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Expanding Social Insurance Coverage in Viet Nam - The Case for the Introduction of a Multi-Tiered Child Benefit



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01 Introduction

This policy brief is based on a series of technical documents prepared by the ILO¹ to support the policy dialogue related to the implementation of Party Resolution 28-NQ/TW on the Master Plan on Social Insurance Reform (MPSIR)² of 2018 and the ongoing revision of the Social Insurance Law (2014).

The focus of this brief is on the introduction of a multi-tiered child benefit in Viet Nam's social security system. A multi-tiered child benefit, in the case put forth in this document, has 2 tiers:

- **First Tier:** a benefit-tested tax-financed tier that provides minimum but adequate support to those who are unable to afford social insurance contributions;
- **Second Tier:** a higher level benefit paid to all those who are able to contribute to social insurance either through the compulsory or the voluntary social insurance scheme.

The goal of this policy brief is to summarize the rationale for the introduction of a multi-tiered child benefit in the Vietnamese social security system. It will discuss the multiple dimensions of social security in which it can have a positive impact if introduced in Viet Nam, while highlighting its alignment with the objectives established by Resolution 28-NQ/TW. Furthermore, the multi-tiered structure of the benefit put forth in this document is closely linked to the goal of Resolution 28-NQ/TW MPSIR of establishing a stronger connection between contributory and non-contributory social security schemes, while also promoting steps towards the achievement of the goals set forth by Decision 488/2017/QD-TT on the Master Plan on Social Assistance Development and Reform (MPSARD).

The policy brief makes the case that the incorporating a multi-tiered child benefit in Vietnamese social security system would not only have a very positive and long lasting impact on children, but can also unlock a variety of indirect benefits for the broader social insurance system and, ultimately, the national economy and society.

02 Social Insurance Challenges in Viet Nam

Viet Nam's social insurance system is composed of a compulsory social insurance scheme and a voluntary one. The compulsory social insurance scheme is directed to Vietnamese citizens employed with a contract of more than one month (public and private sector),

as well as military and defence workers. The voluntary social insurance scheme is oriented to Vietnamese citizens (aged 15 years or older) who are not covered by the compulsory scheme³. The system provides an unequal and incomplete selection of family-oriented

1 This paper has benefited greatly from the following key reports: ILO, 2019: Shea McClanahan, Bjorn Gelders and Betina Ramírez López, *Focus on families, a short-term benefit package for the extension of multi-tiered social security coverage in Viet Nam*; ILO, 2021: Betina Ramírez López and Camila Arza, *Adapting social insurance to women's life courses: A gender impact assessment of Viet Nam*; ILO, (forthcoming), *Report to the government: Actuarial valuation as at 31 December 2019 of long-term benefits administered by the Viet Nam Social Security Organization*.

2 Communist Party's Central Committee Government of Viet Nam: Resolution No. 28-NQ/TW dated 23 May 2018, of the Seventh Plenum of the XII Central Committee on Social Insurance Policy Reform (Ha Noi, 2018).

3 Compulsory scheme offers benefits for retirement, survivors, sickness and maternity, labour accident or occupational disease (LAOD), and unemployment.

benefits – one that includes cash maternity/paternity benefits under the compulsory system but not under the voluntary system, and which lacks child or family benefits in either system. In fact, family benefits are one of the only two contingencies from the ILO Social Security (Minimum Standards) Convention, 1952 (No. 102) that is not covered in the social insurance system in Viet Nam as of 2021. Moreover, the absence of maternity/paternity benefits in the voluntary system is another gap that generates an inequality in entitlements between the two contributory systems.

To compound to these gaps, Viet Nam’s social insurance system’s effectiveness is also limited by relatively low levels of coverage. Therefore, the system currently not only fails to accommodate key lifecycle risks associated with family life, but it also leaves out millions of vulnerable families and children, particularly those in the “missing middle”. Furthermore, such combination of factors can lead to gender gaps in social insurance coverage⁴, as well as compromise the social and financial sustainability of the social insurance system in mid- and long-term (in part due to the overreliance of workers on lump-sum payments to cope with uncovered risks through the life cycle such as child birth).

Despite the fact that not all the challenges are immediately nor simultaneously felt, they required urgent and comprehensive policy action, particularly in light of the rapid pace of population ageing in Viet Nam.

