in parallel to an existing system of social insurance family allowances. This resulted in design challenges that effectively discouraged beneficiaries of the AUH from formalizing, as explained in box 4.3.

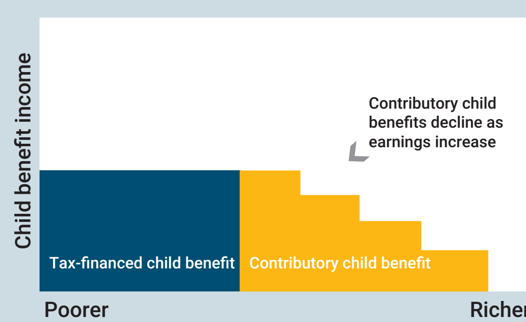
Box 4.3: Argentina's mixed system: High coverage, but work disincentives

Argentina's mixed child benefits system consists of three tiers:

1. A tax-financed benefit known as the Universal Child Allowance (AUH) directed at families working in the informal sector, implemented in 2006.
2. A standard contributory family allowance system (AAFF by its Spanish acronym) for wage earners and certain small own account workers *(monotributistas)*, implemented in 1996. The AAFF is affluence-tested.
3. A tax deduction for dependent children of the highest earners delivered through the tax system.

Together, the three tiers achieve near universal coverage.[1] However, the interaction of the benefit rate structures for the AUH and AAFF create potential for significant work disincentives. While the AUH is a flat-rate benefit equivalent to the highest rate contributory benefit, the AAFF has earnings-related benefits paid on a progressive basis and is inversely proportional to the insured's earnings, as shown in figure 4.1, although higher rates are paid in certain regions. This means that Argentina's basic child benefits system, while combining contributory and tax-financed elements, is arguably not multi-tiered.

Figure 4.1: Potential for labour market disincentives in a mixed child benefit system, Argentina



Source: Author's elaboration based on administrative data.

The progressive reduction of the AAFF creates a gap that could discourage some workers from joining the formal system. Though a few evaluations found no labour market effects, Garganta et al. (2017) found that the AUH reduced the likelihood of married women entering the formal labour market by almost a quarter.

1 See Administración Nacional de la Seguridad Social (ANSES), 2018

In different parts of Asia, the policy landscape for child benefits is similarly varied. Some countries offer purely tax-financed benefits (some universal, others means-tested), while others have purely contributory systems. To our knowledge, no country in the region has a mixed (multi-tiered) system in the strict sense, although some countries may offer certain smaller (non-statutory) child- or family-oriented poverty targeted programmes alongside other larger national programmes. Table 4.1 summarizes the key design features of the main programmes (tax-financed and contributory) operating in the region.

Table 4.1: Key design features of contributory child benefits systems in Asia

Country	Programme	Source of Funds	Eligibility criteria	Description and amount of monthly benefit (national currency)	Value of child benefit (% GDP per capita)[1]
Azerbaijan[2]	Child care benefit (social insurance)	A portion of global insured (3%) and employer (22%) contribution	Paid for covered children up to age 3	40 manat a month to 18 months, thereafter 25 manat a month	7.7
Islamic Republic of Iran		Employer contribution (total cost)	Covered children up to age 18; 720 working days of contributions	3 times daily minimum wage of unskilled labourer for each child (270,772 rials in 2016)	6.1
Israel	Family allowance (universal)	Employer contribution (1.32%)	Paid to all resident families with children up to age 18	150 shekels for first child, increasing with each child up to the fifth (constant thereafter at 354 shekels); an additional supplement for families with at least 3 children	1.2
Japan	Family allowance (income tested)	Shared roughly 50:50 between employer and government (employer contribution of 0.2% of wages with different levels of government sharing the remainder)	Must have at least 2 children and meet income test	15,000 yen a month for children up to age 3; 10,000 a month from age 3 to the start of secondary school (increasing with each subsequent child); 10,000 for children in secondary school	4.3
Thailand	Child allowance (social insurance)	A portion of global insured (3%) and employer (3%) contribution to old-age benefits; a portion of global flat-rate for voluntarily insured self-employed and informal-sector workers	Paid for up to 3 children up to age 6	400 baht for each child (compulsory insurance); 200 baht for each child (voluntary insurance)	2.3

Country	Programme	Source of Funds	Eligibility criteria	Description and amount of monthly benefit (national currency)	Value of child benefit (% GDP per capita)[1]
Tajikistan	Child care allowance (social insurance)	A portion of global employer contribution (25%)	Paid for each child up to age 18 months; no qualifying period but one parent must be in covered work	40 somoni a month per child	7.7
Turkmenistan	Child care allowance (social insurance)	A portion of global employer contribution (20%)	Covered children up to age 3; no minimum qualifying period	65% of the basic amount (242 manat in 2017) per child	8.4
Uzbekistan[3]	Young child allowance (social insurance, income/ affluence tested)	A portion of global employer contribution (25%)	Covered children up to age 2	200% of the monthly minimum wage (149,775 soms in 2016) (regardless of the number of children)	56.7[4]

1 Value is for the first child only. GDP per capita is based on International Monetary Fund World Economic Outlook Database (2016) (current prices).

2 Azerbaijan also has a tax-financed poverty targeted child allowance for children up to age 1.

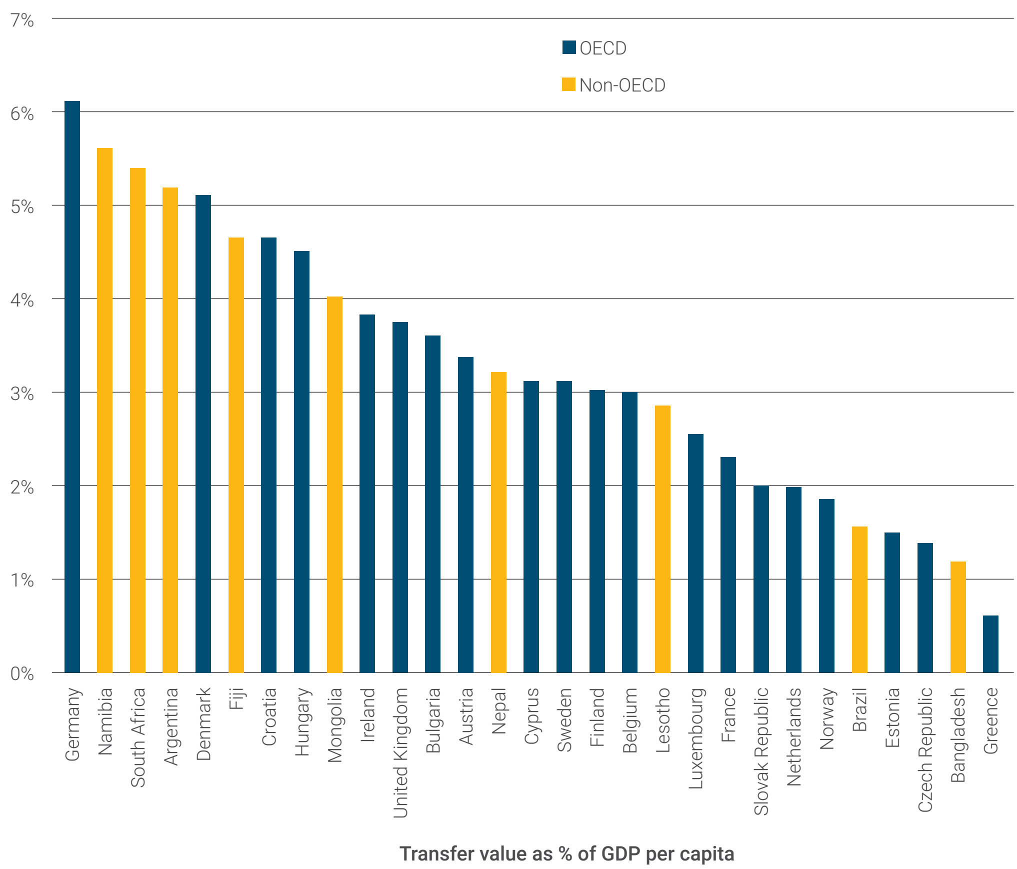
3 Uzbekistan also has a tax-financed means-tested child allowance for families of limited means with children younger than age 14.

4 The benefit is not paid on a per-child basis.

Source: ISSA and SSA (2016).

In addition, many places in the region have tax-financed benefits paid with respect to children, including Armenia, Australia, Georgia, Fiji, Hong Kong (China), Iraq, Kazakhstan, Kyrgyzstan, Mongolia, and New Zealand. Around the world, the values of tax-financed child benefits vary significantly, from upwards of 6 per cent of GDP per capita in Germany, to around 0.5 per cent in Greece, as shown in figure 4.2, and average around 4 per cent of GDP per capita. The wide range, however, reflects the very wide variation in governments' interpretations of adequacy and intended objectives. Indeed, research suggests that these comparisons should be treated with caution, since, individual packages often vary according to earnings (including number of earners), family type, the number and ages of children, and whether or not comparisons are made before or after housing or childcare costs.[39]

Figure 4.2: Per-child value of tax-financed child benefits around the world (as a percentage of GDP per capita)



Note: Rates are given for the first child only.

Source: OECD and various national sources.

The review of international experiences suggests that no country has explicitly taken advantage of the potential of contributory child benefits to encourage participation in social insurance, so Viet Nam would be a pioneer in this regard.

39 See Bradshaw (2006) and Bradshaw and Finch (2010).

5. The case for multi-tiered child benefits[40]

Investing in children is an investment in Viet Nam's future. The MPSARD and its action plan recognizes this in proposing the gradual introduction of a universal, tax-financed child benefit to cover all children up to age 6 by 2025.[41] However, the targets set out in the MPSARD are ambitious, and so far there is no clear plan for financing this expansion. Further, the plans for expanding the social insurance system rely heavily on assumed growth in the insured population that is equally ambitious and, as of yet, it is unclear how it will be achieved.

The following paragraphs outline the potential to tackle these challenges simultaneously through a child benefits system that bridges the social insurance–assistance divide in Viet Nam. Specifically, a multi-tiered child benefit system can offset the significant cost of joining the social insurance system, while also addressing the cost of bringing up children, thereby offering adequate benefits and encouraging formalization at the same time.

5.1 The cost of social insurance and bringing up children

In addition to the direct cost of having children, working parents in Viet Nam who join the VSS incur significant upfront costs in the form of social contributions. In reality, the (primarily long-term) benefits derived from VSS membership are a luxury that most people on low incomes simply cannot afford to invest in while also financing their children's upbringing. Indeed, even for those on middle incomes who are enrolled, the high level of contributions means they have much less money to spend on their children.

In Viet Nam, the total contribution rate for employees insured under the VSS is 9 per cent of earnings for all cash benefits, plus an additional 1.5 per cent of the basic salary for health insurance, for a total of 10.5 per cent. For voluntarily insured self-employed workers, who must also make up for a portion of the employer's share of contributions, the total contribution for a non-poor worker is at least 26.5 per cent (22 per cent for cash benefits and at least 4.5 per cent for health

40 This section and section 6 of this report draw heavily on a draft paper being prepared for the upcoming UNICEF/ILO international conference on Universal Child Grants.

41 See MOLISA (2018).

insurance) and may well be higher if the worker has covered dependants.[42] The current contribution rates for workers registered with the VSS are summarized in table 5.1.

Table 5.1: VSS contribution rates for workers and employers, Viet Nam (%)

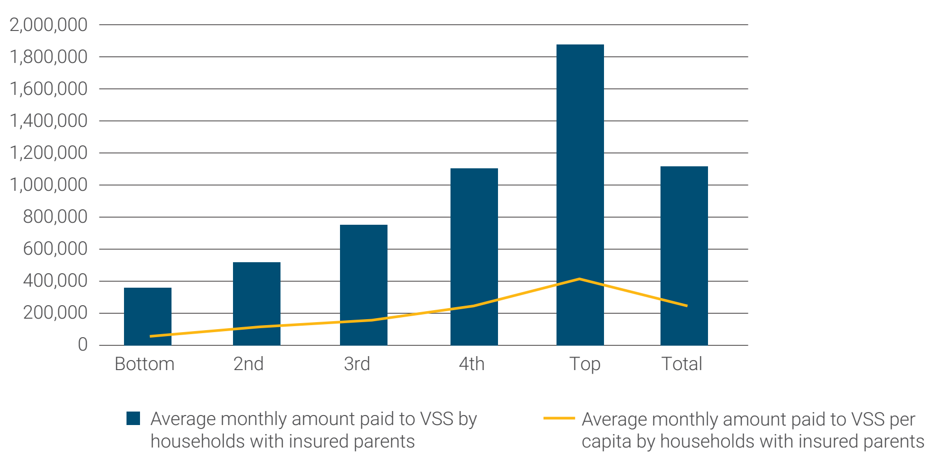
Contingency	Compulsory (employees)	Voluntary (self-employed)	Employers
Old age and survivors	8.0%	22%	14%
Unemployment insurance	1.0%	N/A	1%
Employment injury	N/A	N/A	1%
Health insurance	1.5%	4.5%	3%
Total	**10.5%**	**26.5%**	**19%**

N/A = not applicable.

Source: VSS regulations.

