

## Cambodia and Viet Nam

*Cambodia and Viet Nam are making huge efforts to improve social protection during old age, but more needs to be done to include women and design gender-responsive social protection systems that are fair and sustainable.*

The pension systems of Cambodia and Viet Nam are in different stages of development. Cambodia is just beginning to establish the foundations of its pension system. With the support of the ILO, the Government of Cambodia is preparing the launch of its first pension scheme for workers in the private and public sectors. Viet Nam has gradually made progress towards building an old-age pension system through a mix of social insurance and tax-financed pensions.

Despite the progress made, the majority of elderly people cannot expect to receive a pension when they reach the retirement age. Women face more adverse circumstances that affect their pension entitlements. They usually have lower participation in the labour market, shorter or interrupted careers due to care responsibilities, higher risk of working in vulnerable employment, and lower incomes than men.

The Recommendation on Social Protection Floors, 2012 (No. 202) stipulates establishing basic social security guarantees to ensure access to essential healthcare and income security for all, including children, people of working age and older persons.

The Sustainable Development Goal 1.3, part of the UN 2030 agenda, aims to implement nationally appropriate social protection systems and measures for all, including floors, supported by the Universal Social Protection partnership (USP2030).

This brief presents successful country experiences in extending social protection.



### Main lessons learned

- In Cambodia and Viet Nam, women tend to have lower access to adequate pensions than men. Gender imbalances in the labour market, combined with non-gender-friendly design of pension systems, affect pension coverage and the adequacy of protection for women.
- Pension design matters for gender equality. To ensure that men and women benefit equally, systems must better address women's lifecycle risks and the burden of care that they bear, so as to ensure that the inequalities women encounter do not accumulate in old age.
- To realize the right to old-age income security for all, greater emphasis and resources need to be allocated to the reduction of gender inequalities in old age. Tax-funded elements, including non-contributory pensions, have the potential to address existing gaps across gender and income groups. Mechanisms to recognize and reward care and other kinds of contributions that people make to society (unpaid work) can also contribute to reducing gender inequalities.
- Gender-responsive social protection systems contribute to enhancing women's empowerment and opportunities, with greater positive impacts on their families and communities.

## 1. A window for the expansion of pensions in Cambodia and Viet Nam

There is currently a positive momentum in Cambodia and Viet Nam for significant reform and expansion. While Cambodia is in the process of launching its first pension scheme, the Vietnamese government has recently approved the Master Plan on Social Insurance Reform (MPSIR) which reflects its clear commitment to achieve universal social protection coverage. In the face of population ageing and persistent informality, these countries are seeking new ways to enhance income security of older persons; this could be a unique opportunity to make the overall system more gender-sensitive.

Despite strong commitments, both countries still face challenges in extending pension coverage. Of the population above retirement age<sup>1</sup>, only 3.2 per cent in Cambodia, and 39.9 per cent in Viet Nam, enjoy access to a pension. This is compared to an average of 31.5 per cent for South-East Asia (ILO, 2017).

Although in both countries women account for the majority of all active contributors and have on average more years of service than their male counterparts, persisting gender inequalities in the labour market continue to compromise their pension coverage and benefits. In Viet Nam, for example, women have on average half a year more of contributions than men but still receive pensions that are 20 per cent lower than those received by men (ILO, 2018a).

## 2. Gendered labour markets

There are a number of inequalities that women face during the course of their lives that tend to accumulate in old age and affect their pension entitlements. Firstly, women have lower participation in the labour market during their working age. In Cambodia and Viet Nam, 76 and 71.5 per cent of women, compared to 87 per cent and 81.8 per cent of men, respectively, participate in the labour market. Secondly, as a consequence of their heavier burden of care, women are also more likely to

have shorter or interrupted careers and face a higher risk of working in vulnerable employment than men (ILO, 2018b).

Another factor influencing the gender pension gap is the fact that women have lower incomes than men. Globally, women earn, on average, 16 per cent less than men (ILO, 2018c). In Viet Nam, private sector female workers earn, on average, 9 per cent less than men (ILO, 2018a), while it is 43.7 per cent less for Cambodian women, compared to men (ILO, 2017a). Particularly in contributory pension systems, all these features affect women's pension coverage as well as the level of their benefits.



