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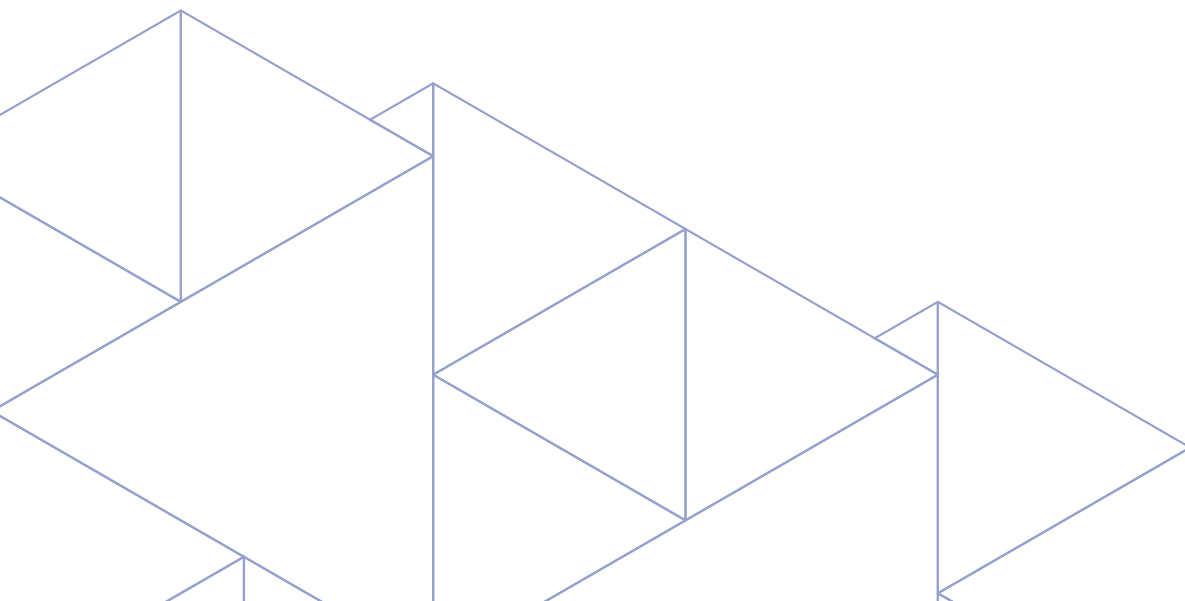


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▶ **The future of social insurance in Viet Nam: Policy options and recommendations**

Andre Gama, Charles Knox-Vydmanov, Nguyen Hai Dat



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First published 2025.



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ISBN: 9789220427224 (print); 9789220427231 (web PDF)

DOI: <https://doi.org/10.54394/NLRW4215>

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Printed in Viet Nam

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## ▶ Acknowledgements

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The report was prepared by André Gama, ILO Social Protection Programme Manager for Viet Nam, Nguyen Hai Dat, ILO National Programme Coordinator for Social Protection in Viet Nam and Charles Knox-Vydmanov ILO's consultant.

The authors wish to thank Nuno Cunha and Markus Ruck, Senior Technical Specialists on Social Protection for the ILO Decent Work Technical Support Team for East and South-East Asia and the Pacific, for their technical comments and overall guidance in the development and finalization of this report.

The authors would also like to express their appreciation to the Social Security Department of the Ministry of Labour, Invalids and Social Affairs (MOLISA), the Viet Nam General Confederation of Labour, and the Viet Nam Chamber of Commerce and Industry for their valuable inputs and collaboration throughout the research process.

Special mention should also be made of Ngo Thi Hoang Lam and Tran Thanh Tu for their administrative support.

Finally, the authors gratefully acknowledge the generous financial support provided by the Government of Japan and the Government of Ireland, which made this research possible.

This report was developed to support the revision of the Social Insurance Law 2014. Its analysis did not take into account the provisions of the Social Insurance Law 2024, and was based on the government and administrative structure in Viet Nam as of December 2023. It therefore does not reflect subsequent changes in the configuration of ministries and provinces.

# 1 Introduction

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**Viet Nam has made important progress in strengthening its social insurance system in recent years.** Coverage of the scheme has increased substantially from around 23 per cent of the working labour force in 2015 to 38 per cent in 2022 <sup>1</sup>. The scheme covers a relatively wide set of contingencies with good levels of benefit adequacy for many participants. The Government of Viet Nam has also been proactive in advancing both policy and administrative reforms towards the continued improvement of the system.