The cost of enrolling in social insurance is experienced as a welfare loss to the household and acts as a steep deterrent for people working in the informal economy. Indeed, VSS membership comes at a high cost even to already-registered workers in the formal economy, particularly those with lower earnings. Figure 5.1 depicts the estimated average monthly amount that is paid to the VSS by households across the income distribution under a 10.5 per cent contribution rate.[43]

Figure 5.1: Estimated average monthly amount paid to the VSS at a 10.5 per cent contribution rate, by income quintile, Viet Nam (VND)



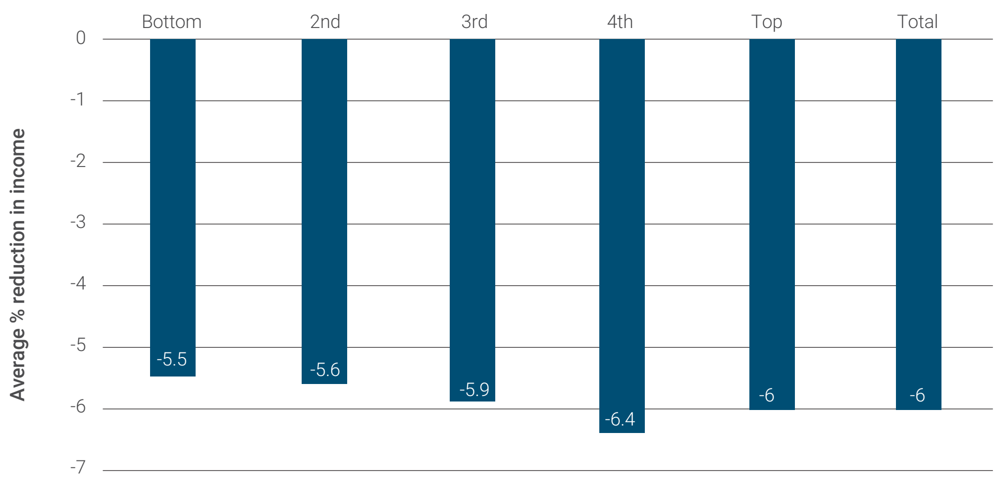
Note: Amounts are expressed in 2016 prices

42 In fact, 4.5 per cent of the basic salary represents the unsubsidized health insurance contribution rate for a self-employed individual; additional rates apply for dependent family members, as follows: 3.15 per cent for the second member of the household, 2.7 per cent for the third, 2.25 per cent for the fourth, and 1.8 per cent for the fifth. Thus, a family of four with one contributor would face a contribution of 12.6 per cent just for health insurance, for a total VSS contribution of 34.4 per cent. However, subsidies exist for near poor and poor families which bring the family contribution down to 1.35 per cent of the basic salary for near poor, and no contribution for poor families.

43 The vast majority of VSS members are wage earners. Only 2 per cent are currently paying the voluntary contribution rate.

The impacts of a VSS contribution on families' welfare are felt across the income spectrum, as shown in figure 5.2. Simulations suggest that currently contributing VSS households experience a net welfare loss of between 5.5 per cent (for the bottom quintile) to 6.4 per cent (fourth quintile). Especially for families at the margins, but also for those on middle incomes, a contribution can make a big difference to a family's disposable income and can even push them into poverty.

Figure 5.2: Average reduction in household per capita income as a result of a 10.5% contribution, Viet Nam (%)



Statutory contribution rates for self-employed persons are also very high; however, the benefits package is even less generous. At a cost of at least 26.5 per cent of declared earnings, a self-employed person in Viet Nam gains access only to old age, disability, survivors (typically treated as one programme) as well as health insurance. Under VSS regulations, self-employed persons are explicitly excluded from joining sickness and maternity, unemployment, and employment injury schemes. However, to maximize the incentives for informal economy workers to join, it will be important to lift the legal restrictions currently barring the self-employed from enjoying certain benefits, and potentially, to offer extra support.

In addition to the cost of joining social insurance, almost half of all workers in Viet Nam are also facing the additional cost of having a child, which can be significant. Though there are a number of complex methods to estimate the direct costs of having a child, arguably the most straightforward approach is to use expenditure-survey methods to compare expenditures by households with children with those of childless households. Roughly, for people in the informal economy, the difference in average monthly per capita income between a couple without children and a couple with one child is around VND600,000.[44] In addition, a systematic review

44 It is important to note that this estimate overlooks a number of important nuances. In Viet Nam, patterns of expenditure vary significantly across the income distribution, in different parts of the country, and for different groups. In addition, parents may adapt or reduce consumption in some areas in response to having a child. For a full discussion of the methodological challenges to estimating the cost of children, see Letablier (2009).

of empirical evidence from Europe found that the relative cost of a child represents 20–30 per cent, or around a quarter, of the budget of a couple without children. This has been found to be relatively stable over time, although economies of scale mean that the marginal costs reduce with the birth of more children, usually after the third child, but tend to increase with the age of the child.[45]

In Viet Nam, working parents who might otherwise consider joining social insurance as they are just starting out in the labour market, must contend with the direct and immediate cost of having a child. Therefore, the decision to have a child implies a big financial commitment. For those living near the poverty line (VND700,000 per person per month), having a child is precisely the kind of shock that can force a family into poverty. If the Government of Viet Nam really wants to achieve its objective of increasing the number of VSS members from the informal economy, at the very least it must find ways to offset the significant welfare loss incurred by the additional financial burden of a social insurance contribution. Such an approach would also alleviate some of the burden felt by parents currently enrolled in the VSS.

5.2 Conventional approaches to incentivizing participation

Convincing people of the benefits of joining social insurance systems is notoriously challenging, regardless of the income levels of prospective contributors, and regardless of whether the system is mandatory or not. This is due in large part to myopia — the tendency to discount the value of future benefits relative to the immediate cost of joining because the benefits can seem either too distant (as with old age or survivorship), or too improbable (as with unemployment, disability, or even ill health). Indeed, this is precisely why almost all countries have developed some form of mandatory social security or savings system: young people need to be obliged to protect themselves because they will often not do it voluntarily.

In addition, to address the challenge of myopia in social security (whether related to non-compliance in mandatory systems or ineffectiveness in voluntary schemes), some have looked to short-term benefits — such as maternity or paternity benefits, or even health insurance — since these benefits are tied to risks that tend occur not long after making contributions and are perceived as more likely (or at least possible) for persons just starting out in the labour market. However, there are limitations to leveraging short-term (especially cash) benefits because they are still at risk of being perceived as unlikely at any given moment.[46] The perils of private, voluntary health insurance markets, where participation rates among the young and healthy are the lowest of all cohorts, are a testament to this.

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45 Ibid. There are a number of methodological challenges associated with estimating the budget of a typical household in Viet Nam; see section 7.

46 For example, at any given moment, the "risk" of maternity or paternity is distant for most people of childbearing age. At the same time, the benefits themselves are short lived, and the target population is extremely small, consisting of working age adults with the ability to pay contributions who have not had their last child (but who may be considering it). This is reflected in the relatively small liability related to maternity in most social insurance funds.

Premium subsidies are another popular mechanism, but as they are delivered implicitly, their value may not be fully appreciated and, because they are invisible, they are not widely supported, which often translates into inadequate subsidy amounts. In Viet Nam, for example, as part of the 2014 social insurance reform, the Government introduced a system for making an additional contribution for those without an employer's contribution. But at just 10 to 30 per cent of the rural poverty line, the matching payment is too low to make a difference for most people on lower incomes. And, it is unlikely to appeal to those who are concerned about meeting immediate needs: the subsidy is only an implicit benefit, most of which is only accessible as an old age pension.[47] Furthermore, the scheme is administratively complex, and a time limit of 10 years imposed on persons receiving the subsidy means that, even if some of those on low incomes are encouraged to contribute for an initial period, the subsidy will expire well before they qualify for an old age pension, for which there is currently a 20-year minimum qualifying period.[48]

In fact, more than one third of those who are insured under the voluntary system were previously insured under the compulsory system.[49] In other words, for these members, the decision to formalize via the social security system was likely not relevant, since they were already working in the formal sector before separating or retiring. In effect, the voluntary system is failing to reach truly informal workers.[50]

At the same time, compliance is low among those business and workers who should in theory be covered by the VSS. Even among formally registered enterprises, the ILO estimates that almost 50 per cent of employees (more than 5 million people) in Viet Nam are working informally.[51] This suggests there is ample room to expand VSS membership by enforcing compliance. However, as section 6 will show, simply enforcing compliance, without providing some compensation for the welfare losses associated with joining the system, will likely have the unintended effect of pushing many workers into poverty or risk of poverty.

5.3 A novel approach: An immediate, tangible benefit that protects children

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.

47 See Hinz et al. (2013).

48 However, discussions are underway to potentially reduce this to 10 years. In fact, the time limit and other provisions, such as allowing lump-sum payment of remaining contributions, suggests that the main targets of the voluntary enrolment provisions may have been people who had previously been mandatorily insured employment but who did not meet the minimum contribution requirements to receive a pension.

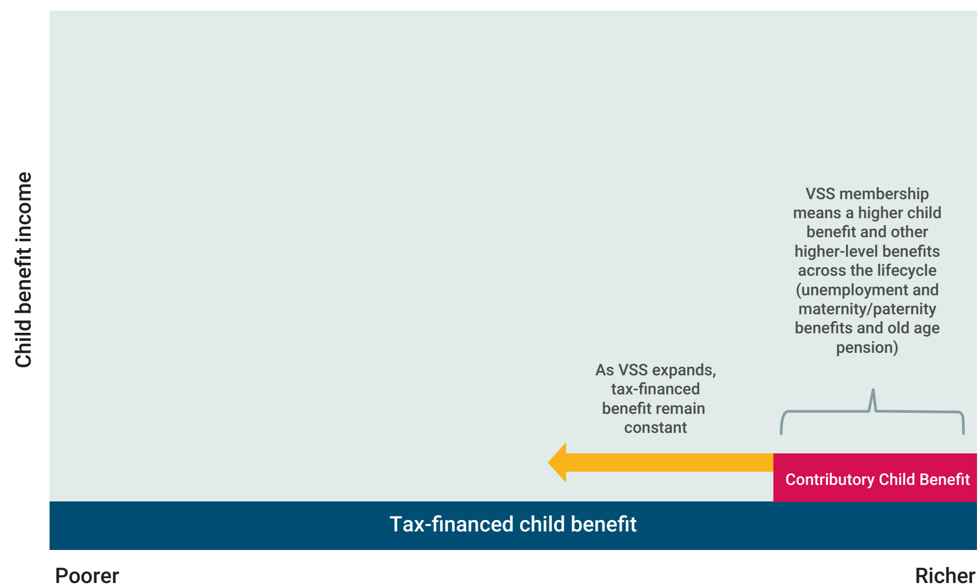
49 VSS data. More than one-third of those insured under the voluntary system had pre-2008 years credited under the compulsory system.

50 See ILO et al. (2017).

51 Ibid.

There are essentially two approaches to designing an effective multi-tiered child benefit system. In the ideal scenario, a universal tier-1 benefit, financed from general taxation — a conventional child benefit — would be available to all children, regardless of their status vis-à-vis the labour market or social insurance, as shown in figure 5.3. In addition to the universal benefit, a second, higher-rate tier-2 benefit would be paid to VSS contributors, where the portion exceeding the value of the universal benefit would be financed through members' contributions.

Figure 5.3: A multi-tiered child benefit with a universal tax-financed tier 1, Viet Nam



Source: Authors.

Alternatively, the tier 1 guaranteed benefit financed from general taxation could be benefit-tested, that is, available to all children whose parents are not contributing to the VSS. The higher-rate tier-2 benefit paid to VSS members would be financed entirely from members' contributions. Whereas the cost of a universal benefit remains relatively stable over time,[52] under the benefit-tested model, the size and cost of the tax-financed component would gradually fall as more and more people joined the social insurance system, as shown in figure 5.4.

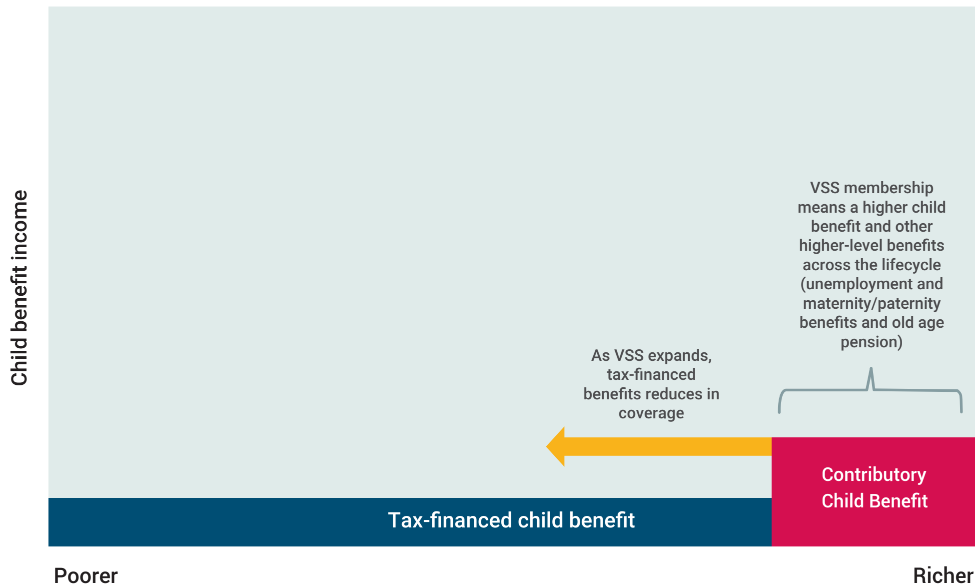
Furthermore, introducing a social insurance child benefit would avoid the challenges and inaccuracies associated with poverty-targeted cash transfers, because the tax-financed benefit would be given to those not in the VSS.[53] It would, therefore, be a very simple targeting mechanism. The administrative simplicity of benefit testing increases substantially, and costs decrease proportionally, when the different benefits are administered jointly or at the very least by the same body, as could be

52 The value of the benefit may be indexed and therefore grow over time, and the total relative cost may change in line with changes in the fertility rate.

53 The administrative cost and potential for inaccuracies associated with poverty targeted have been widely documented. For example, see Kidd, Gelders and Bailey-Athias (2017) for a discussion of the challenges and inaccuracies of a widely used poverty targeting mechanism, the proxy means test.

the case if the VSS were to assume responsibility for all income transfers. Indeed, in Viet Nam, this type of system would complement the pension-tested social pension model currently being considered in the reform of the pension system.[54]

Figure 5.4: A multi-tiered child benefit with a benefit-tested tier 1, Viet Nam



Source: Authors.

Both models — universal tax-financed and benefit-tested tier 1 systems — also preserve the principle of contributions by ensuring that those who have contributed to the VSS are entitled to a higher-rate tier 2 benefit. Both benefits could, potentially, be paid up to a maximum of three children per family, so that the contributory benefit is always higher for the same number of children. Therefore, a multi-tiered child benefit achieves two objectives: it has the potential to appeal to informal economy workers by addressing one of the main constraints they face when considering becoming members, in other words, the impact of making contributions on their standards of living and their ability to care for their children; and, it also ensures the right of all children to access a child benefit.