## 3. Impact of the design of the pension schemes on old-age protection for women

Governments can do more to ensure that social protection programmes, specifically pensions, are designed, implemented and monitored by taking the different experiences of men and women into account. Several key design features are relevant for women's entitlement to contributory pension schemes:

### *Benefit formulas*

A key feature affecting gender outcomes in pensions is the pension formula, i.e. the rules that specify how benefit levels are calculated. Benefit formulas that closely reflect earnings and contributory histories tend to result in lower benefits for women, unless appropriate mechanisms are in place to compensate for the labour

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<sup>1</sup> The current statutory retirement age in both Cambodia and Viet Nam is 55 for women and 60 for men.

market disparities between men and women (Arza, 2015).

The Vietnamese government is currently assessing how the pension formula can be designed to better address redistributive objectives and reduce gender inequalities emerging from the labour market. Currently debated measures include, for example, instituting an alternative pension formula to support workers with frequent career interruptions, especially women, by placing a higher weight on the first years of contribution through the accrual rate<sup>2</sup> (1.75 per cent for the first 15 years, 1.25 per cent for subsequent years). In fact, this measure will be introduced in Cambodia's new pension scheme to allow the system to be more meaningful to the average worker (ILO, 2017b).



### **Minimum eligibility conditions**

A gender-relevant design feature in pension systems is the eligibility conditions. Long eligibility periods can present a real obstacle to qualify for a pension, and often act as a deterrent to participate in the system. Women tend to face more difficulties than men to build up long contributory histories. For example, in Viet Nam, insured women at the age of 37 have an average contributory history of just 12.6 years, thus failing to meet the 20 years of required contributions when they leave the formal labour market (ILO, 2018a).<sup>3</sup> The Vietnamese Government's recent decision to reduce the qualifying

<sup>2</sup> Accrual rate is the rate at which pension benefits build up as member service is completed in a defined-benefit pension plan. The accrual rates for all years of contribution when added up lead to the income replacement rate.

<sup>3</sup> Female workers in Cambodia and Viet Nam tend to leave the formal labour market around the age of 40 because the

period from 20 to 10 years will benefit those with short working careers, the bulk of whom are women.

### **Care credits**

Care credits are a way to compensate women and men for recognized periods spent outside the labour market, such as the time dedicated to taking care of others. Such credits are added to the contributory history, for example in the form of an additional pension-qualifying year, as done in Uruguay (Arza, 2015). Credits may be granted even for births that happened before participation in the social insurance scheme. Such a measure may encourage women to move from the informal to the formal sector. While care credits are now fairly common in almost all European Member States, where they had a positive impact on women's replacement rates (D'Addio, 2012; Fultz, 2011), it has not yet been adopted in Viet Nam or Cambodia.

### **Retirement ages**

Both in Cambodia and Viet Nam, the statutory retirement age for men is 60, while women can retire five years earlier at the age of 55. While this means that women can stop working earlier, they will also receive lower monthly pension benefits because they have fewer years of work to accumulate contributions.

Through its ongoing reform process, Viet Nam had an opportunity to address this disparity but ultimately maintained a gap<sup>4</sup> based on the argument that early retirement was a way to compensate women for the additional burden of care they face over the course of their lives. In reality, however, by playing into traditional norms of gender roles, such policies reinforce inequality rather than reducing it.

### **Benefit indexation**

Benefit indexation is another factor that can greatly affect gender equality, given that women face higher risks of benefit depreciation over their longer lifespans.

sectors in which they usually work tend to fire workers at that age for productivity reasons.

<sup>4</sup> Retirement ages will be increased to 60 and 62 for women and men, respectively.

Cambodia has agreed to index their new pensions to price inflation, while Viet Nam is discussing a mechanism which also accounts for wage growth. While these are important steps, regular indexation has not yet been considered for non-contributory pensions.

### **Type of affiliation**

Given the strong link between gender and informality, efforts to extend contributory coverage to informally employed workers have the potential to greatly benefit women. In this context, attempts to extend coverage through voluntary affiliations of self-employed workers have rarely been effectively implemented. In Viet Nam, for example, only 1.3 per cent of all workers have signed up for voluntary participation in the contributory system although in theory, all self-employed workers and unpaid family workers, the majority of whom are women, are eligible (ILO, 2018a). This could be due to the low attractiveness of the voluntary insurance, especially for women, as it provides only long-term benefits, while women covered under the compulsory social insurance enjoy maternity benefits and other short-term benefits. International experiences show that introducing mandatory participation has had more impact on increasing coverage.



## **4. Non-contributory pensions**

Given the labour market context outlined above, the limitations of contributory pension systems to offer

<sup>5</sup> The Government of Cambodia is currently working on a revision of the 2002 Social Security Law which encompasses the new general scheme for private and public sector formal

adequate protection for their populations have increasingly led many countries to recognize the role of State funding in the provision of old-age protection, and to introduce tax-funded pension schemes and/or tax-funded elements in their contributory pension schemes. As labour markets evolve, it is fair to consider whether Cambodia and Viet Nam could further strengthen these elements to cover a substantial portion of the populations.