The following sections try to briefly summarize some of the key issues limiting the effectiveness of the social insurance system in Viet Nam.

The extension of effective coverage remains challenging

Despite a legal framework that theoretically offers full coverage under the compulsory and voluntary social insurance systems, some 70 per cent of workers in Viet Nam do not contribute to the social insurance system. Thus, despite a decade of continuous coverage growth, by 2020, social insurance coverage in Viet Nam is estimated to sit at only 30 per cent⁵.

The voluntary contributory pension scheme has shown not to be effective in closing coverage gaps

While the voluntary social insurance scheme aims at covering workers without compulsory coverage, it has only reached around 1 million people in 2020 – equivalent to 1.8 per cent of 54,6 million active labour force participants from the age of 15.⁶ Viet Nam’s experience, as well as international experiences, illustrate the limited effectiveness of voluntary schemes for the extension of coverage.

One of the issues hindering the fast take-up of the voluntary system is that the voluntary system is not affordable and may not be attractive enough for those it is intended to reach. The voluntary system is designed for workers without a formal employment relationship (such as self-employed workers). In reality, however, many workers with informal jobs are wage earners. Specifically, these workers have employers, but according to current regulations for social insurance contributions, they are considered as self-employed, meaning that they have to assume the contributions on behalf of both the employer and the employee. This situation results in the difficulties for large-scale take-up of the voluntary scheme. According to ILO

4 ILO, 2021: *Betina Ramírez López and Camila Arza, Adapting social insurance to women's life courses: A gender impact assessment of Viet Nam.*

5 ILO, (forthcoming), *Report to the government: Actuarial valuation as at 31 December 2019 of long-term benefits administered by the Viet Nam Social Security Organization.*

6 The presented figures are estimated based on VSS and GSO data 2020.

calculations, paying a contribution to the voluntary social insurance scheme would push 32 per cent of wage-earners and 19 per cent of non-wage earners into near-poverty situations.⁷

Gender gaps remain significant in social insurance outcomes

In 2019, only 16 per cent of women aged 65 and over receive a social insurance pension, compared to 27.3 per cent of men. At the same time women's contributory histories are, on average, four years shorter than those of men. As a consequence, in 2019 the value of men's

pensions exceeded women's pensions by an average of 19.8 per cent.

High take-up rates of lump-sum payments continue to be observed

The high take-up of lump sums in the Vietnamese system is significant because it affects the accumulation of contribution records. In Viet Nam, it is particularly concerning that women make up the majority of recipients of termination lump sums taken after one year of discontinued insurance: in 2019, about 69 per cent of lump-sums were taken by women younger than 35.

03 A multi-tiered child benefit for Viet Nam

The Government of Viet Nam has placed the social insurance system at the centre of its plans for social protection expansion. Resolution No. 28-NQ/TW sets the ambitious target of covering 60 per cent of the working age population by 2030, with the eventual goal of achieving "social insurance for all".⁸

The ILO has worked closely with MOLISA since 2019 to identify different policy options that can contribute to the achievement of the goals established by Resolution No. 28-NQ/TW. One of the policies identified as having great potential for impact is the introduction of a multi-tiered child benefit. This benefit can offer an innovative solution and contribute to the achievement of several of those goals, as well others set forth by other major social protection reform masterplans of Viet Nam such as the MPSARD.

Designing a multi-tiered child benefit

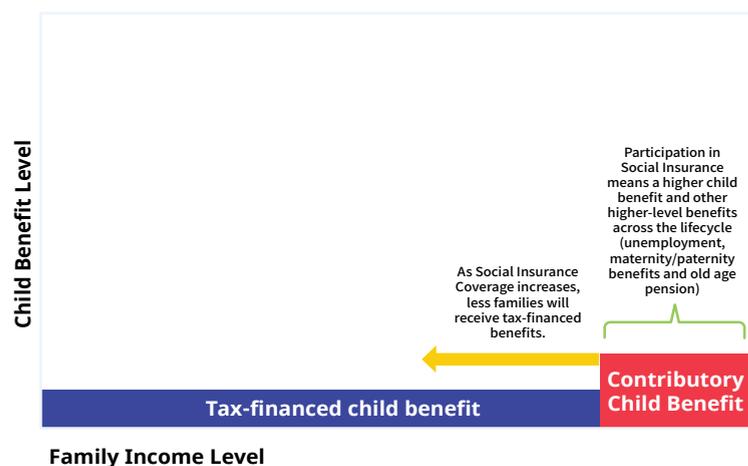
Figure 1 depicts a multi-tiered family benefit system consisting of:

- **Tier 1** – a benefit-tested tax-financed tier that provides minimum but adequate support to those who are unable to afford social insurance contributions. In this case, the benefit level is of VND140,000 per child per month and;
- **Tier 2** – a higher level benefit paid to all those who are able to contribute to either the compulsory or the voluntary social insurance system, with a benefit level of VND350,000 per child per month.

⁷ ILO, 2019: *Focus on families, a short-term benefit package for the extension of multi-tiered social security coverage in Viet Nam*

⁸ Communist Party's Central Committee, Resolution No. 28-NQ/TW dated 23 May 2018, of the Seventh Plenum of the XII Central Committee on Social Insurance Policy Reform (Ha Noi, 2018).

Figure 1: A multi-tiered child benefit



Sources: ILO, 2019: *Focus on families, a short-term benefit package for the extension of multi-tiered social security coverage in Viet Nam*

A recent ILO report explores four different age eligibility scenarios for children, including an option that would cover all children aged 0–15, an option that would cover only children aged 0–6, an option covering only children aged 0–3, and an option in which coverage would start with 0–3, each year increasing one year, gradually rising to 0–15.

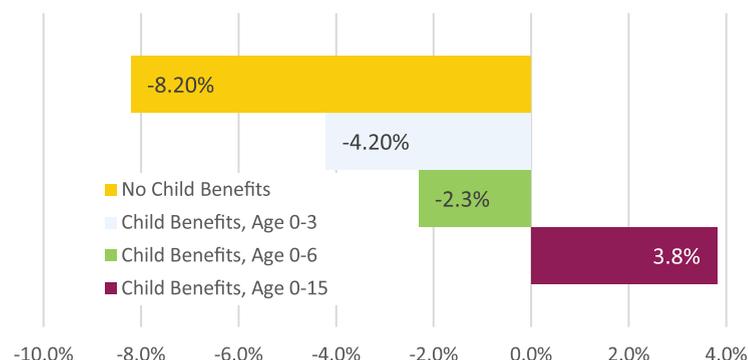
Potential impact of a multi-tiered child benefit

A multi-tiered child benefit could potentially address multiple objectives set out in Resolution No. 28-NQ/TW and other elements of the social protection reform agenda in Viet Nam.

First, the introduction of a child benefit would reduce the weight of contributions to social insurance on families’ net income, thus increasing the attractiveness of the social insurance system. Contributing to social insurance causes an average welfare loss in the present of around 8.2 per cent for all insurable workers and their family members. To encourage contribution, especially contribution to the voluntary scheme, the Social Insurance system should aim at maximizing the gains from participation through

a combination of measures aimed at reducing the cost of joining and making the “offer” more attractive. For instance, providing a monthly child benefit of VND 350,000 for families registered in the social insurance system would turn a welfare loss of 8.2 per cent for all working parents contributing to social insurance, into an average net gain of 3.8 per cent of household income per capita.

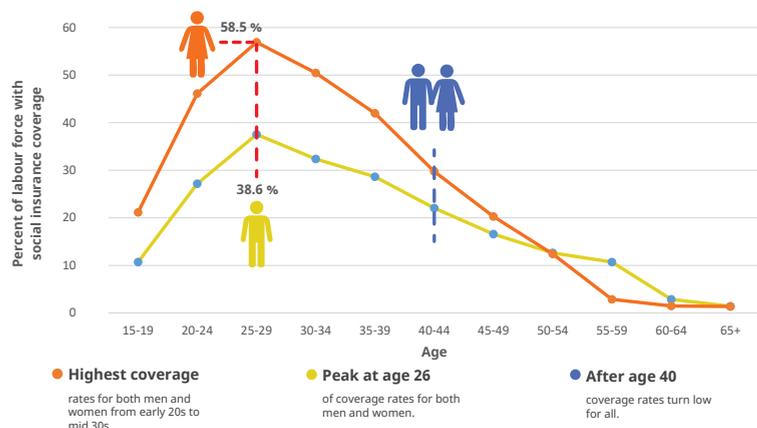
Figure 2: Impact of social insurance participation with a child benefit on workers’ welfare