Because the social insurance benefit would be higher than the tax-financed child benefit, it should act as an incentive to join the VSS. Importantly, the contributory component of the multi-tiered child benefit would not aim to attract all workers in the informal economy; rather, it would target those workers at the margins who, prior to having children, may have had some cushion of disposable income, but for whom saving for the future is now impossible due to the extra costs of children. In addition, by joining the VSS, these workers with limited or unstable resources would gain access not only to a higher child benefit, but also — potentially — to a range of other VSS benefits across the lifecycle, including unemployment, sickness/maternity, and

54 See Kidd (forthcoming).

employment injury insurance.[55] Ideally, these benefits would also need to be multi-tiered to ensure that everyone has access to a basic level of inclusive, lifecycle benefits.[56]

Over time, once the children of VSS members reach a certain age and no longer qualify for the child benefit, the net contribution of the members to the scheme with children would increase. They would be more willing to continue making contributions since, by this point, they would be much closer to retirement age, more likely to have higher incomes and no longer have to cover the costs of raising children.

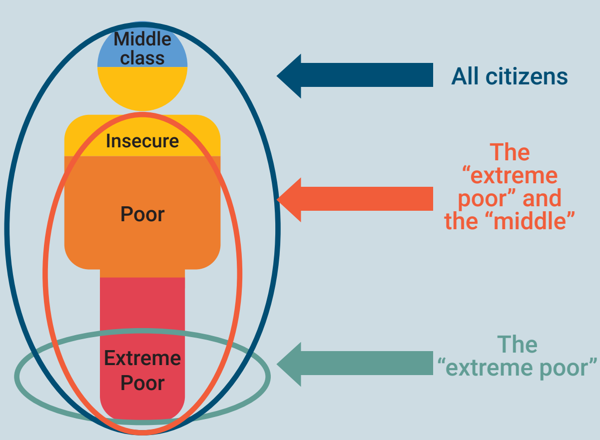
Because the proportion of children legally entitled to social security would immediately rise to 100 per cent, either model would begin to realize the "right to social security" for all children as articulated in Article 32 of Viet Nam's Law on Children: "Children who are Vietnamese citizens shall have their social security benefits ensured as regulated by the law", which would likely make a meaningful contribution to their well-being.[57]

Box 5.1: High coverage schemes strengthen the social contract

The social contract is stronger when more people benefit from social protection. Schemes that only include those in poverty, who are politically weak, are unlikely to be popular among the broader, more politically powerful elements of society. Thus, they are more likely to have lower benefit values, and they are less likely to be able to withstand political pressure from those who would argue that social protection is unaffordable.

On the other hand, when the beneficiaries include a broader group, they are more likely to support more generous benefits and to defend the programme in the face of threats of budget cuts. It stands to reason that the most politically durable schemes are those which benefit all citizens, as depicted in figure 5.5.

Figure 5.5: Building alliances through higher coverage, Viet Nam



55 This only applies if the legal access restrictions are lifted for self-employment and other types of informal work for other contingencies.

56 In general, the Government should review the level of all benefits, including existing ones, to ensure they are providing adequate support.

57 Assuming an eligibility age of 0–15 years and a high rate of effective coverage.

5.4 Political economy considerations

Moving away from a strictly universal design can affect the political economy of a multi-tiered child benefit system at the start and over the long term. Universal child benefits — paid to all children irrespective of their parents' financial situation or social insurance status — find legitimacy in their rights-based frame that derives political strength from its universality. Everyone in society 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).

The logic of horizontal redistribution from childless families to families with children is, in some sense, the glue that holds together support for universal benefits.[58] Means-tested or poverty-targeted benefits amount to vertical redistribution from those with more resources to those with less.[59] In addition, they tend to be implemented with poor quality targeting mechanisms that produce large errors.[60] Because only some children benefit, societal support for such policies tends to wane over the longer term.

Benefit testing offers a potential way around the corrosive effects of poverty targeting on policy sustainability. By ensuring universal coverage — as opposed to universal conditions and benefit levels — benefit testing preserves the rights-based appeal of universal benefits by guaranteeing an adequate benefit for all children, while embedding a positive incentive structure for joining social insurance. Further, the whole system is founded on the principle of contributions: since everyone pays taxes, everyone benefits, while VSS members, who pay both taxes and social contributions, receive the higher-rate benefit. For those enrolled in social insurance, horizontal redistribution is retained, but the point of reference shifts from the societal level to the level of the social insurance fund itself.[61] In contrast to other types of mixed social insurance and social assistance systems that frequently exclude the majority of people on middle incomes, a multi-tiered system that is designed to achieve universal coverage preserves the core principle for middle class buy-in: embed social benefits in as broad a swath of society as possible to strengthen the social contract, as explained in box 5.1.

5.5 Additional considerations

Implementing any child benefit creates a canvas on which to pursue policy objectives other than addressing the costs of raising children. Because policy objectives affect the design of the benefit, it is important that the Government clarifies its objectives at the outset in order to ensure that the system it designs is fit for purpose.

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58 Technically, vertical redistribution from richer families to poorer families is embedded within a universal design; however, in paying benefits to all children, it avoids disincentives.

59 See Bennett (2006) and Hantrais (2004).

60 See Kidd, Gelders and Bailey-Athias (2017).

61 It could be argued that members of social insurance are losing out by paying taxes and not receiving the tax-financed benefit. However, this overlooks the very real possibility, based on this analysis, that social insurance contributions of lower-income earners will need to be heavily subsidized through taxes.

5.5.1 Fertility

Historically, child benefits have been used alongside other policies to influence reproductive decisions and fertility trends, for example by varying the per-child value of the benefit depending on the number or birth order of children. For example, France, which like most high-income countries faces a serious demographic crisis and rising old-age dependency ratios, begins paying family allowances only after the birth of the second child, and then benefit rates increase with each subsequent child.[62] Similarly, Poland recently introduced a monthly payment for every second and subsequent child that is paid on top of its existing means-tested scheme.[63] Viet Nam is also facing a declining fertility rate over the longer term and may wish to leverage a child benefit system to encourage fertility in the future. Contrarily, if high fertility is cause for concern, capping a child benefit at two or three children could be a way of discouraging families from having too many children.

5.5.2 Gender equality

Alongside labour market and other reforms, the social security system can be an important vehicle for addressing gender-based inequalities in the labour market and in households, which, in turn, are frequently refracted through the social security system in the form of unequal (especially earnings-based retirement) benefits.[64] Because women bear the brunt of the unpaid care burden around the world,[65] child and family benefits would, at first glance, seem to be a potential tool to combat gender inequalities. The unpaid care burden reflects foregone income, primarily from women, and is an important indirect cost of having a child. While child benefits may bring income into a household, this income is generally intended to return families with children to their previous standard of living[66] and should not be equivalent in scale to (a woman's) lost wages. Other social security instruments that are intended for income replacement, such as paid parental leave, caregivers' allowances, caregivers' credits (to cover missing contribution periods due to caring) and non-contributory pensions are arguably better suited to address gender equalities. Child benefits can and should be part of an overall gender-responsive policy package, but policy makers should not rely on them to correct much more deeply embedded gender-based inequalities.

62 See ISSA and SSA (2016). The benefit level also varies with family income.

63 See Bennett (2017).

64 See McClanahan (2017) and Brimblecombe and McClanahan (forthcoming).

65 See ILO (2016b).

66 However, it can also be a way of redistributing from richer to poorer families if poorer families tend to have larger children.

6. Assessing the potential for multi-tiered child benefits in Viet Nam

To inform discussions on the potential for expanding social insurance in Viet Nam by introducing a child benefit, this section aims to: (1) gain a better understanding of the potential impacts of a VSS contribution on informal economy workers and their families; (2) explore how a potential child benefit might mitigate negative welfare impacts; and (3) begin to assess the potential impacts of a multi-tiered child benefits system in Viet Nam.

6.1 Methodology[67]

To assess the practicality of multi-tiered child benefits as an additional incentive for informal economy workers to join the VSS, we focus first on the potential welfare effects experienced by parents (with children up to age 15 years) when they make a contribution.[68] Knowing how these workers and their families would experience a VSS contribution if it were applied tomorrow provides a sense of the size of the latent non-contributing population that may have the ability to pay, while also highlighting the potential need to adjust some of the system's existing regulations in order to further expand the target population for extending coverage.

Where appropriate, the analysis also considers the additional contribution that would be required to finance a child benefit. Based on actuarial calculations (see section 6.4), this additional contribution is estimated at 3.9 per cent of insurable earnings to finance a child benefit equal to VND350,000 per month per child, for all children up to age 15. For self-employed (non-wage earning) workers, the full 3.9 per cent is applied. For employees (wage earners), one half the rate (1.95 per cent) is applied, assuming a 50:50 equal share of contributions between employees and employer.[69]

6.1.1 Defining the informal economy

The analysis was conducted using microdata from the VHLSS 2016. Although the VHLSS is not a standard labour force survey, great care was taken to align the

67 See full methodology note in Annex 1.

68 This is the legal definition of children in Viet Nam according to the Law on Children 102/2016/QH13.

69 In reality, the additional contribution required to finance a child benefit will fall over time due to demographic projections, and will reduce even more rapidly if the insurable earnings used to calculate contributions increase as is expected. See box 6.1 for an explanation.

operational definition of "informal economy" as closely as possible to the ILO's standard approach. Wage earners are classified as being in informal employment if they are not entitled to social insurance. Non-wage workers are considered to be in informal employment if their main activity is in the informal sector. The informal sector comprises independent production and business households, which have not registered as a business and operate as an enterprise. The formal sector includes collective, private, state-run and foreign-owned enterprises. The household sector refers to agriculture, forestry and aquaculture households and individuals who are not required to register business in accordance with Decree No. 88/2006/ND-CP.[70] Table 6.1 shows the percentage distribution of working parents according to their status in employment and economic sector.

Table 6.1: Distribution of working parents according to status in employment and economic sector, Viet Nam (%)

Type of worker	Type of worker			Total
	Formal sector	Informal sector	Informal sector	
Wage worker with social insurance	24	0	0	24
Wage worker without social insurance	6	11	6	23
Non-wage worker	1	17	35	53
Total	**31**	**28**	**41**	**100**

Note: The cells shaded in grey indicate informal economy workers.

6.1.2 Wage workers in the informal economy

In the simulations, wage and non-wage workers in the informal economy are treated differently. There are reasons to believe that wage workers in the informal economy would be easier to reach by the VSS both in terms of their initial incorporation and registration and ensuring compliance. These workers are engaged in dependent employment relationships but in unregistered firms, working without contracts or working part time.[71] In these cases, the challenge would not simply be enticing a worker to join the VSS under a voluntary scheme, but rather to enforce (and potentially strengthen) labour laws to ensure that employers comply with existing social insurance obligations, while also, potentially, broadening the definition of the covered population under the VSS to include certain workers who are currently excluded, including part-time work and workers with earnings below the minimum threshold used to calculate contributions (equal to the basic salary).

71 The social insurance coverage status of part-time workers with contracts of at least one month remains unclear. According to the labour code 2012, it is legal to have a contract of at least one month that specifies a wage below the basic salary. However, VSS regulations establish the basic salary as the minimum earnings used to levy contributions, suggesting that formally employed part-time workers are not contributing to the VSS.

We simulate scenarios in which all uninsured wage-earning parents are contributing to the VSS, at two rates:

- 10.5 per cent of regular wages
- 12.45 (= 10.5 + 1.95) per cent of regular wages

The first scenario (10.5 per cent) reflects the current total contribution burden for employees (wage earners), while the second scenario (12.45 per cent) reflects the current contribution for employees (10.5 per cent) as well as the additional contribution that would be required to finance a child benefit, according to actuarial calculations.

For wage workers, their potential contribution to the VSS is estimated on the basis of the reported regular wages received from their main job in the last 12 months. This includes salaries and wages in cash and in kind but excludes other payments such as bonuses or allowances for travel. Employers' contributions are not taken into account in the model.

6.1.3 Non-wage workers in the informal economy

As discussed in section 5.1, the contribution rate for the voluntary system is currently at least 26.5 per cent, although the actual rate experienced by workers with dependants would be higher due to additional health insurance premiums for each insured family member. Further, the analysis does not take into account subsidies currently offered under the health insurance component.

Estimating the potential taxable income for individual workers in the non-wage sector is challenging as the VHLSS does not collect data on the individual income of non-wage workers; rather, information on non-wage income is collected at the household level only. We sum up household revenue from agriculture, forestry, fisheries, services and non-farm business and deduct all associated costs incurred by the household for production — such as for seed, animal feed, materials and fuel — to obtain an estimate of the net non-wage household income. Negative values are recoded as zero income; and non-wage workers in households with no positive net non-wage income are excluded from the analysis as a potential group that could contribute to the VSS.

We simulate scenarios in which non-wage working parents voluntarily contribute to the VSS at the following rates:

- 26.5 per cent of net non-wage household income
- 30.4 (= 26.5 + 3.9) per cent of net non-wage household income

The first rate corresponds to the status quo for self-employed workers insured under the voluntary scheme, while the second takes into account the additional contribution rate needed to finance a child benefit.

6.1.4 Treatment of single and dual earning households

In practice, social insurance contributions are levied on an individual basis, but for methodological reasons, the analysis takes the wage earner as a default in determining the contribution rate in households in which both parents are working. This is also based on an assumption about the likely rational household response to a child benefit offered as an incentive. For example, if one earner works in non-wage employment, and another in wage employment, it is unlikely that the non-wage earner would join the VSS under the voluntary system, at the higher contribution rate, if the wage-earner already qualified for a contributory child benefit based on a lower contribution rate for employees. Table 6.2 sets out the basis for calculating the amount of contributions, according to the parent(s)' employment status in the informal economy.