**The Government of Viet Nam has set out a broad and ambitious agenda for further enhancement of the social insurance scheme, and adaptation to changing circumstances.** These are captured in Resolution 28-NQ/TW, which sets out key ambitions with a focus on social insurance for all. The key reforms priorities are:

- building the multi-tiered pension system;
- expanding mandatory insurance;
- increase integration of policies for expanding the coverage;
- stricter rules on the withdrawal of lump-sum benefits;
- some parameter reform; and
- administration and management reforms.

**This report provides a summary of key recommendations from ILO analysis for the purpose of supporting the ongoing revision of the social insurance law.** This draws on an array of ILO studies and analytical work conducted in recent years. Given the focus is the social insurance law (rather than the wider social insurance system) the report does not cover social health insurance and unemployment insurance. Four key areas are discussed based on areas of in depth ILO research in Viet Nam: coverage, lump-sum withdrawals, child benefit and building a multi-tier pension system. Each section describes both the context and challenges for each topic, and key strategies to address them. A short final section also lists a broader set of additional topics for future consideration and analysis. These recommendations are meant to inform both ongoing and future policy discussions and reforms.

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<sup>1</sup> VSS data, <https://baohiemxahoi.gov.vn/tintuc/Pages/hoat-dong-he-thong-bao-hiem-xa-hoi.aspx?ItemID=20122&CateID=0>

## 2 Coverage

Ensuring the effective coverage of social insurance reaches its full potential means addressing the various barriers that workers and enterprises face to participate<sup>2</sup>. These can be grouped into:

- **Legal barriers:** There are workers and enterprises who have the capacity to participate in compulsory social insurance schemes, but are not legally covered (such as workers in household businesses or domestic workers).
- **Financial barriers:** For many uninsured workers, making contributions to the social insurance system would have a prohibitive impact on household welfare. For MSMEs, social insurance contributions can be a significant labour cost, which partly explains low levels of participation.
- **Administrative barriers:** Many enterprises and workers (especially MSMEs and the self-employed) lack capacity to navigate often complicated administrative procedures.

Resolution 28-NQ/TW rightly recognizes that extending coverage of compulsory social insurance is at the core of efforts to extend coverage<sup>3</sup>. While a sizable portion of uninsured workers will not be in a position to contribute in the near future due to limited contributory capacity an important portion of the uninsured have (or are close to having) capacity to participate. Efforts to maximise the potential coverage of social insurance are best focused at creating the conditions for these workers and enterprises to participate. International experience shows that this is best achieved through extending legal and effective coverage of compulsory insurance. This is also reflected in the experience of health insurance in Viet Nam, where significant expansion of coverage has been achieved by expanding compulsory insurance, combined with subsidised premiums for some groups of workers. While the voluntary social insurance scheme can provide an important complement to efforts to extend coverage, it is likely to be relatively marginal to the bigger task of coverage expansion in terms of size.

### a. Expanding legal coverage

Recognizing the principle of universal social protection, a key priority for expanded coverage of the compulsory scheme is to increase legal coverage to groups of workers with capacity to participate, but which are currently excluded. These include (but are not limited to):

- workers with multiple employers (e.g. construction workers);
- part-time workers;
- workers under flexible working-hour contracts;
- household business owners;

<sup>2</sup> The definition of Social Insurance considered under this report follows International Labour Standards, as the set of social security benefits financed through workers and employers contributions, and it does not differ significantly from Social Insurance as understood in Viet Nam.

<sup>3</sup> In the Vietnamese context, compulsory social insurance refers to the social insurance system to which certain categories of workers must participate according to the social insurance law, whilst voluntary social insurance pertains to a parallel social insurance system, with different levels of contributions and contingencies covered, which is open to all workers who are not eligible to participate in the compulsory system.

- domestic workers;
- non-wage managers of enterprises and cooperatives; and
- self-employed (e.g. those in the platform economy).

Expanded legal coverage would be best achieved through a gradual process that allows social insurance administrators, enterprises and workers to adjust to any changes. There is also a case that expanded legal coverage should not be solely based on the social insurance law, given that this is only revised infrequently. Expanded legal coverage should also be integrated with other non-social insurance policies, such as those relating to formalisation and economic expansion (e.g. simplified business registration procedures). Furthermore, attention should be given to how the Labour Code evolves in its definition of workers and employees, as further changes can alter which workers are considered for instance as wage employees, and thus be eligible to participate in compulsory social insurance (for example, gig economy workers).