Sources: ILO, 2019: *Focus on families, a short-term benefit package for the extension of multi-tiered social security coverage in Viet Nam*

Second, a child-benefit can partially address the lump-sum issues and can thus lead to increased social insurance coverage. The withdrawal of lump sums has a real and wide impact on worker’s ability to build sufficient contribution records and qualify for a retirement pension in the future. Limiting withdrawals is essential to ensure more people accumulate sufficient contributions to qualify for pensions. However, lump sums may fill other social protection needs that the system does not meet. For example, lump sum withdrawals may work as a kind of unemployment insurance that helps families cope with job loss or as a financial contribution for the costs of raising children. Introducing a child benefit to the system would help cover some of these costs, thus reducing the pressure on families to make use of lump sum withdrawals, especially for young working mothers.

Figure 3: Social Insurance coverage by age and sex (2019)



Sources: ILO, 2021, Betina Ramírez López and Camila Arza, *Adapting social insurance to women's life courses: A gender impact assessment of Viet Nam*

As can be seen in figure 3, at the age of 26 the participation of women reached, in 2019, 58.5 per cent of the total female population at this age - extremely close to the target of 60 per cent set forth by Resolution 28-NQ/TW. After this peak however, coverage rates reduce considerably for women and men, dropping to 20.3 per cent for women and 16.6 per cent for men in the age bracket 45–49. This singular pattern indicates that many workers enter the social insurance system early in their working lives, but at some point, they drop out. **Designing successful policies to keep these young workers in the system is crucial to achieve an effective coverage expansion.**

Third, the introduction of a child-benefit, can help to achieve the target of 60 per cent old-age income insurance coverage as per Resolution 28-NQ/TW. As discussed above, by 2019, only 20.5 per cent of the population aged 65 and over in Viet Nam receives retirement pensions. Due to the unstable jobs, many workers can not satisfy the qualifying condition of 20 year contributions to be eligible for a retirement pension. Unlike other short-term benefits, which can suffer from adverse selection, a contributory child

benefit that covers all children secures a strong link with old age pensions by bringing workers into the system early in their career and encourages them to remain for as long as they have children. Thus, many more people will meet the contribution requirements for a minimum pension, since all parents would have an incentive to remain registered in social insurance as long as they have children of eligible age.

Fourth, a multi-tiered child benefit can help to narrow gender gaps within Viet Nam's labour market by actively promoting women's formal employment and access to social protection benefits. Child benefits can encourage women to keep their contributions in the system rather than withdrawing lump sums. Introducing a multi-tiered child-benefit can incentivise the inclusion of women into the social insurance system and encourage continued contributions to stay on the scheme long enough to access the old-age pension, while also giving them access to a range of other social insurance system benefits across the lifecycle.

A multi-tiered child benefit can also address gender imbalances within households. The extra income from a child benefit and the increased likelihood of entering/remaining in the labour market is likely to generate indirect benefits for women's position within the household by disrupting traditional gender roles and affording women more bargaining power. However, in addition to empowering women to enter the labour market, it could also empower men to be better integrated into the family unit. By challenging traditionally gendered discourse around family benefits being 'for women', the policy is likely to have broader positive effects by making more visible men's role as parents and carers.

Last, but not least, introducing a multi-tiered child benefit will bring Viet Nam's social security system closer to International Labour Standards. Recent reforms have prioritized improving coverage of older persons in Viet Nam. However, children and people of working age (many of whom are also of

childbearing age) are actually the least likely of all age groups to benefit from the existing social protection transfer system. For instance, social assistance system provides only benefits focused on specific types of children, rather than a conventional child benefit for all children. At the same time, family benefits are one of the only two contingencies from the ILO Social Security (Minimum Standards) Convention, 1952 (No. 102) that are not yet covered in the social insurance system. Thus the introduction of a multi-tiered child benefit would bring Viet Nam’s social insurance system closer to International Labour Standards.