Table 6.2: Simulation model contribution categories for single and dual earning families, Viet Nam

Family type	Status in informal economy	Applicable rate		Basis for calculating amount of contributions
		Compulsory	Voluntary	
Sole parent	Wage earner	X		Wages of sole parent
	Non-wage earner		X	Household non-wage income
	Not working			Not applicable
Two-parent family	Two wage earners	X		Wages of both parents
	One wage earner, one non-wage earner	X		Wages of wage-earning parent
	Two non-wage earners		X	Household non-wage income
	One wage earner, one parent not working	X		Wages of wage-earning parent
	One non-wage earner, one parent not working		X	Household non-wage income
	No parent working			Not applicable

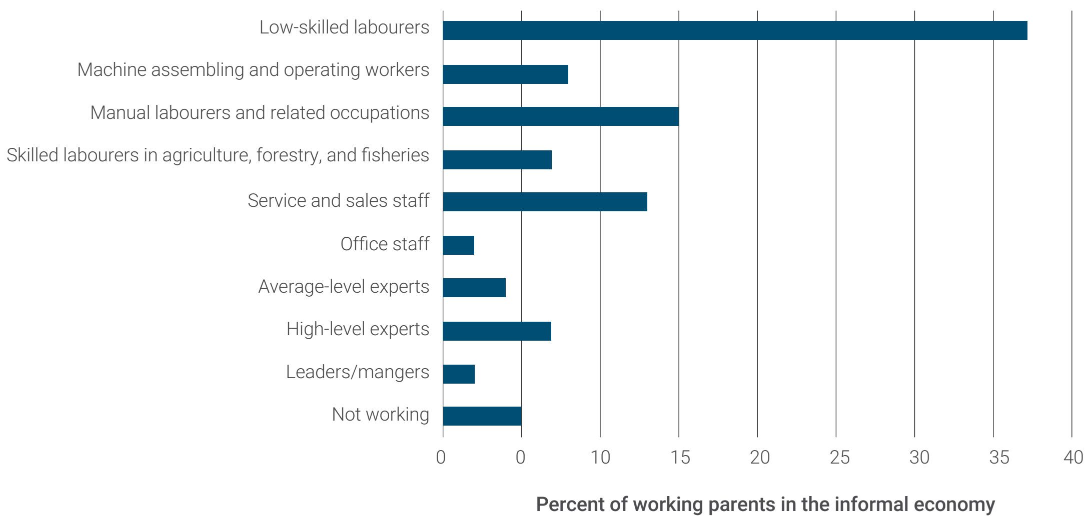
6.1.5 Profile of working parents

Working parents are the population for the simulation analysis of the welfare impacts of a VSS contribution (section 6.2) and the potential compensatory effects of a child benefit (section 6.3). According to survey estimates from VHLSS 2016, out of all parents who have children aged 0–15 years in Viet Nam:

- 23 per cent are wage earners already contributing to social insurance;
- 22 per cent are wage earners in informal employment (uninsured);
- 50 per cent are non-wage earners; and
- 5 per cent are not working.

Figure 6.1 shows the distribution of working parents by type of occupation. The majority (37 per cent) are low-skilled labourers, followed by manual labourers (15 per cent) and services and sales staff (13 per cent).

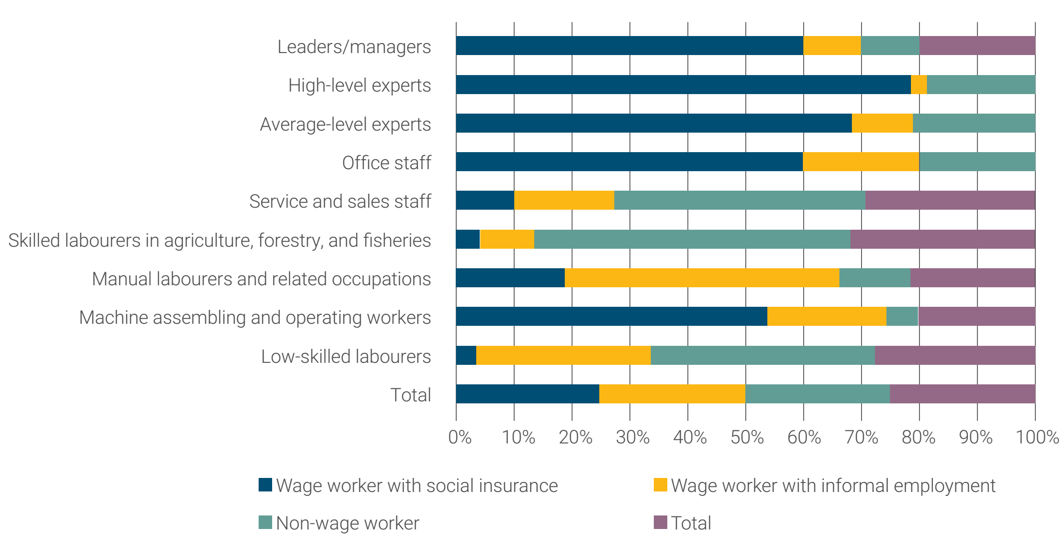
Figure 6.1: Distribution of working parents, by type of occupation, Viet Nam (%)



Source: Based on VHLSS 2016.

While wage-earning parents in the informal economy work in a variety of occupations, they account for a large majority of manual labourers. Non-wage earning parents, on the other hand, are concentrated in service and sales jobs, forestry and fisheries, skilled agriculture and low-skilled jobs. Figure 6.2 shows the breakdown of occupations of working parents by employment status.

Figure 6.2: Distribution of parents, by type of occupation and by status (informal or formal), Viet Nam (%)



Source: VHLSS 2016.

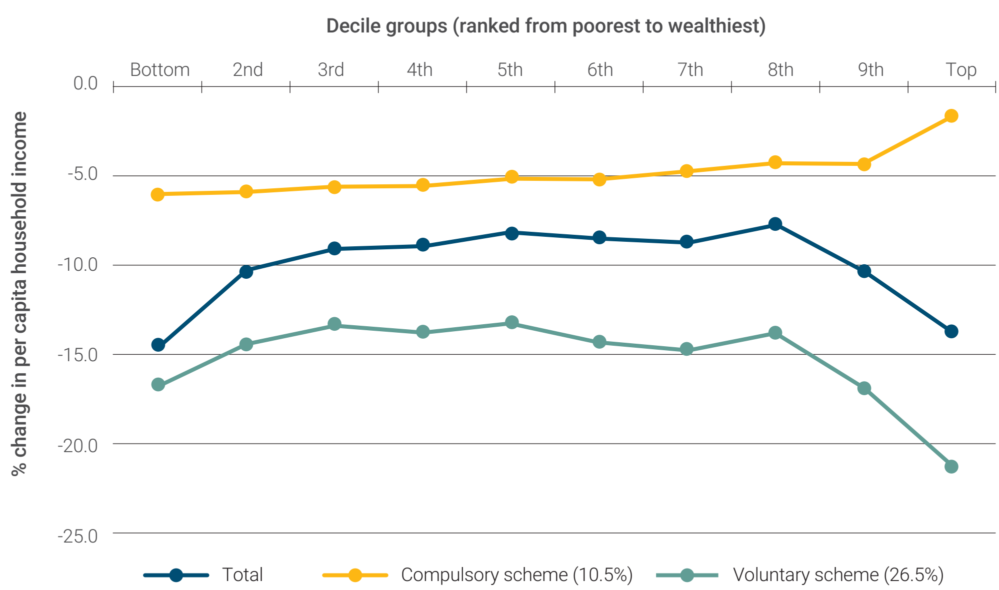
In the next section, we turn to an assessment of the likely impact of a VSS contribution, measured by the reduction in overall household per capita income, if it were applied to today's working parents in the informal economy.

6.2 Welfare impacts of a VSS contribution

The section summarizes the likely welfare impacts of the status quo VSS contribution (10.5 per cent or 26.5) per cent on parents in the informal economy if they were to begin paying contributions.

The findings suggest that the welfare impacts of a VSS contribution would be substantial. Figure 6.3 below shows the average reduction in household per capita income for households with parents working in the informal economy. Not surprisingly, the effects of a contribution on wage earning parents, who would be required to contribute 10.5 per cent of earnings, would be less significant that the effects of a 26.5 per cent contribution on non-wage earning parents in the informal economy. Further, in both scenarios, the effects would be felt most by those in the mid to lower end of the income distribution. The total gives the average effect on all households of parents working in the informal economy if wage earners paid the higher rate and non-wage earn paid the lower rate.

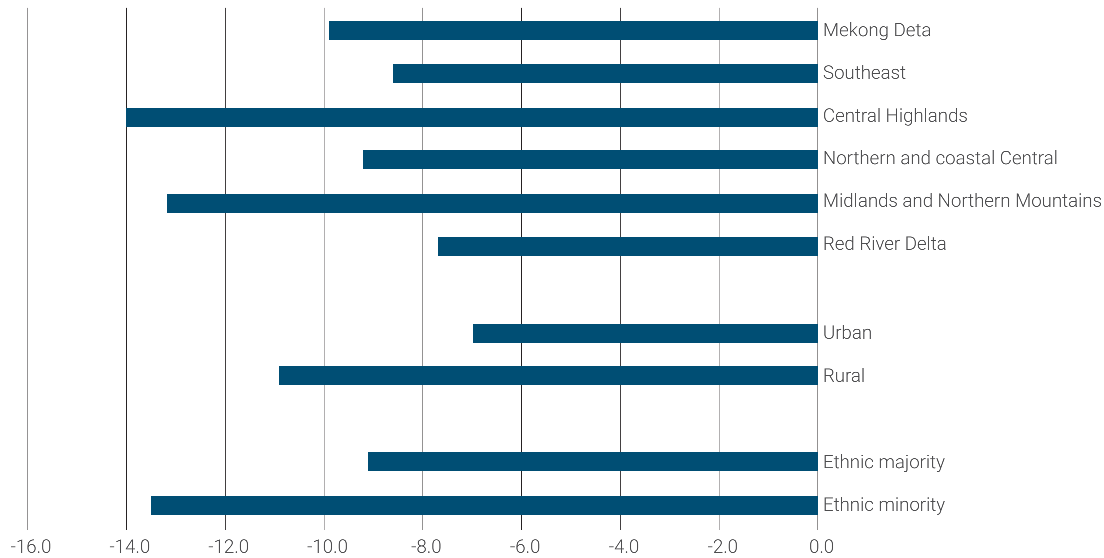
Figure 6.3: Simulated average reduction in household per capita income among families in the informal economy due to a VSS contribution, by income decile, Viet Nam (%)



Source: Simulations based on VHLSS 2016.

These impacts would be experienced differently by different segments of the population, as figure 6.4 shows. The effects would be significantly larger for people working in rural areas, for members of ethnic minorities and for people living in the Central Highlands and Midlands and Northern Mountains regions.

Figure 6.4: Simulated average reduction in household per capita income among families in the informal economy due to a VSS contribution, by selected background characteristics, Viet Nam (%)



Source: VHLSS 2016.

Child poverty would also rise significantly if informal economy workers were suddenly incorporated into the VSS. Child poverty among those with parents in the informal economy is already much higher than the average: 31.9 per cent are below the MOLISA near-poverty line, compared with around 20 per cent for the general population. If uninsured parents had to contribute 10.5 per cent or 26.5 per cent (according to their employment status), child poverty could be expected to rise to 37.7 per cent among this group of children, an increase of 18 per cent.

The above simulations suggest that the welfare impacts of a VSS contribution would sizeable for large segments of the population of working parents in Viet Nam, but particularly for those non-wage earners working in the informal sector, many of whom could not afford a high contribution. However, wage earners would also experience a significant welfare loss, and this is true across the income distribution.

The following section explores the potential of a child benefit to mitigate the welfare losses associated with a VSS contribution in order to make joining the VSS more attractive for a greater number of working parents in the informal economy.

6.3 Exploring the potential compensatory effects of a child benefit

A child benefit could potentially make up for at least a portion of the welfare losses incurred by families entering the VSS. The following paragraphs lay out the parameters of a potential child benefit and define the potential beneficiaries of a transfer.

6.3.1 Parameters for the model

Setting an appropriate transfer value and defining age eligibility criteria are crucial, since the size of the effects would depend on the value of the transfer relative to the weight of the contribution as well as the size of the expected beneficiary populations. In the absence of a clear policy objective from the Government of Viet Nam with respect to child benefits, the simulations here utilize the empirically based rule-of-thumb of 25 per cent for estimating the direct costs of a child as a starting point for examining the potential impacts of different transfer scenarios.[72] This is also in line with relative values being considered for the social pension.

We derive the following per-child transfer values using different proxies for minimum household consumption needs in Viet Nam, including the national poverty line and the basic salary:[73]

- VND175,000 (= 25 per cent of the national poverty line[74])
- VND350,000 (= 25 per cent of the basic salary)

Ideally, all children aged 0–15 would receive either the tax-financed tier-1 benefit, or a higher-rate social insurance tier-2 benefit. However, a gradual introduction of the tax-financed benefit may be considered, depending on available resources, which is in line with the proposal in the MSPARD action plan of a progressive expansion of a tax-financed child benefit to gradually incorporate more and more children. Therefore, to simulate the effects of the tax-financed tier-1 benefit on populations who are not expected to contribute, the tier-1 child benefit covers three progressively inclusive age eligibility ranges for children, for up to three children:

- age 0–3 years (corresponding to the approved age for a universal child benefit in the MPSARD);
- age 0–6 years (corresponding to the target for 2025 in the MPSARD action plan); and
- age 0–15 years (corresponding to the whole child population according to the definition of a child in Viet Nam)

However, for the tier-2 benefit, the simulations assume that all children of VSS members aged 0–15 would be entitled to a higher rate benefit. This is in line with the principle that contributors receive a higher-level, more generous benefit, which strengthens the incentive to join the VSS. Hence, the simulations consider the options presented in table 6.3.

72 See Letablier (2009).

73 In addition, we examined the target invoked in the MPSARD action plan of 5 per cent of GDP per capita (VND242,287) based on the International Monetary Fund World Economic Outlook Database (report available at https://bit.ly/2LhYNRW [accessed 25 April 2019]), (International Monetary Fund, n.d.); however, for simplicity, the results of this simulation are provided in an annex.

74 We use the official poverty line of VND700,000 used by MOLISA for determining benefits eligibility, rather than the line(s) used by the GSO and World Bank.

Table 6.3: Parameters for hypothetical multi-tiered child benefit transfer values and child age eligibility groups, Viet Nam

Scenarios	Tax-financed tier 1	Social insurance tier 2
Option 1		
Ages	0–15	0–15
Values	VND175,000	VND350,000
Option 2		
Ages	0–6	0–15
Values	VND175,000	VND350,000
Option 3		
Ages	0–3	0–15
Values	VND175,000	VND350,000

In addition, moving from the status quo VSS to a hypothetical VSS offering a contributory child benefit (as part of a multi-tiered child benefit system) would require an additional contribution. Therefore, based on actuarial calculations (see section 6.4), the child benefit scenarios incorporate the additional rate that would be required to finance the contributory tier-2 child benefit, as shown in table 6.4.