### b. Providing financial incentives

Given the significant share of workers and employers which might struggle to meet the current contribution rates of the social insurance system, it is important to explore ways to provide them with sufficient support to ensure they still join and remain in the social insurance system.

Such financial incentives can be designed to ensure that workers and enterprises close to the level of contributory capacity required to participate are able to contribute while limiting the negative consequences for household welfare and enterprise development. There are two broad approaches to achieve this:

- On the **contribution side**, subsidized contribution regimes can be put in place for certain categories of workers and/or enterprises, an approach which is common in compulsory social insurance schemes around the world. In Viet Nam, this approach already exists in the social health insurance scheme where contributions of different groups of workers are either partially or fully subsidised. Designing subsidies requires care to ensure that this does not incentivize certain type of enterprise and employment arrangements which result in lower employment rights and protections.
- On the **benefit side**, a strengthening of short-term benefits can offset the level of contribution paid by workers, which can reduce or eliminate the impacts on household welfare and provide greater incentives to participate. An example of this approach is the introduction of a child benefit discussed in Section 4.

### c. Management, administration and communication

Extension of social insurance coverage should be considered part of an overarching government strategy towards formalisation of the labour market. As part of this, simplifying administrative procedures and clearly communicating key information about the system to a wide range of stakeholders can facilitate the participation of MSMEs and self-employed workers in the system. Key areas of management and administration for coverage extension include:



- **Enforcement** is key to increasing effective coverage of those legally covered by the compulsory scheme. Important areas include greater investment in specialized labour inspection for social insurance (including capacity building of inspectors) and better coordination with judicial authorities on matters that go beyond the scope of the law. Enforcement will also be supported by a strengthened framework defining what counts as evasion and the penalties that apply to different cases.
- **Communication** is important for improving understanding of the current social insurance system which, in turn, can create greater trust. It is key to communicate the rationale and intended outcomes of reforms, in order to make workers and employers more comfortable in accepting these changes, and increase compliance with the parameters set forth by the law.

This can be supported by making linkages across government, such as:

- **Connecting government databases** – such as tax and business registration – so that information can easily be shared and verified across government.
- **Actively combining government processes.** For example, tax and social insurance contributions can be made as a single payment, as is the case with the monotax approach found in Latin America, which also includes financial incentives (ILO 2014). Similarly, registration for social insurance can be combined with processes of business registration – an approach which is being pursued in Cambodia.

# 3 Lump-sum withdrawals

In Viet Nam, a significant number of workers take the option to make a lump-sum withdrawal after one year of discontinued social insurance contribution throughout their careers. Between 2016 and 2021, the number of workers who took a lump-sum payment from social insurance exceeded the number of newly retired workers starting to receive a retirement pension across the same period. They are mainly taken early in workers' careers and are more likely to be taken by women. More than two thirds (69 per cent) of termination lump-sums taken out in 2019 were received by women under the age of 35 (ILO and World Bank 2023).

**This trend creates a number of issues for the social insurance system:**

- **Reducing pension coverage and adequacy:** Fewer years of contributions means workers are less likely to reach the minimum required for a pension and – if they do – will receive less.
- **Limited protection from short-term risks:** Workers often make withdrawals to manage events such as job loss, childbirth and raising children. Such life events (or contingencies) would be better managed by strengthening short-term benefits provided by the social insurance system.
- **Financial sustainability:** The unpredictable nature of the number of people accessing lump-sum payments each year in Viet Nam lowers the confidence of the actuarial estimations on performance and financial sustainability.
- **Reducing the redistributive and solidarity capacity of the system:** allowing workers to withdraw the totality of their social insurance contributions (and employers') at any point of their careers – a feature very unique to the Vietnamese social insurance system – leaves the system less equipped to perform its role as provider of protection across the labour market, severely limiting its solidarity nature as workers start seeing and using social insurance more as a personal bank account of sorts, and less then as a mechanism to pool contributions among all workers to provide support to those in need in face of the different contingencies faced through their lives.

Given this context, it is important that policy priority is given to **reducing the share of total social insurance contributions workers can access via lump-sum payments**. As a compliment, waiting periods to access withdrawals could also be increased to reduce incentives for workers to leave the social insurance system, although these are expected to have less impact in the number of lump-sum withdrawals than reducing the share of contributions workers can take out as lump-sum payments.