While both Viet Nam and Cambodia have stated their intention to reach universal coverage in their respective strategies and resolutions, the contributory model continues to be the only one embedded in national legislation.<sup>5</sup> This is the case even in Viet Nam, where the social pension for all older persons above the age of 80 has been in place since 2002. In both cases, the lack of legislation for non-contributory pensions has limited the State's role in financing minimum income security in old age.

Tax-funded schemes, particularly universal pensions, are the most effective way – at least in the short-term – to provide a basic level of protection to women and men who did not have the opportunity to build up sufficient entitlements in the contributory systems. Such non-contributory programmes can play a key role in ensuring women's access to at least a basic pension. Simulations show that the pension-tested,<sup>6</sup> multi-tier model which Viet Nam intends to roll-out is likely to benefit women as they are most likely to lack contributory pensions. It is estimated that around 65 per cent of the recipients would be older women. The social pension can have progressive distributional impacts across gender and income groups: the relative increase in per capita incomes resulting from a social pension is higher among women and the poorest, than among men and the rich (Kidd et al, 2019).

However, the capacity of non-contributory pensions to fulfil their potential depends on the level of coverage and benefit values offered (Arza, 2015). In most cases, non-

workers, but not the non-contributory pension endorsed in the 2016 National Social Protection Strategy.

<sup>6</sup> A pension-tested benefit is only available to those who are not covered by any other pension scheme.

contributory pensions provide a very modest level of benefits, insufficient to ensure adequate protection in old age or fully compensate for the lack of contributory coverage. The social pension in Viet Nam, currently set at VND 270,000 per month, corresponds to just 5.6 per cent of GDP per capita (equivalent to 39 per cent and 30 per cent of the national rural and urban poverty lines respectively), making it one of the lowest-value pensions across low-income and middle-income countries (Kidd et al., 2019). Moreover, because non-contributory pensions continue to be framed as components of an independent “social assistance” system, they remain narrowly targeted and detached from the contributory system – often excluding the “missing middle” (people in the informal economy, not among the most vulnerable).

Universal or pension-tested benefits can foster old-age income security for everyone more effectively than means-tested benefits. Since the latter are often based on an assessment of household income or assets, they only provide few married women with a pension in their own right. Moreover, means-tested benefits tend to impose burdensome and often stigmatizing requirements on people, particularly women (Cookson, 2018). In Cambodia, the Government’s current intention to only support a means-tested scheme would mean that most older persons would not have access to any pension (Ramírez López 2018).

The ILO has estimated that a universal pension covering all older persons aged 60 and above would cost as little as 0.9 per cent of GDP in Cambodia. A universal pension covering all older persons aged 65 and above would cost 0.47 per cent of GDP in Viet Nam. Although means-tested schemes are estimated to cost less (for example, 0.01 per cent of GDP in 2017 to 0.06 per cent in 2026 in Cambodia), their administration is much more complex, requiring capacities that many low-income and middle-income countries lack. Ultimately, a move away from selective schemes to universal approaches requires greater investment from the central government in financing at least minimum income security in old age for all. This would mean a shift in thinking on the part of both local and central government authorities that public financing is necessary to achieve coverage and

incentivise participation. In addition, countries need to find new ways of increasing fiscal space, such as reprioritizing public expenditures, increasing tax revenues or contributory revenues (Ortiz et al., 2017).

## 5. Way forward

The provision of adequate social protection during old age is not only a matter of rights, but also important for ensuring the sustainability of the social protection system and transforming the lives of women in a future world of work which leaves no one behind (Commission on the Status of Women, 2019; SPIAC-B, 2019).



While the envisaged measures in Cambodia and Viet Nam are likely to have an impact on gender equality in old age, greater efforts are needed to ensure their participation. The design of contributory pension systems should take the diversity of women’s lives into account. Further measures could include mechanisms to compensate for gender inequalities in paid work, earnings and unpaid work (such as contribution credits). Developing and strengthening multi-tier pension systems, comprising a combination of social insurance and non-contributory pensions, can help ensure that all people have access to adequate pensions in old age.

Furthermore, addressing gender inequality in pension systems requires comprehensive, holistic policy responses in different areas, including gender-responsive pension system design, labour market policies, better reconciliation of work and family life as well as access to culturally- and gender-responsive public care services of high quality.

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### Social Protection Floors in Action: 100 success stories to achieve Universal Social Protection and SDG 1.3

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