Table 6.4: Hypothetical VSS contribution rates with a child benefit, Viet Nam

Benefit type	Wage earners	Non-wage earners
VSS with child benefit	12.45% (=10.5+1.95[1])	30.4% (= 26.5+3.9)

[1] This number assumes 50:50 sharing of total contribution between employer and employee

6.3.2 Defining the beneficiaries of child benefit transfers

To illustrate the potential (hypothetical) effects of moving to a multi-tiered child benefit system immediately, we use the VHLSS dataset to simulate what might happen to household welfare if a multi-tiered child benefit were implemented today. Specifically, we examine the effects on household per capita income if: (1) working parents in the informal economy with earnings above the income threshold for VSS membership entered the VSS and received a tier-2 child benefit; (2) workers with income below this threshold received a tier-1 child benefit; and (3) workers currently insured under the VSS paid a slightly higher contribution to finance a tier-2 child benefit.

We define four treatment groups as follows:

- **Group 1:** Households with children up to age 15 with at least one wage-earning parent in the informal economy moving into the compulsory

VSS scheme. We include only those with workers paid more than the basic salary of VND1,400,000 per month.[75] The contribution rate is set at 12.45 per cent (=10.5 per cent + 1.95 per cent) of regular wages and a child benefit is provided for all children up to age 15 with a monthly value of VND350,000, up to a maximum of three children per family.

- **Group 2:** Households with children up to age 15 with non-wage working parents moving into the voluntary VSS scheme. We include only those with a net non-wage household income above the MOLISA rural poverty line of VND700,000 per month. The contribution rate is set at 30.4 per cent (=26.5 per cent + 3.9 per cent) of net non-wage household income and a child benefit is provided for all children up to age 15 with a monthly value of VND350,000, up to a maximum of three children per family.
- **Group 3:** Households with children up to age 15 with at least one parent who is already insured and contributing to the VSS. We simulate an increase in the contribution rate from 10.5 per cent to 12.45 per cent and provide a child benefit for all children up to age 15 with a monthly value of VND350,000, up to a maximum of three children per family.
- **Group 4:** Households with children whose parents would be unable to contribute into the VSS because their taxable income falls below the basic salary (for wage earners) or the rural poverty line (for non-wage earners). They are provided with a tax-financed (non-contributory) child benefit of VND175,000 per eligible child (up to a maximum of three). We simulate three scenarios with different age-eligibility criteria for the child benefit: 0–3 years; 0–6 years; and 0–15 years.

Group 1 is equivalent to approximately 15 per cent of all households in the country (and 26 per cent of households with children); group 2 represents 14 per cent of all households (and 24 per cent of households with children); group 3 around 17 per cent; (and 30 per cent of households with children) while the size of group 4 depends on age-eligibility criteria used for the child benefit.

6.3.3 The net impacts of a contribution and a child benefit on the households of working parents in Viet Nam

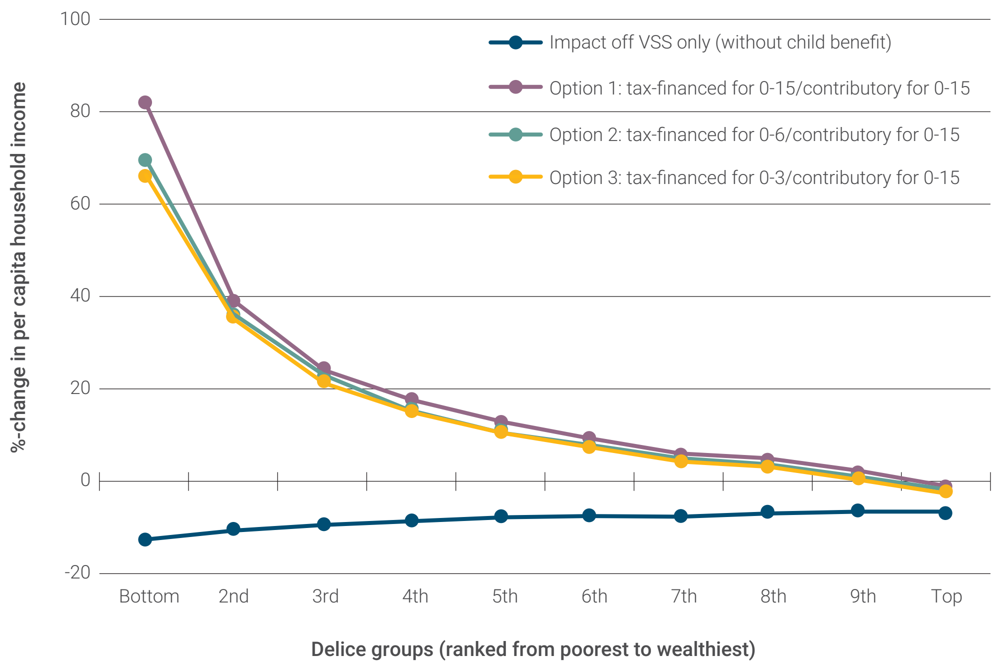
Overall, the findings show how the child benefit could compensate not only prospective VSS members, but also current members. Thus, not only would it make joining the VSS more attractive, but also more tolerable, while simultaneously impacting positively on child well-being for the vast majority of children in Viet Nam.

Child benefits could help compensate for the welfare loss that is associated with a contribution to the VSS. Figure 6.5 shows the average change in per capita household income under different scenarios for parents across the income distribution. Those in the bottom decile belong to the poorest 10 per cent of households while those in the top are from the wealthiest 10 per cent of households. To demonstrate the size of the effects, the three child benefit impact scenarios

75 This threshold is based on information validated by the VSS in the ISSA's Viet Nam country profile (ISSA/SSA, 2016).

(turquoise, yellow and purple lines) are juxtaposed against the impacts of a VSS contribution without a child benefit (orange line).

Figure 6.5: Relative change in welfare (per capita household income) of households with children up to 15 years, by decile, Viet Nam (%)



Source: Simulations based on VHLSS 2016.

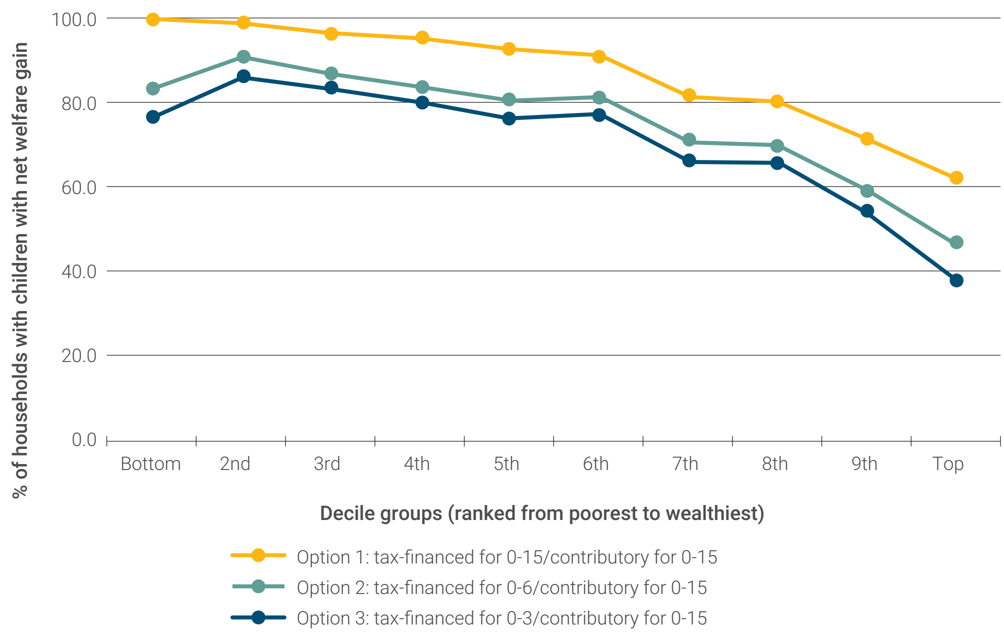
As shown, the impacts on welfare depend on the value of the transfers and the size of the recipient population. Unsurprisingly, the most generous scenario, with the tax-financed tier-1 benefit paid to all children, (Option 1) is associated with higher levels of compensation for recipient households, particularly at the lower end of the income distribution. Those who would receive less compensation are concentrated in higher income brackets. In fact, under all scenarios, only those in the top 10 per cent of the welfare distribution would see a net welfare loss, with an average reduction in top earning households' welfare ranging from just 1 to 2 per cent.

Overall, the proportion of households that would be better off under the different options are striking:

- 89 per cent of households would be better off under Option 1;
- 79 per cent of households would be better off under Option 2; and
- 76 per cent of households would be better off under Option 3.

The proportion of households with children that would experience a net welfare gain after the introduction of a multi-tiered child benefit also varies significantly across the income distribution, as figure 6.6 shows.

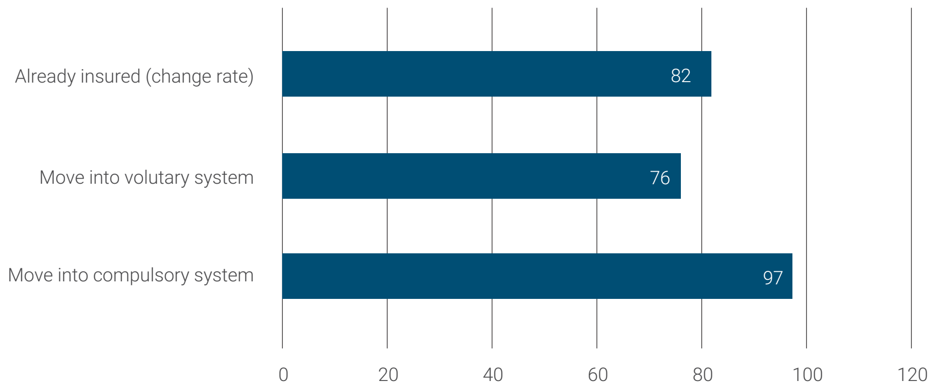
Figure 6.6: Households with children who would have a net welfare gain, by scenario and decile, Viet Nam (%)



Source: Simulations based on VHLSS 2016.

The net effects of a multi-tiered child benefit would be experienced differently depending on the workers' employment and prior insurance status. The vast majority of people in each treatment group would be better off under the different coverage scenarios following the introduction of the contributory tier-2 component of a multi-tiered child benefit like the one proposed, as figure 6.7 shows. First, the vast majority (82 per cent) of households already insured under the VSS would see a net welfare improvement after the introduction of a child benefit, even if their contributions were to rise, as figure 6.7 shows. In addition, of those newly insured members, almost all (97 per cent) of those moving into the compulsory system would improve their net welfare after receiving a child benefit of VND350,000, while a much smaller proportion (80 per cent) of those moving into the voluntary system would improve.

Figure 6.7: Households with children who would have a net welfare gain after a tier-2 contributory child benefit, by treatment group, Viet Nam (%)



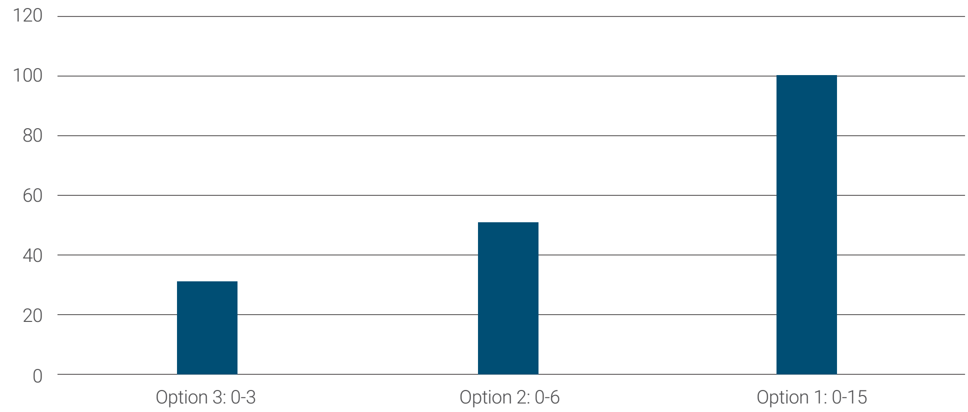
Source: Simulation based on VHLSS 2016.

Put differently, nearly one in five newly entering VSS voluntary scheme members would be worse off, even after the introduction of a compensatory child benefit. This reflects the wide disparity in the VSS contribution rates between employees and self-employed persons. It offers strong evidence to support the idea that the current rates are simply too high for many people in the informal economy. However, the fact that so many of those would join the voluntary scheme would still be better off, even after paying a high contribution of 34.5 per cent, attests to the redistributive power of even a relatively modest flat-rate contributory benefit.

Unlike the contributory child benefit, which in the simulations would provide a child benefit to all children of VSS members, the impacts of a tier-1, tax-financed benefit would vary significantly according to the generosity of the age eligibility categories, as shown in figure 6.8. Under the least generous option, which would provide a tax-financed benefit for children up to age 3, as is currently proposed in the MPSARD, only around 31 per cent of households with parents who work in the informal economy would benefit. The effectiveness of the benefit increases substantially as more and more children enter the system, where 100 per cent of low-income families would be better off after the introduction of a tax-financed child benefit under a multi-tiered system. [76]

76 Defined here as having a per capita income below the basic salary, which is the minimum earnings used to calculate contributions under the VSS.