However, **reform of lump-sum withdrawals will likely require a delicate process that combines gradual introduction of limits on withdrawals with strengthened short-term benefits (e.g. child benefits discussed in Section 4)**. Previous efforts to limit access to lump-sum withdrawals have met with significant opposition from workers. This is likely linked to both the speed and magnitude of reforms<sup>4</sup>, the low levels of trust in the system, and the lack of alternative forms of support provided. More gradual approaches that combine both greater incentives and stronger enforcement are likely to be more feasible.

<sup>4</sup> For example, the 2014 Social Insurance Law completely removed the option of lump-sum withdrawals after discontinued payment.

A gradual approach would involve incrementally reducing the option and incentives to withdraw lump-sums, while avoiding an abrupt change in policy. As an example, each year the share of contributions workers can withdraw could be reduced by ten per cent. This can be seen as an acceptable change as, even after five years, workers still can withdraw the majority (50 per cent) of their contributions in case of need. The remaining contributions would be retained in the system and paid to workers as a retirement pension upon retirement age, thus also improving their old-age income security.

These gradual approaches would have the added benefit of avoiding the risk of creating a mass wave of lump-sum withdrawals the year before any changes come into effect, as the year-by-year change would be the same.



# 4 Child benefits

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**There is a strong case for strengthening the role of the social protection system in protecting families with children.** The birth of a child and raising them to adulthood constitutes a significant cost for families in Vietnam. Supporting families with children can help them manage these costs, and also support them to make investments which have significant positive implications for society and the economy. Despite this important role, child/family benefits is the only contingency uncovered by the social insurance system and – as a whole – families with children are one of the least likely groups to benefit from social protection in Viet Nam (Dat and Gama 2022; McClanahan and Gelders 2019).

**The aim of a child benefit is to provide assistance to families in meeting the costs of raising children, thereby minimizing childhood disadvantage associated with wide disparities in household incomes.** Child benefits also seek to optimize societal investment in children, recognizing that it is in the public interest that children are healthy and well-educated while, in the absence of child benefits, the costs of achieving this would otherwise fall completely on individual families. Child benefits – which also include cash or in-kind childcare assistance – may also partially compensate families for the opportunity costs of caring for children.

**Child benefits can also play an important role in incentivizing workers to contribute to social insurance.** A child benefit providing monthly benefits for children of active contributors to social insurance would reduce the weight of contributions on families' net income. Specifically, analysis has found that a child benefit would turn a welfare loss of 8.2 per cent for all working parents from contributing to social insurance, into an average net gain of 3.8 per cent of household income per capita. Given that 44 per cent of uninsured workers have children, this could play a significant role in incentivising extended coverage (McClanahan, Gelders, and Ramírez López 2019).

**Introducing a child benefit within the compulsory social insurance scheme would entail a flat-rate benefit being paid for each child (within a defined age range) of active contributors.** Ideally, this benefit would form part of a multi-tiered system of child benefits including a non-contributory component for those outside the social insurance scheme (See Box 1).

While various options exist for the benefit level of a child benefit, analysis has shown that a benefit of 350,000 Vietnamese Dong (dong) per month could cost between 0.7 per cent and 3.4 per cent of insurable earnings depending on the age of eligibility. For a benefit indexed to inflation, these costs would fall over time in line with economic growth and demographic change. One option to gradually extend a child benefit at limited cost would be to begin at age 0-3, then increase the age of eligibility by one year each calendar year to eventually cover children 0-15. Simulations show this would entail an initial cost of 0.7 per cent of insurable earnings, gradually rising to 1.5 by 2030.