04 The cost of a multi-tiered child benefit

The introduction of a multi-tiered child benefit, even when combined into the most generous package, is not prohibitively costly, as shown in table 1. Regarding the option of age eligibility from 0-15, the tier 1 would cost around 0.37 per cent of GDP in 2020 and fall to 0.22 per cent of GDP in 2030. In the beginning, the tier 2 benefits, with age eligibility from 0-15 would cost 3.4 per cent of insurable earnings (child benefit) and declining to 1.5 per cent in 2030, and further down to 0.5 per cent by 2050.

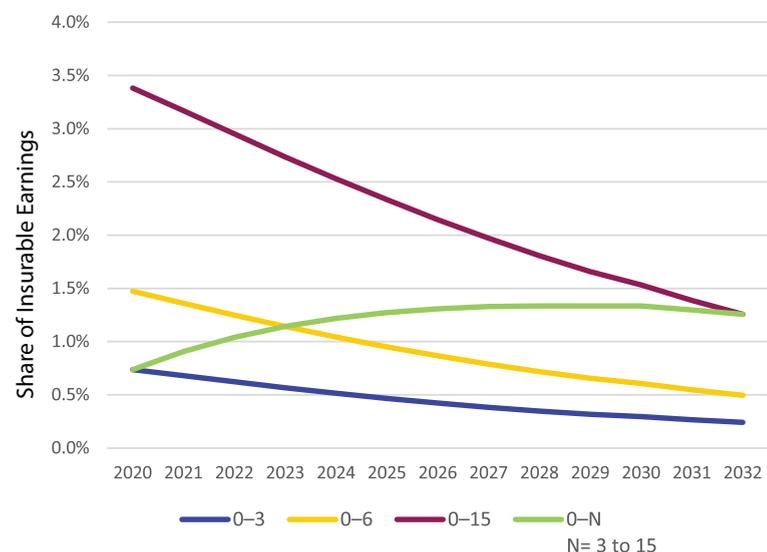
Table 1: Potential cost of a multi-tiered child benefit - Most Generous Version (All children 0-15)

Tier	Potential cost		
	2020	2030	2050
Tier 1 (% GDP)	0.37 %	0.22 %	0.18 %
Tier 2 (% insurable earnings)	3.4 %	1.5 %	0.5 %

Sources: ILO, 2019: *Focus on families, a short-term benefit package for the extension of multi-tiered social security coverage in Viet Nam*

Different cost options for contributory child benefits are also presented in figure 4. Different versions of a multi-tiered child benefit can have significant difference in terms of their cost implications. That being said, it is clear that all options presented represent costs that should not be considered prohibitive, when considering that they would enable the benefits to reach every child in Viet Nam, with long-term impacts through their life cycles, as well as other significant impacts on other components of social insurance presented previously in this document.

Figure 4: Projected cost of different versions of the tier 2 of a multi-tiered child benefit, 2020-30 (% of insurable earnings)



Sources: ILO, 2019: *Focus on families, a short-term benefit package for the extension of multi-tiered social security coverage in Viet Nam*

Conclusion

In recent years, the approval of important documents such as Party Resolution 28-NQ/TW on the Master Plan on Social Insurance Reform (MPSIR) in 2018 and the Decision 488/2017/QD-TTg on the Master Plan on Social Assistance Development and Reform (MPSARD) have set ambitious goals for the future of social protection in Viet Nam. Such targets require wide, decisive and ambitious policy action in order to be met.

This policy-brief makes the case for the introduction of a multi-tiered child benefit in Viet Nam's social security system, as a tool that can contribute to the achievement of several of the goals set forth by those documents.

Such benefits could have a significant impact by reaching every child in Viet Nam, contributing to their health, education, and contribution to society and the country's labour market and economy in the long-run. Furthermore, such benefits can also have a wide range of positive indirect effects on issues such as gender equality, expansion of social insurance coverage and improvement of social insurance system's medium- and long-term financial sustainability.

Based on ILO estimates, evidence is also presented on the affordability of different versions of such benefits in the Viet Nam's social security and public finance context. The optimal design of the benefit, in the context of the on going revision of Viet Nam's Social Insurance Law (2014) will depend not only on the fiscal space available, but also on the combination of other policy measures considered to be introduced as part of that revision.

The ILO remains committed to continue its technical support to Viet Nam, and looks forward to contribute to the fine tuning of such a powerful and important policy tool for the strengthening of Viet Nam's social security system.

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