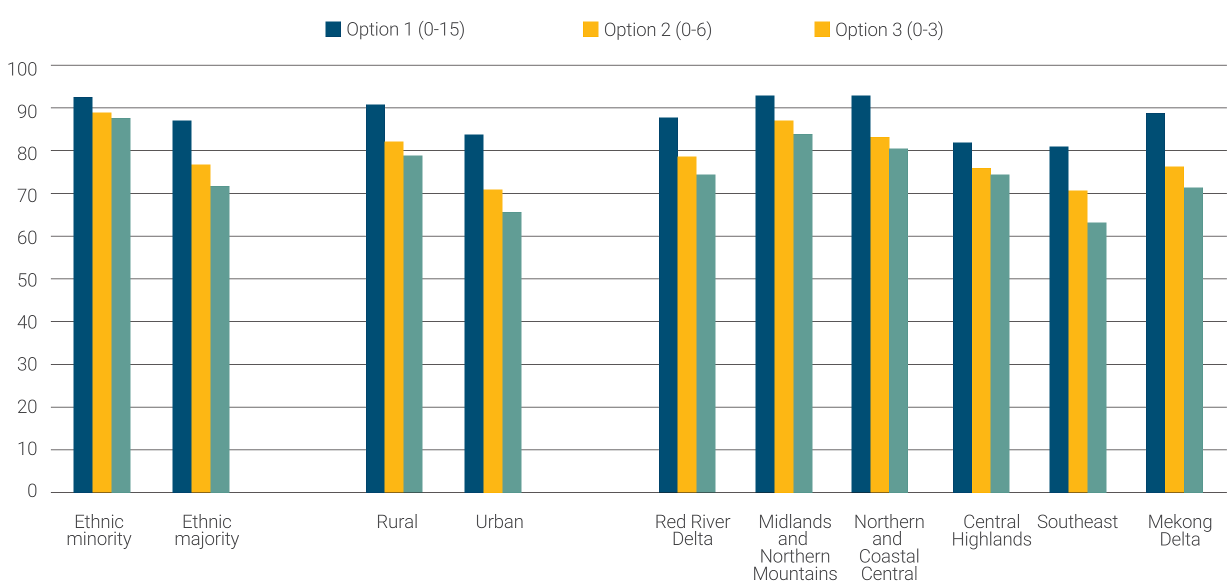
Figure 6.8: Estimated households with children who would have a welfare gain after a tier-1 tax-financed benefit, by age eligibility scenarios, Viet Nam (%)



Source: Simulation based on VHLSS 2016.

As with the impacts of a contribution, the net impacts of a multi-tiered child benefit would vary according to certain household characteristics, including geographical region, whether it is in an urban or rural area, and the ethnicity of the head of household, as shown in figure 6.9. The largest proportions of households whose welfare would improve would be found among ethnic minorities (94 per cent of households), in rural areas (91 per cent), and the Northern and Costal Central region (94 per cent) and Midlands and Northern Mountains region (93 per cent). The more children are included in the programme, the more households would benefit. However, the vast majority of households with children around the country would benefit from a multi-tiered child benefit, regardless of the age eligibility criteria for children.

Figure 6.9: Households with children who would have a net welfare gain, by scenario and select background characteristics, Viet Nam (%)

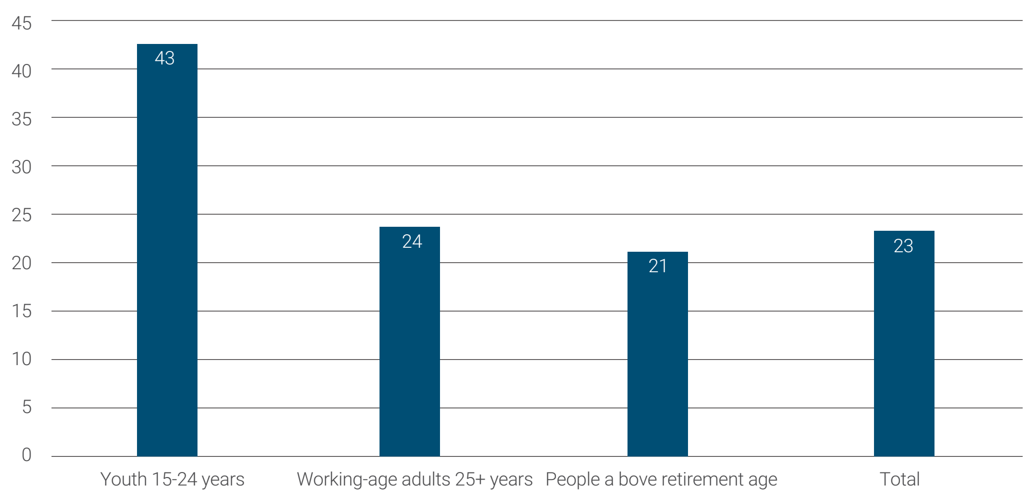


Source: Simulations based on VHLSS 2016.

Finally, the impacts of a multi-tiered child benefit on household welfare, measured by the average per cent change in household per capita income, would be sizeable. Simulations suggest that, across all households with children, the average change in household per capita income after a multi-tiered child benefit covering all children up to age 15 is estimated to be 23 per cent. The groups that would experience the largest impacts from an Option 1 child benefit include households in the lowest income decile, where average household per capita income could be expected to increase by 90 per cent and households headed by ethnic minorities (average increase of 57 per cent).

Notably, households headed by younger parents aged 15–24 would experience the largest gains from an Option 1 child benefit (a 43 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. Figure 6.11 shows the average change in household income from an Option 1 child benefit, according to the age of the head of household.

Figure 6.10: Simulated average change in household per capita income among households with children aged 0–15 years, Viet Nam (%)



Source: Simulations based on VHLSS 2016.

Clearly, the impacts of a multi-tiered child benefit would be substantial, and the benefits would be felt across the population, although certain groups would benefit more than others. The simulations suggest the following broad conclusions: (1) a child benefit can help to mitigate the substantial welfare losses caused by a VSS contribution for working parents across the income distribution; (2) the impacts are greater for those in lower income categories and other disadvantaged groups; (3) a substantial proportion of non-wage earners who would join the voluntary system would not be better off, even after the introduction of a child benefit; and (4) covering broader age groups enhances the overall effects of a child benefit on household welfare.

6.4 Estimating the costs of a multi-tiered child benefit in Viet Nam

Estimating the costs of a multi-tiered child benefit depends fundamentally on assumptions about future growth in the VSS population. The assumptions used in the costing analysis correspond to those used for the recent ILO actuarial valuation of the VSS.[77]

In the actuarial report, projections are made according to a baseline scenario, in which coverage increases slowly to reach 38 per cent over 50 years, and an extension scenario which allows for an accelerated increase in coverage, so that by 2035, 50 per cent of the employed population will be covered by VSS.[78] Furthermore, in the valuation "it is assumed that the legislation and the administrative facilities would be put in place to facilitate this increase in coverage".[79]

Note that the projections for increased membership do not include assumptions about the potential additional growth in VSS membership that could potentially occur as a result of the introduction of a multi-tiered child benefit, which would imply lower long-term costs of the tax-financed tier 1. Though such additional growth is theoretically possible, and even likely, it is not possible to introduce these assumptions at this stage without further research.[80] Rather, it is potentially more useful and appropriate to think of the multi-tiered child benefit(s) considered in the previous sections as among the options available to achieve the Government's already quite ambitious targets for extending coverage expressed in the MPSIR.

The scenarios presented based on the costing analysis are summarized in table 6.5.[81]

77 The costing analysis for the multi-tiered child benefit and the actuarial valuation for the VSS were carried out by Doan-Trang Pham. See ILO (2018b) and Pham (2018).

78 According to the report: "In the baseline scenario, the coverage rate gradually increases to 38 per cent by the end of 50 years of projection and remains at that level thereafter. The alternative coverage scenario provides for an accelerated increase in coverage until 2035, when 50 per cent of the employed population is covered, and this percentage remains constant for the remainder of the projection period" (ILO 2018b).

79 Ibid.

80 See section 6.1 for additional discussion of the need for further research to generate theoretically informed assumptions about the potential for VSS growth due to a child benefit.

81 The full costing analysis included different child age eligibility brackets for both the tax-financed and contributory components of the child benefit. It also examined the tax-financed value of VND242,287 (5 per cent of GDP per capita).

Table 6.5: Parameter options for a multi-tiered child benefit, Viet Nam

Scenario	Population	Child's eligibility age	Amount of benefit per child (for up to 3 children)
Option A			
Contributory scheme	VSS compulsory insurance participants	N/A	VND350,000 (25% of the basic salary)
Tax-financed scheme	Population not participating in VSS compulsory scheme	Age 0–3, 0–6, or 0–15	VND175,000 (25% of the national poverty line)
Option B			
Contributory scheme	VSS compulsory and voluntary insurance participants	N/A	VND350,000 (25% of the basic salary)
Tax-financed scheme	Population not participating in VSS insurance	Age 0–3, 0–6, or 0–15	VND175,000 (25% of the national poverty line)

N/A = not applicable.

Table 6.6 presents the projected numbers of children, by age, who would be beneficiaries under the contributory component and the tax-financed component of the potential multi-tiered child benefit scheme. The contributory component covers the workers covered under VSS compulsory insurance. This scenario would cover children of participants under VSS voluntary and the other children under the tax-financed component.

Table 6.6: Projections for children covered, in thousands, Viet Nam, 2018–30

Year	Covered population (compulsory insurance)	Children covered under contributory component	Children covered under tax-financed component		
		0–15 years	0–3 years	0–6 years	0–15 years
2018	12 517	7 691	2 965	5 910	14 739
2019	12 770	7 971	2 910	5 844	14 640
2020	13 039	8 238	2 845	5 755	14 444
2021	13 304	8 487	2 779	5 650	14 251
2022	13 566	8 711	2 719	5 534	14 064
2023	13 823	8 906	2 672	5 420	13 887
2024	14 073	9 075	2 635	5 312	13 717
2025	14 320	9 216	2 611	5 220	13 542
2026	14 563	9 312	2 602	5 155	13 389
2027	14 813	9 368	2 605	5 115	13 204
2028	15 063	9 386	2 617	5 098	13 033
2029	15 314	9 368	2 636	5 101	12 881
2030	15 563	9 320	2 659	5 121	12 750

The results in table 6.6 show that:

- The ratio of number of children to number of covered adults is relatively stable over the period 2018–30. The number of children per contributor is approximately 0.6 when the child's age limit for the benefit is set at 15 years.
- The ratio of the number of children outside VSS system to the number of children in the VSS system decreases gradually from about 1.8 to 1.5 over the period 2018–30. This reflects the assumption that fertility rate in total population of Viet Nam is lower than among the VSS covered population.

Table 6.7 presents the projected total amount of child benefits. The total amount of benefits is also expressed in percentage of total insurable earnings, which corresponds to the total contribution rate that would be required to finance the scheme. The monthly benefit per child is equal to VND350,000 (25 per cent of the basic salary in 2018) and is indexed to inflation from 2019.

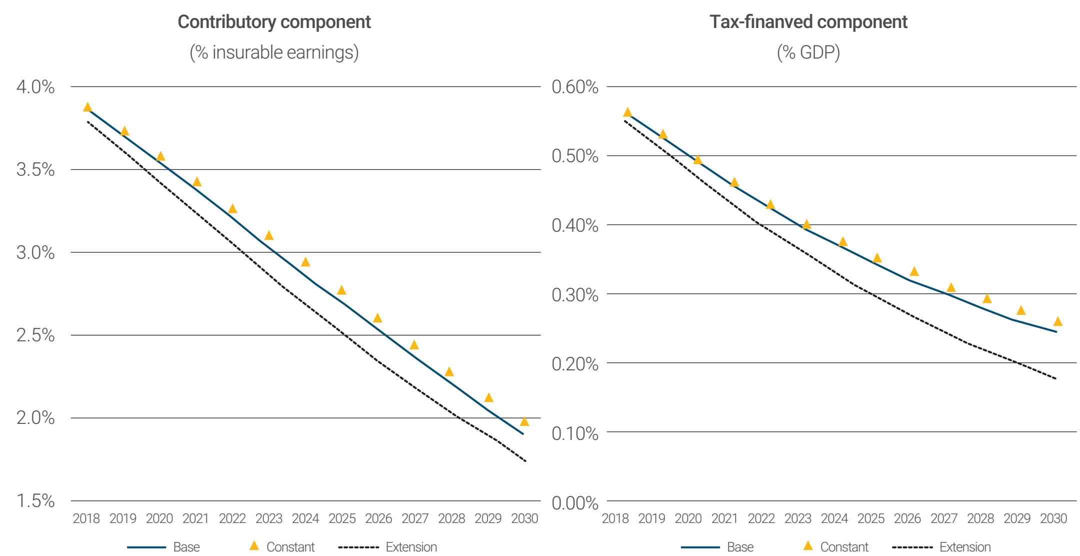
Table 6.7: Total child benefits under the contributory component, Viet Nam, 2018–30

Year	Contribution base (billion VND)	Monthly benefit per child (VND)	Total amount of child benefits (billion VND)	Total benefits as % of insurable earnings	Total benefits as % of GDP
2018	836 283	350 000	32 303	3.9	0.6
2019	940 467	365 050	34 918	3.7	0.6
2020	1 057 504	379 652	37 532	3.5	0.6
2021	1 188 617	394 838	40 212	3.4	0.5
2022	1 336 217	410 632	42 925	3.2	0.5
2023	1 500 768	427 057	45 641	3.0	0.5
2024	1 684 001	444 139	48 366	2.9	0.5
2025	1 888 452	461 905	51 085	2.7	0.5
2026	2 115 277	480 381	53 682	2.5	0.4
2027	2 368 192	499 596	56 164	2.4	0.4
2028	2 644 608	519 277	58 490	2.2	0.4
2029	2 946 293	539 419	60 642	2.1	0.4
2030	3 274 724	560 015	62 630	1.9	0.4

The contribution rate required to finance a contributory child benefit reaching all dependent children (ages 0–15 years) of VSS members in 2018 would be 3.9 per cent, as table 6.7 shows. The total contribution rate required would reduce over time to reach 1.9 per cent of wages in 2030. If the contribution rate were shared 50:50 between the employee and the employer, this would mean an additional worker contribution today of 1.95 per cent.

Figure 6.11 shows the reduction in the cost of the contributory component as a percentage of insurable earnings and the tax-financed component as a percentage of GDP under the base, constant and extension growth scenarios based on the assumptions used in the actuarial report. (The constant scenario assumes no change.)

Figure 6.11: Cost of contributory (% insurable earnings) and tax-financed (% GDP) child benefit components, age eligibility 0–15, Viet Nam



Under the constant coverage rate scenario, the covered population is smaller and older than that under the base scenario as the number of new entrants is assumed to be lower. A smaller covered population reduces the contribution base and the resulting older population has fewer eligible children. These factors have opposite effect on the cost. Their combined effect on the cost is very small. Under the scenario with higher coverage rate than under base scenario, the alternative covered population is larger and younger. A larger covered population increases the contribution base and a younger population brings in more eligible children. The combined effect of these factors reduces the cost.

However, the cost in the near to immediate term of a contributory child benefit would reduce even more quickly – declining to reach a total contribution of just 1.3 per cent by 2030 — if new regulations governing the calculation of insurable earnings are implemented and enforced, as explained in box 6.1.