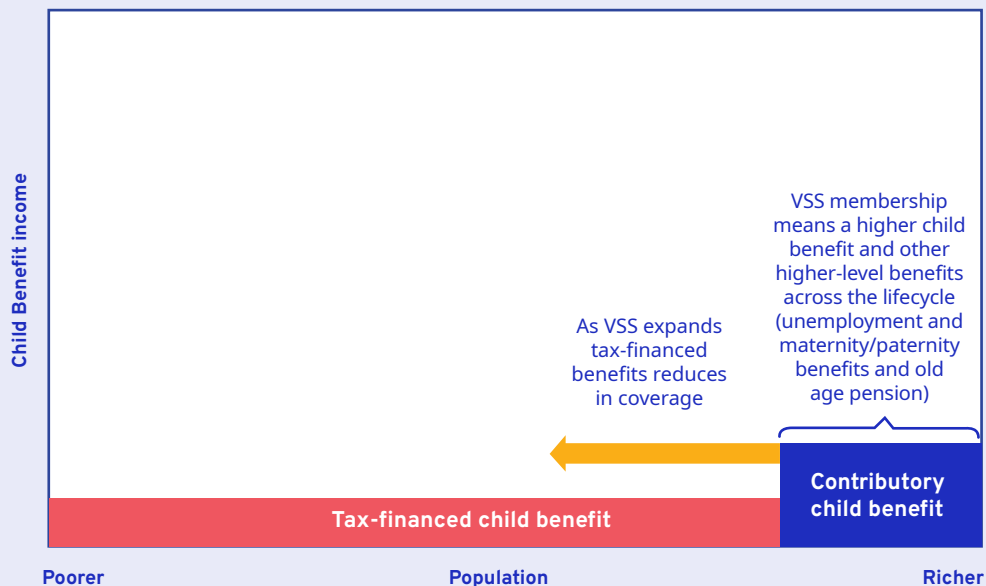
**Box 1: Multi-tier child benefits**

In order to be rights-based and equitable, a child benefit within the social insurance system would be accompanied by a child benefit for those not covered by social insurance.

Caregivers not paying social insurance contributions would receive an adequate, guaranteed child benefit financed through general taxation (Tier 1), but those workers who enrol in Viet Nam Social Security (VSS) would be entitled to a higher rate contributory child benefit (Tier 2) (Figure 1). This difference in value would preserve the incentive to join social insurance – a key government priority.

A multi-tier child benefit could be financed in different ways. If financing the social insurance child benefit fully from the fund, this would reduce expenditure on the scheme from government revenues. Costings indicate that a Tier 1 child benefit for all uninsured children aged 0-15 would cost just 0.38 per cent of Gross Domestic Product, with even lower costs if limiting the benefit to younger children (McClanahan, Gelders, and Ramírez López 2019)<sup>5</sup>. Alternatively, a minimum child benefit could be financed from government revenues, with only the additional social insurance supplement financed by the social insurance fund.

**Figure 1: A multi-tiered child benefit**



Source: McClanahan and Gelders 2019

<sup>5</sup> Assuming a benefit of 150,000 dong per month, and excluding participants in social insurance who would receive the Tier 2 benefit. Costings relate to 2020.

# 5 Old-age pensions

Viet Nam is currently pursuing a twin track approach to expanding pension coverage and adequacy. First, coverage of social insurance pensions is being expanded by increasing the number of workers participating and by reducing the minimum years of contribution required for a pension entitlement (from 20 to 15, and then 10 years). This represents a move towards greater alignment with International Labour Standards<sup>6</sup>. Second, the coverage of the non-contributory social pension is being expanded, most notably by reducing the age of eligibility for the pensions-tested component (currently 80 years). This approach aligns with the ILO strategy of extension of social protection coverage, which seeks to combine a social protection floor (the horizontal dimension) with higher levels of adequacy for those with contributory capacity (the vertical dimension) (ILO 2012).

**Combining these two approaches in a way that is coherent and complementary requires careful design of a multi-tier pension system.** The interaction of non-contributory and contributory benefits needs to be designed in a way that provides a minimum floor, while providing strong incentives to participate in the social insurance system. A well-designed multi-tier system can boost the adequacy of pension benefits and strengthen the financial sustainability of the pension system, by maximising the number of workers who are contributing to the pension system (Tsuruga, Cunha, and Nguyen 2019).

## a. Multi-tier pension system models

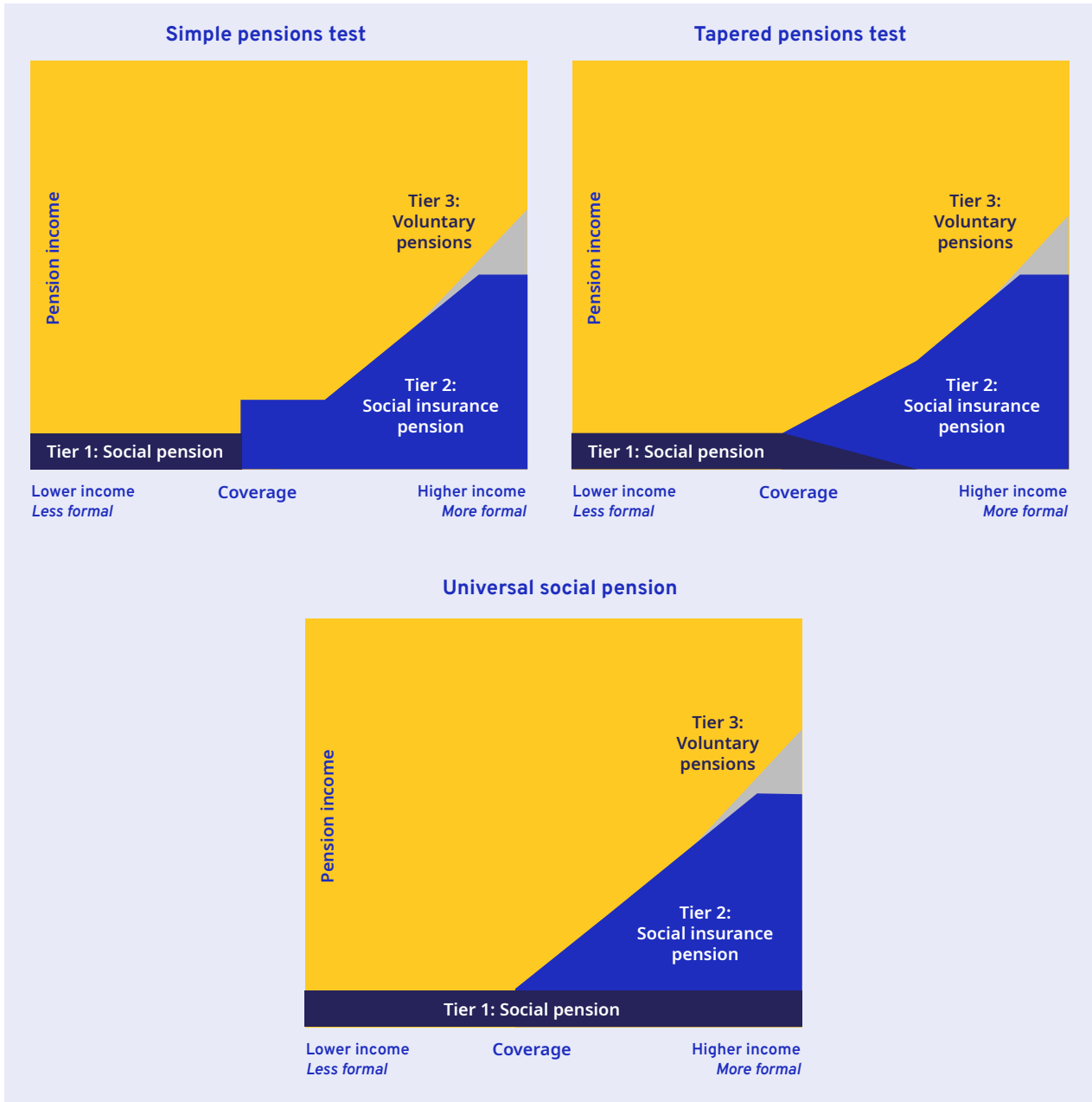
An effective and equitable multi-tiered pension system must be one that combines a minimum floor with strong incentives for workers to contribute to social insurance

Various models can be considered for multi-tier arrangements (visualised in Figure 2):

- **Simple pension test:** Pensioners with social insurance entitlements would be excluded from the social pension, with higher minimum contributory required pensions to create strong incentives to contribute. A risk of minimum pensions, however, is that many pensioners with different levels and durations of contribution may receive the same benefit, which may undermine incentives to contribute.
- **Tapered pensions test:** In this case, social insurance pensioners may also receive the social pension if their benefit entitlements are low. Social pension benefits are reduced gradually according to the level of social insurance pension. This should ensure that higher and longer duration of contribution results in a higher benefit level.
- **Universal pension:** This would entail a non-contributory benefit provided to all older persons, supplemented by social insurance entitlements. This would provide the best incentives to contribute to social insurance, but would be the highest cost option for a social pension.