Box 6.1: High sensitivity of the cost of a contributory child benefit to insurable earnings

As the child benefit is defined as a fixed amount indexed to inflation, its cost as a percentage of the insurable earnings is highly sensitive to the evolution of the salary subject to contributions. In Viet Nam, social security contributions and the determination of benefits theoretically consider the base salary plus wage-related allowances and any other additional amounts. In practice, however, employers and employees tend to under-declare earnings for social insurance purposes, generally limiting their declaration to the base salary to reduce their contribution burden.

Currently, the insurable earnings used to calculate contribution varies according to whether the worker is in the public or private sector.

For public sector workers, the components subject to social insurance contributions include the basic salary (VND1,390,000); a position allowance determined by applying a coefficient that varies according to the civil servant's function; and seniority pay (if any). A series of other allowances are paid. Resolution No. 27-NQ/TW (Government of Viet Nam, 2018b), recently adopted, will modify the salary structure of the public sector. Starting in 2021, the basic salary will no longer be applicable, there will be five salary categories, and different allowances will be eliminated. The new salary structure could potentially contribute to a full declaration of earnings for social insurance purposes in the public sector.

For private-sector workers, remuneration consists of:

(1) base salary, reflecting position and experience;

(2) allowances, which include

  (a) allowances for working conditions (seniority, hardship, complexity) and

  (b) allowances related to outputs (performance bonuses); and

(3) extra payments, which include

  (a) payments specified in the contract and

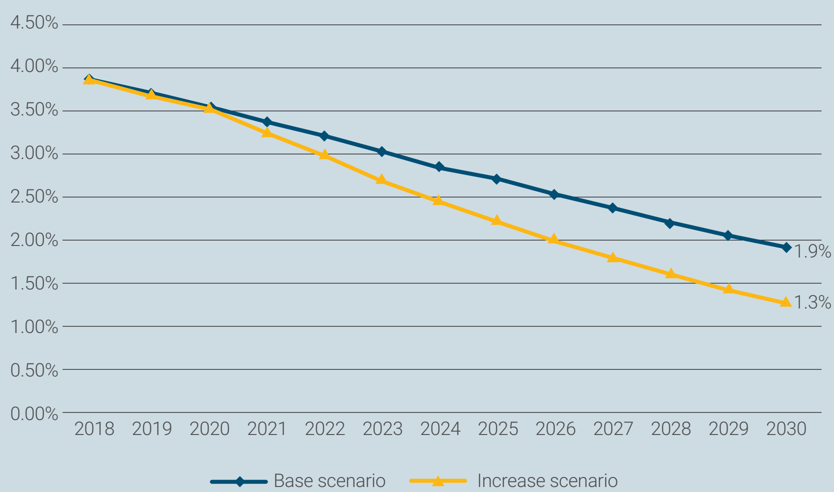
  (b) payments not specified in the contract (separated into frequent and infrequent payments.

Currently, only components 1, 2a and 3a are specifically identified in the contract and therefore taken into account when calculating social insurance contributions, potentially excluding large proportions of a worker's remuneration in the form of bonuses and extra unspecified payments. Resolution 28-NQ/TW amends the regulations governing the basis for calculating social insurance contributions for the private sector by requiring that at least 70 per cent of the total salary and other income be taken into account.

Taken together, these regulations, if enforced, offer great potential to curb social insurance evasion and improve the actuarial soundness of the VSS going forward. Further, the implications for the projected cost of a contributory child benefit are significant. Figure 6.12 presents the projected cost of providing the contributory child benefit under the compulsory insurance (monthly benefit of VND350,000 per child in 2018 indexed to inflation from 2019) according to two scenarios of insurable earnings:

- **Base scenario:** The current declared level of insurable earnings is assumed to continue in the future.
- **Increase scenario:** The current declared level of insurable earnings is assumed equal to 60 per cent of total insurable earnings. It is assumed to increase to 100 per cent of total insurable earnings over the period 2021–30.

Figure 6.12: Projected cost of contributory child benefit as a percentage of insurable earnings under base and increased insurable earnings scenarios, Viet Nam



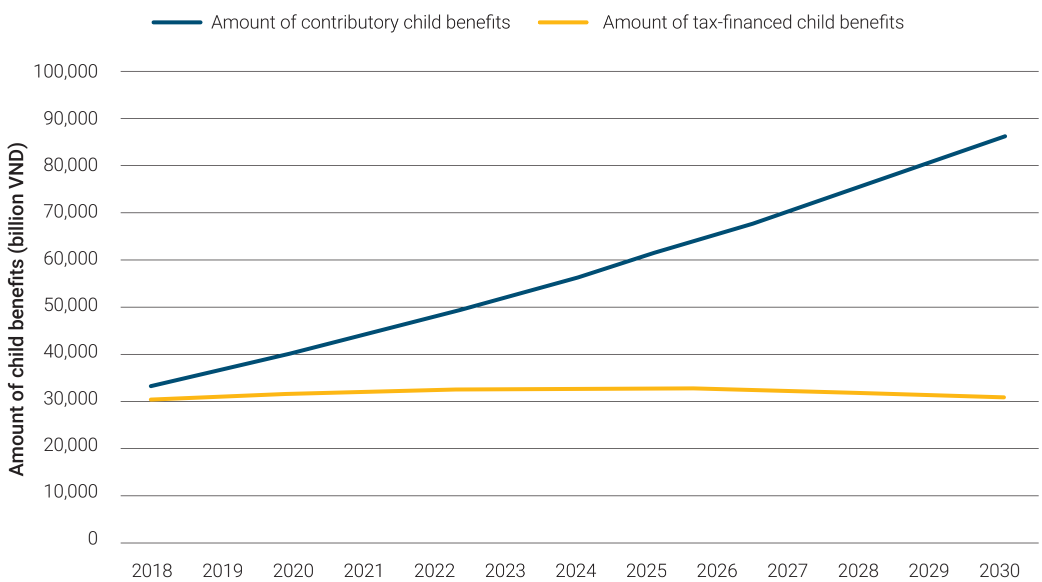
As figure 6.12 shows, if 100 per cent of an employee's earnings are taken into account, a contributory child benefit would cost significantly less than under current insurable earnings assumptions by 2030. In addition, the divergence between the two scenarios would continue well into the future, where the child benefit could cost as little as 0.5 per cent of insurable earnings by 2050.

Therefore, it may be wise – for political purposes and taking into account the impact on workers and employers of additional contributions – to consider initially setting the contribution at a lower rate than would be fiscally required (say, at 1 per cent), while keeping the rate constant going forward. In this way, an initial subsidy would not only pay for itself over time, but it could provide additional resources for the fund over the longer term, turning a deficit into a surplus.

82 Both scenarios are for a contributory child benefit covering all children aged 0–15 years.

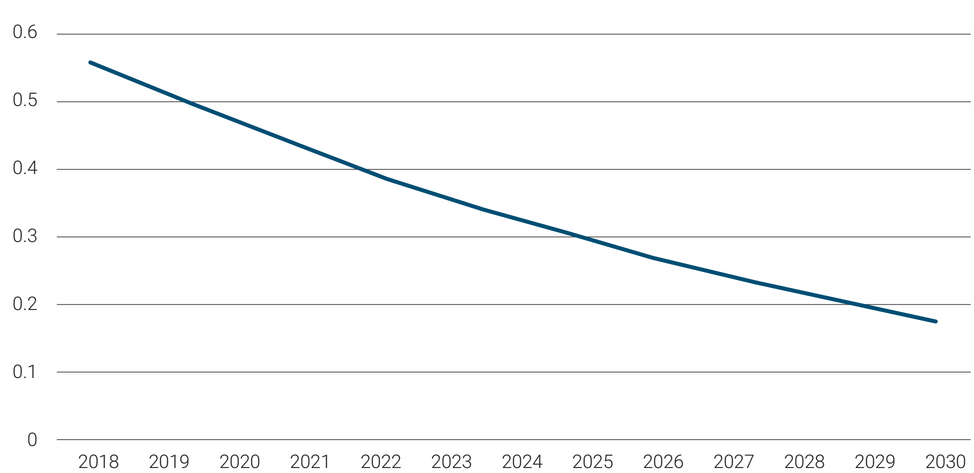
One of the more appealing features of a multi-tiered child benefits model with a benefit-tested (as opposed to universal) tier-1 benefit is that, as social insurance membership increases, the future obligations for the tax-financed benefits fall over time. This effect can be captured by looking at the projected overall amount of child benefits expected to be paid to 2030 under a tax financed benefit of VND175,000 and a contributory child benefit of VND350,000. As benefits increase under the contributory component, they remain relatively constant for the tax-financed component, as figure 6.13 shows.

Figure 6.13: Projected total amount of child benefits to be paid under the contributory (VND350,000) and tax-financed (VND175,000) tiers, Viet Nam, 2018–30



The actuarial projections also predict that the relative cost of the child benefit, when measured as a percentage of GDP, will decline over time, as shown in figure 6.14.

Figure 6.14: Projected cost of the tax-financed (VND175,000) tier (% GDP), Viet Nam, 2018–30



Therefore, while further research will be required to forecast costs based on preferred options for parameters, this analysis has demonstrated that a multi-tiered child benefit like the one proposed is both feasible and cost effective over time. It offers the Government of Viet Nam a practical way of achieving its coverage targets, while also improving the comprehensiveness of the existing social security system through the provision of a benefit for families and children.

7. Implications for designing a child benefits system in Viet Nam

The Government of Viet Nam has already expressed a commitment to gradually introduce a universal child benefit to all children up to age 6. However, the form the benefit will take is far from clear. Moving forward, key first-order questions that must be asked include:

(1) **What is the benefit's intended (core) purpose?** Decisions around the value and design of the benefit scheme will be driven by the Government's ultimate policy objectives. This paper has put forth that child benefits can help: (1) equalize the fiscal situation of parents and families with children, with positive implications for children's well-being; and (2) encourage participation in the social insurance system via a multi-tiered design. However, additional objectives may be considered.

(2) **What are the key constraints that may impact design?** For example, concerns about the availability of resources may drive a decision to implement a multi-tiered benefit-tested scheme, where tax obligations should reduce over time, rather than a strictly universal scheme.

7.1 Design parameters

Once these first-order questions are answered, policy makers must consider certain key design questions. These are laid out in the following paragraphs, following by a brief discussion and broad policy recommendations.

(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?

In this paper, we have analysed a benefit-tested tier 1 child benefit as a way to reduce costs of the tax-financed tier over time, as VSS membership rises. However, a universal flat-rate benefit, such as the one shown in figure 5.3, is another option. In the universal tier-1 model, an adequate tier-1 benefit still guarantees a right to social protection for all children, and the higher-rate tier-2 benefit still preserves the incentive to join social insurance; however, the future liability for the tax-financed benefit remains constant. At the same time, the cost of financing the contributory component would be less.

(2) **Financing:** How will the tier 1 benefit be financed? Via general revenues? An earmarked tax? If multi-tiered, how will the tier 2 social insurance benefit be financed? With an additional contribution from employees? Employers? Both? Or will further reforms be necessary to create space to either reduce or participation by lower income workers?

According to the costing analysis, the total contribution required to finance the proposed contributory component of the multi-tiered child benefit in 2018 would be 3.9 per cent (for a full coverage benefit for children aged 0–15), while a government contribution would gradually fall over time in line with the projections of growth for the VSS used in the system's 2018 actuarial report. The contribution could be borne entirely by the employer, or it could be shared. A 50:50 division would mean the average VSS member would face an additional contribution of 1.95 per cent.

Importantly, the costing did not consider the additional contribution subsidy that might be required to bring VSS membership within reach for more working parents in the informal economy, particularly those working as non-wage earners who would incur an exorbitantly high contribution burden. On the other hand, the costing has also not considered the potential impacts of additional VSS membership growth due to the addition of a contributory benefit, which could, over time, substantially offset these liabilities and will require further analysis (see also the discussion of benefit values, below).

In addition, a full appreciation of the costs of the system will need to account for the long-term benefits that derive from investing in children — the future labour force — through social protection.

(3) **Eligibility:** Which age groups will be targeted? Will there be a gradual increase in the eligibility age of children to eventually achieve coverage of all children up to age 16? Will there be a minimum qualifying period for contributions for the tier 2 benefit?

In this paper, we have provided costs for a child benefit that could be paid for up to three children per family, which recognizes the likelihood of economies of scale with additional children. However, because the fertility rate is close to 2.0, lifting this limit would make little difference to the overall costs, while paying a benefit in respect of every child would make a big difference to a larger family's household budget and is consistent with a rights-based framework.

A minimum qualifying period for a child benefit could be a way of solidifying the insured's relationship with social insurance system and building the fund's resources, while also reinforcing the principle that higher-level benefits enjoyed by insured persons are earned. One possibility is to align the minimum contribution period to the maternity benefit (i.e. 6 months of contributions in the previous 12 months), so that new parents with sufficient contributions in effect receive a generous looking package of family benefits upon the birth of their child, which returns to the value of the child benefit after the 6-month period of maternity leave. However, imposing qualifying periods for a child benefit potentially weakens the immediate attractiveness of the benefit and could further discourage people from joining, especially those with unstable incomes.

(4) **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?

In this analysis, we have used percentages of existing official reference values (MOLISA poverty line and basic salary) as well as GDP per capita, which was invoked in the MPSARD action plan. They are, however, significantly lower than the (very rough) estimate of VND600,000 given for the marginal cost of a child whose parents work in the informal economy. Further research on the adequacy of the values proposed here is recommended. In particular, in-depth research (including quantitative and qualitative research on the key drivers of household and labour market decisions in the informal economy), as well as microeconomic analysis begin to identify a value (or difference in values) that acts as the tipping point at which a higher-value benefit is likely to be effective as an incentive.

Whether or not to vary the value of the child benefit according to the number or birth order of the child ultimately depends on the Government's policy objectives. As argued previously in this paper, once a child benefit system is in place, child benefits may be leveraged to influence decisions about fertility. Increasing the benefit amount with each additional child or delaying payment until the birth of a second child could encourage higher fertility, while decreasing the benefit amount or placing an upper limit on the number of qualifying children per family can discourage fertility.

Earnings-related benefit rates are rare around the world. Progressive scales such as Argentina's (see box 4.3), where benefit amounts are inversely related to the contributor's income, are intended to introduce solidarity by redistributing resources from higher earners to lower earners. However, the Argentine experience demonstrates the built-in disincentive to formalize this creates, especially in a multi-tiered system. A directly proportional relationship between earnings and benefits would avoid this but would also bring few other benefits and unnecessarily introduces administrative complexity, so is not recommended.