<sup>6</sup> ILO Convention 128 (C128 - Invalidation, Old-Age and Survivors' Benefits Convention, 1967) specifies that old age pension benefits should be provided, at least, to workers who have completed a qualifying period of 15 years of contributions.

**Figure 2: Scenarios for multi-tier pension arrangements**



**b. Integrating the social pension under the social insurance system**

The configuration of Viet Nam’s multi-tier pension system is likely to evolve over time. For example, the interaction between social insurance and social pension benefits may need to change as the age of eligibility of the social pension is lowered. Bringing the social pension under the administration of the social insurance system – while still being financed by general revenues – can support this process as policy planning for the multi-tier system should be under one institution. It also provides the option for pensions to be provided in one payment in the case where older persons receive both a portion

of social pension and social insurance pension. Integration of contributory and non-contributory pensions under a single institution represents international best practice. The approach is common in OECD countries, but has also been adopted by emerging economies such as Argentina, Chile and the Maldives – despite the fact that the specific design of their systems varies considerably.

### c. Pension level adequacy

A key aspect to consider when addressing pension reform is to ensure pension benefit adequacy keeps pace with price inflation and economic development. Within any multi-tier configuration, it is essential to have a continuous monitoring of levels of benefit adequacy in the context of key economic indicators. Two key issues include:

- The current social pension benefit remains relatively low compared to relevant national and international benchmarks<sup>7</sup>. While this may be justified in the context of existing fiscal constraints, an ongoing process is required to increase benefit levels. There is also need for a formal mechanism for indexation of social pension benefits.
- The social insurance pension formula is generally considered to comply with minimum standards on pension adequacy set out in international labour law, although the eventual replacement rate is influenced by various factors<sup>8</sup>. Thus, ensuring that indexation continues to take wages into account will be fundamental to avoid an erosion of the value of benefits over the duration of retirement. This is a particular issue for women given their longer life expectancy and lower retirement ages.

For both contributory and non-contributory benefits, indexation of benefits should happen on a regular basis (i.e. annually) and be clearly defined, specifying how they will be influenced by specific statistical indicators such as wages and the Consumer Price Index (CPI). Ideally, within the logic of a multi-tier system, indexation for both contributory and non-contributory benefits should be aligned.

### d. Care credits

While Viet Nam's pension system includes many design elements to support gender equality, the coverage and level of pensions of men still significantly exceed those of women. Initiatives such as increasing retirement age and lowering the minimum years of contributions required for pension eligibility for women will contribute to improve gender equality in the social insurance system, but can only partially address these issues (ILO 2021a). **One policy option to help address such gender gaps would be the introduction of care credits**, which exist in many countries, and usually aim at compensating women for periods spent caring for young children (as well as other members of the family).

While designs vary, one approach for Viet Nam could be to top up the contribution record for women for a defined period (for example, 6, 12 or 18 months) for each child. For example, simulations in Viet Nam have shown that on average, a care credit of 18 months based on the reference salary could increase the value of women's pensions by 8.3 per cent and reduce the gender gap to just 1.5 per cent (ILO 2021a). Care credits can encourage women to keep their contributions in the system rather than withdrawing lump-sums, because care credits increase their chance to meet qualifying conditions for a pension, and should be accompanied by awareness raising efforts to ensure all women are aware of their rights and entitlements under the social insurance system.

<sup>7</sup> For instance, as of 2019, Viet Nam had "one of the lowest value pensions across low and middle-income countries that offer high or universal coverage in their pension systems" (Kidd et al (2019))

<sup>8</sup> Including underreporting of earnings discussed below.

# 6 Conclusion

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Despite considerable progress in strengthening the social insurance system, further reforms are required for Vietnam to achieve its ambitious vision for the future of social insurance in the country. Such reforms will be essential to meet both the medium- and long-term goals set out by Resolution 28-NQ/TW, relating to extending coverage, improving adequacy and ensuring financial sustainability.

This paper argues that such reforms should be focused around four key priorities:

1. **Expand coverage** by focusing on extending the legal scope of the compulsory scheme to cover more workers that have the capacity to contribute. This can be accompanied by financial incentives both on the contribution and the benefit side. It should also be underpinned by enhanced administration, including via greater linkages to other parts of government (including tax and business registration).
2. **Reform lump-sum withdrawals** by gradually reducing the share of contributions that can be withdrawn as a lump-sum, and potentially complement it with a gradual increase in the respective waiting period.
3. **Introduce a child/family benefit within the social insurance system** to support families with the costs of raising the next generation, and incentivise workers to contribute to social insurance. Ideally, this should form part of a multi-tier child benefit which includes a non-contributory component for families outside the social insurance system.
4. **Build a multi-tier pension system** that combines contributory and non-contributory schemes in a way that delivers coverage and adequacy for women and men in a way that is financial sustainable in the context of demographic change. The development of such a system, and its ongoing administration and governance, can be enabled by bringing the social pension under the administration of the social insurance system.

While these four areas can be considered priorities they are not exhaustive, and there are an array of other complementary reforms that can strengthen the social insurance system. Two notable areas that deserve more in depth analysis include; first, how to address the issue of underreported earnings, which significantly undermine benefit adequacy and; second, how the social insurance system can adequately address invalidity, in the context of the absence of a dedicated invalidity benefit that is in line with ILS<sup>9</sup>.

To be successful, a reform of the social insurance system must also be accompanied by effective coordination within and across sectors, and adequate investment. This not only entails coordination within the social protection sector, but also alignment with other key areas such as business registration (see Section 1.3), labour market regulation, skills development, as well as broader macroeconomic development policies. Concretely, this will require further coordination and alignment between social insurance policies and the legislative frameworks governing Employment

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<sup>9</sup> Currently, other benefits such as work injury insurance, early retirement and lump-sum withdrawals may be used to address disability-related risks.

Policies, such as the Employment Law and the Labour Code, as social insurance can be made more sustainable and its financing more equitable when recognizing its links to employment. Furthermore, increased opportunities for productive employment and decent jobs not only reduce poverty today, but also contribute to the sustainable financing of adequate social insurance systems<sup>10</sup>.

**Finally, efforts across the different areas should be accompanied by an increase in the investment on social protection.** This will be essential to protect and support those workers with lower income levels (and thus lower contributory capacity), and ensure that the system continues to progress towards the long term goal of providing social protection for all, and leaving no one behind.

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## Legislation and international labour standards

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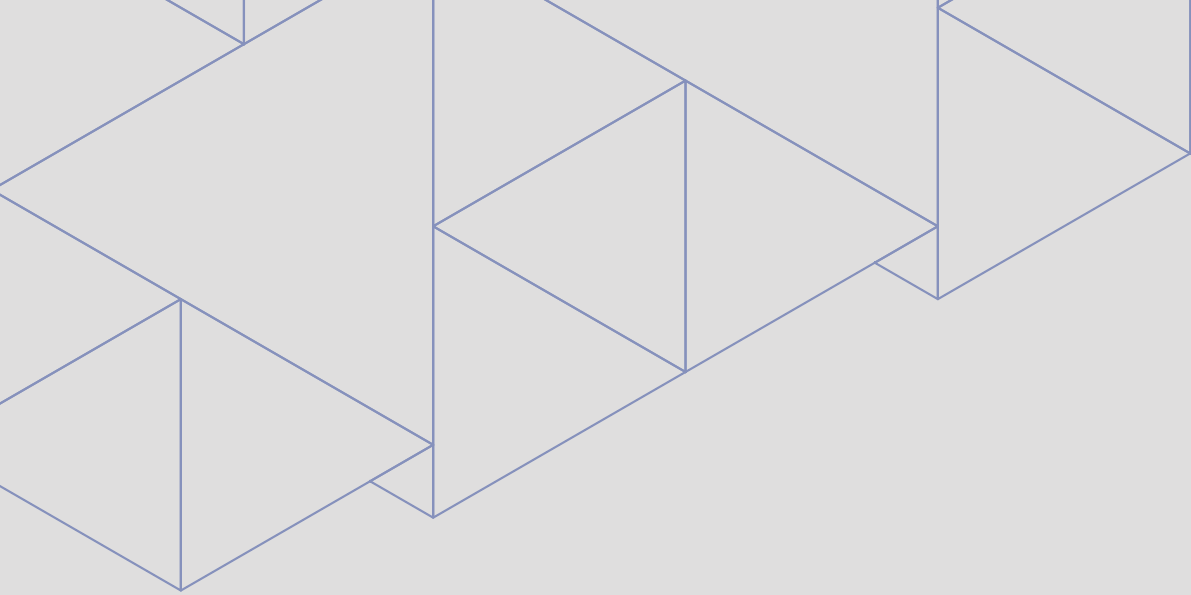
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