(5) **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?

This is a central question in the context of Viet Nam's social protection reform context. Especially when designing a system from scratch, a multi-tiered child benefit is best viewed as one unified scheme rather than two separate schemes (one social insurance and one social assistance). Generally speaking, the fewer agencies involved in administering benefits, especially under the same contingency, the better. Currently, there is no fully integrated information management system in operation in Viet Nam's social protection system; therefore, separating the administration of the tax-financed from the social insurance component would create a risk that two separate information management systems would develop, not only increasing the costs and barriers to coordination and communication but, most importantly, decreasing the likelihood that beneficiaries of the tax-financed benefit would be made aware of the possibility to join the VSS.

On the other hand, centralizing the administration of both child transfers creates the potential for significant administrative economies of scale, including one-stop public information operations, a single registration mechanism, and a single payment mechanism, among others. Starting from scratch with the single agency administration of a multi-tiered child benefit could also effectively serve as a test case for the merging of other income transfers under the VSS. Indeed, the VSS could become the management agent of all social security schemes in Viet Nam, as it has done quite effectively in key aspects of health insurance expansion. In fact, the premium subsidy scheme for health insurance arguably owes its success to the same principle that underpins the multi-tiered child benefit: that benefits are provided immediately upon enrolment.[83]

83 Premium subsidies for health insurance are also significantly higher (100 per cent for those designated as poor, and 70 per cent for the near-poor) than contribution subsidies for general social insurance: see Somanathan et al. (2014), ISSA and SSA (2016–20) and Ministry of Health (MOH) (2016).

8. Conclusion

Most countries have not had the advantage of starting from scratch with respect to mapping out a system of support in respect of children, but rather, must graft programmes atop what are often complex family policy legacies. While there is a certain degree of fragmentation in Viet Nam's social protection system, particularly with respect to the social assistance system,[84] policy makers have a relatively clean slate to begin to lay the groundwork for a multi-tiered child benefit system that not only serves all citizens — since everyone either was a child, will have or care for children, or will one day depend on today's children for care contributes to its growing economy — but also reinforces the goal of growing the social insurance system.

Indeed, the time is ripe for discussions to move forward towards implementing a child benefit to reach everyone in Viet Nam. In the context of the recently approved MPSIR and MPSARD, a multi-tiered child benefit has the potential to align the two separate processes by focusing on the convergence of long-term objectives expressed in both proposals. Through a multi-tiered child benefit, the vision expressed in Resolution 28 of "social insurance for all" becomes at once consistent with the MPSARD's roadmap to expanding tax-financed social assistance transfers.

84 For a review of the social assistance system in Viet Nam, see Kidd et al. (2016).

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Annex I: Accompanying methodology note: Microsimulation model of child benefits and social pensions in Viet Nam

Annex I: Table of contents

A1 Introduction

Development Pathways has designed an ex-ante microsimulation model to analyse the welfare effects of reforms on Viet Nam's social security system. The model can be used to examine the potential effects of: (a) introducing a two-tiered child benefit with a contributory and tax-financed component; (b) changing the employee contribution rate to social insurance; and (c) reforming the social pension for older people. This background note provides an overview of the data and methods used to develop the microsimulations and the web app.

A2 Methods

This section describes the survey used to develop the microsimulation model; how data was processed to derive critical variables and estimate the welfare effects of reforms; and the post-stratification process.

A2.1 Survey data

The analysis used microdata from Viet Nam's 2016 Household Living Standards Survey (VHLSS), supplied by General Statistics Office (GSO) of Viet Nam. The GSO has conducted the VHLSS biennially since 2002 to systematically monitor the living standards of different population groups in the country and progress towards achieving national and international socio-economic goals.

The VHLSS 2016 was conducted nationwide with a sample size of 46,995 households in 3,133 communes and/or wards which were representative at national, regional, provincial, urban and rural levels. The microdata supplied by the GSO for the microsimulation model consists of a smaller subsample of nearly 9,400 households with 35,790 household members that were administered a longer household income and expenditure questionnaire than the rest of the sample.

The survey questionnaires and data files for the VHLSS 2016 were available only in Vietnamese. To convert them into English, we relied on Google Translate and comparisons with older VHLSS questionnaires that had already been translated.

A2.2 Data processing

The survey data had to be further processed to clean and compute a range of variables required for the microsimulations.

A2.2.1 Linking children to their parents

For children under 16 years of age, we can identify the mother, father or main caregiver in the VHLSS 2016 if the parent is residing in the same household (question 1.A.7 in the household roster records the line number of the parent of the child). A cleaning algorithm was developed to conduct logical checks to identify inconsistent or implausible responses and make corrections. For example, if a child's reported mother was male and the child's reported father was female, the algorithm would swap the person identifiers for the mother and the father.

A2.2.2 Identifying contributors to social insurance

It is assumed that workers reported to be entitled to social insurance are contributing to the VSS (question 13.c from module 4.a on employment, salaries and wages). The VHLSS does not ask about the amount of social security contributions paid. Workers' contributions were therefore estimated on the basis of the reported regular (net) wages received from their main job in the last 12 months (question 11 from module 4.a). This includes salaries and wages received in cash and in kind but excludes other payments such as bonuses or allowances for travel. We then calculated the worker's amount of contributions paid based on the net salary and the prevailing employee contribution rates (8 per cent for old-age, disability and survivor insurances and 1 per cent for unemployment). Employers' contributions are not taken into account in the model. Data values were converted into monthly averages.

A2.2.3 Identifying recipients of contributory pensions

The VHLSS questionnaire asks if people "received unemployment benefits, one-off severance pays, pensions, allowance for loss of working capacity over the past 12 months" (question 27 of module 4.a) and then records how much was received from each of the schemes. All household members reporting non-zero income from the standard pension are classified as a recipient of the VSS pension. Data values were converted into monthly averages.

A2.2.4 Identifying recipients of social pensions

The VHLSS did not ask whether individual household members were receiving a non-contributory, social pension or old-age allowance. The questionnaire did, however, collect information on the receipt of social allowances at the household level. We used this information – together with the official eligibility criteria described in the Government of Viet Nam's decree on social assistance – to identify likely recipients of social pensions.

In particular, it is assumed that household members aged 60–79 years are receiving a social pension if they fulfilled the following three conditions: (a) they live in a household receiving social allowances; (b) all household members are above the retirement age; and (c) the household has been on the 'poor list' at least once in the last five years. For people aged 80 years and above, it was assumed that they receive a social pension if: (a) they do not receive a contributory pension; and (b) their household receives income from social allowances.

We cannot directly observe the transfer value of social pensions for individuals in the survey dataset. Therefore, it is assumed that the existing social pension has a monthly value of VND405,000 for those aged 60–79 and VND270,000 per month for recipients aged 80 and older.

A2.2.5 Generating stratifiers and covariates

These variables were computed from the responses to the different survey modules in the VHLSS 2016. We constructed unique household identifiers and person identifiers so that different microdata files could be linked and merged with personal information from the household roster. To the maximum extent, variables were constructed following standardized approaches; for example, labour market indicators follow ILO guidelines whenever feasible.

A2.3 Post-stratification

There are significant discrepancies in the population estimates for Viet Nam from different sources, particularly when looking at specific age groups (see table A1). According to the ILO's actuarial model, Viet Nam had 6.2 million people aged 65 and above in 2016. The latest projections from the United Nations Department of Economic and Social Affairs (UN DESA) put the number of people over age 65 at 6.5 million in 2016; while the (weighted) estimate derived from VHLSS 2016 is 8.3 million. In other words, the survey estimate is significant higher when using the VHLSS 2016 with the household design weights included in the microdata. In discussion with ILO, it was decided to reweight the survey data and develop post-stratification weights to bring the age-structure of the survey data in line with the age-structure used by ILO's actuarial model for Viet Nam.

Table 6.5: Parameter options for a multi-tiered child benefit, Viet Nam

Population group	VHLSS				UN DESA World Population Prospects		ILO Viet Nam actuarial model	
	Unweighted		Design weights					
Age	Number	Per cent	Number	Per cent	Number	Per cent	Number	Per cent
0–4	2 901	8.1	7 505 301	8.0	7 760 728	8.2	7 817 724	8.4
5–9	2 843	7.9	7 229 621	7.8	7 371 770	7.8	7 280 387	7.9
10–14	2 919	8.2	7 389 295	7.9	6 691 083	7.1	6 963 243	7.5
15–19	2 703	7.6	6 931 815	7.4	6 747 684	7.1	6 964 239	7.5
20–24	2 588	7.2	6 679 343	7.2	8 537 417	9.0	8 250 226	8.9
25–29	2 432	6.8	6 424 274	6.9	8 774 927	9.3	8 240 929	8.9
30–34	2 520	7.0	6 589 337	7.1	8 096 325	8.6	7 625 334	8.2
35–39	2 522	7.1	6 606 519	7.1	7 288 017	7.7	7 022 657	7.6
40–44	2 566	7.2	6 627 032	7.1	6 743 748	7.1	6 526 142	7.0
45–49	2 473	6.9	6 365 833	6.8	6 110 323	6.5	6 107 463	6.6
50–54	2 533	7.1	6 740 312	7.2	5 557 563	5.9	5 559 565	6.0
55–59	2 145	6.0	5 786 024	6.2	4 788 301	5.1	4 788 075	5.2
60–64	1 541	4.3	4 117 196	4.4	3 553 230	3.8	3 432 275	3.7
65–69	1 034	2.9	2 806 371	3.0	2 078 276	2.2	2 109 030	2.3
70–74	603	1.7	1 645 271	1.8	1 395 385	1.5	1 435 660	1.5
75–79	574	1.6	1 517 499	1.6	1 145 642	1.2	1 149 113	1.2
80–84	449	1.3	1 190 364	1.3	956 238	1.0	732 859	0.8
85–89	280	0.8	751 365	0.8	571 178	0.6	434 271	0.5
90+	161	0.5	436 670	0.5	401 237	0.4	301 113	0.3
Total	**35 787**	**100.0**	**93 339 442**	**100.0**	**94 569 072**	**100.0**	**92 740 305**	**100.0**
65+ years	3 101	8.7	8 347 540	9.0	6 547 956	6.9	6 162 046	6.6
80+ years	890	2.5	2 378 399	2.6	1 928 653	2.0	1 468 243	1.6

A2.4 Simulating welfare effects of reforms

The measure of welfare used in the model is household income per capita. The simulations of welfare effects follow a three-step process. First, we compute pre-transfer income, excluding transfers from the current social security system. Next, we increase the income of those households with individuals eligible for a transfer under the simulated scenarios. Finally, we calculate aggregate measures to describe changes in the income distribution at the aggregate level. All relevant variables are expressed on a monthly basis and equivalised to per capita income.

The simulation model considers first-order effects on household income only and does not take into account potential second-order effects on, for example, individual behaviour or spill-over effects to the local economy.

A2.4.1 Baseline income

The VHLSS 2016 microdata include a file with aggregate household income and expenditure variables pre-processed by the GSO. The income variable was winsorised to deal with extreme and implausible values. Household incomes exceeding ten times the median-household income were top-coded while negative incomes and those smaller than the first percentile were bottom-coded. Annual household income was converted to average monthly income and equivalised by dividing it by the number of household members to obtain monthly per capita household income.

A2.4.2 Pre-transfer income

A pre-transfer income variable is created by deducting income from the current social pension from total household income. When simulating changes to employee's contribution rates, we also estimate the net wage of contributors under the new assumption and re-calculate household income.

A.2.4.3 Post-transfer income

We calculate the income that household would receive from transfers under the simulated scenarios; by multiplying the transfer value with the number of eligible individuals in the household. Transfer values are deflated to 2016 prices using the annual average consumer prices index from the GSO for 2016 and 2017 and CPI estimates by the International Monetary Fund for the period 2018 to 2021.[85] The income from transfer is then added to the pre-transfer income variable.

A2.4.4 Summary measures of change

The welfare effects of reforms are analysed by comparing summary measures of the distribution of baseline income with the distribution of post-transfer income. Key measures include, among others, the average change in nominal income among

85 International Monetary Fund, World Economic Outlook Database, October 2018.

recipients and the general population and changes in the Foster-Greer-Thorbecke class of poverty measures (headcount ratio, poverty gap, and severity of poverty). Different poverty lines were used: MOLISA's poverty line of VND700,000 in rural areas and VND900,000 in urban areas; MOLISA's near-poverty line of VND1 million and VND1.3 million in rural and urban areas, respectively; and international poverty lines of PPP $3.20, PPP $5.50 and PPP $11.00 per person per day. The simulation model also estimates effects on income-inequality as measured by the Gini coefficient.

A3 User version of model

The microsimulation model was used to conduct analysis for the papers on social pensions and child benefits that Development Pathways prepared for the ILO Country Office for Viet Nam. In addition, a simplified version was made available online to enable staff from the ILO, MOLISA and other stakeholders to engage interactively with the model by specifying parameters related to programme eligibility criteria, levels of coverage and transfer values. The online version is meant to help illustrate the simulations and give users the ability to try out some basic scenarios.

A3.1 Software

Modelling is done in R, a programming language and software environment for statistical computing and graphics. The R package Shiny was used to build an interactive online web app. Shiny offers a framework for developing interactive charts, data visualizations and applications to be hosted on the web. The app is hosted on a virtual private server from the cloud computing platform DigitalOcean.

A3.2 Inputs

Users of the online model can change the following parameters:

- Employees' contribution rate for social insurance: The default is set at 9 per cent, but users can set it anywhere between 0 and 30 per cent.
- Two-tiered child benefit: Users can manually set the age of eligibility (up to 15) and define transfer values. Different values can be specified for the tax-financed child benefit and the contributory benefit.
- Pension-tested social pensions: Users can change the age of eligibility and transfer value.

A3.3 Results

After tweaking the input parameters, the dashboard shows the estimated coverage and impacts on household income, poverty and inequality among recipients and the general population. Key terms include:

- Purchasing power: the estimated change in nominal household income as a result of the simulated social protection programmes among recipients and among the total population.
- Poverty: the estimated reduction in levels of poverty among recipients and among the general population as measured by the Foster-Greer-Thorbecke class of poverty measures (headcount ratio, poverty gap, and severity of poverty) using different poverty lines.
- Inequality: the estimated reduction in inequality as measured by the Gini coefficient.
- Coverage: the share of people eligible for the simulated programmes across pre-transfer income percentiles.

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