

## **Experiences of Social Pension in Viet Nam (2001 – 2009)**

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Social pension system in Vietnam was implemented since 1995 following the Decree number 19/CP, signed on February, 16<sup>th</sup>, 1995 by the Prime Minister. This Decree has taken effect since October, 1<sup>st</sup>, 1995.

This report examines the management of social pension in Viet Nam from 2001 to 2009; this report includes 5 main contents:

1. Participants and beneficiaries from social pension;
2. Receiving and spending; Investment of social pension funds;
3. Expenses for social pension management;
4. Balancing social pension fund; and
5. The renovation of Vietnam social pension after 2007.

### **1. Participants and beneficiaries from social pension.**

#### ***1.1. Participants of social pension***

Participants of social pension include labors from private sector, semi- private sector, and co-operative. However, the fact shows that the number of participants is still limit and mainly focuses on civil service employees and armed forces, the participants do not popularized to labors of the other economic sectors. Participants of Social pension from 2000 to 2008 are following:

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Number of participants (million)	4.5	4.8	5.4	5.8	6.2	6.7	7.4		
Growth rate (%)	27%	7%	13%	7%	7%	8%	10%		

Main factors affect on participant growth rate:

+ Reducing workforce policy is the result of fewer participants in state offices. Supervising and speeding up participation in private sectors are very difficult; evading social pension participant is popular by both employers and employees.

+ Propagandizing social pension is not good.

+ Social pension fees do not differentiated among enterprises' productivity.

Social pension fee is collected with a fixed rate every month (this rate changes only when salary changes). Salary receivers from budget and production are easy to solve. Enterprises entities are in contrast, if we only base on contract duration without differentiating productivity between productive entities, between stable income and occasional income. Particularly, agricultural processing enterprises, exporting enterprises and

unstable income enterprises may owe social pension fees if the salary of the labors is cut off due to narrowed manufacturing.

### ***1.2. Beneficiaries from social pension***

Beneficiaries increases through the years, which is about 5% from 2003 to 2006. Consequently, the proportion between participants and beneficiaries increase through the years. In 2001, there is 1 beneficiary in every 2.5 participants. In 2007, there is 1 beneficiary in every 3.5 participants.

	2001	2002	2003	2004	2005	2006	2007	2008	2009
The number of beneficiaries (million people)	1.8	1.8	1.8	1.9	2.0	2.1	2.1		
Grow rate of beneficiaries (%)	-	-	-	6%	5%	5%	-		
Participants/1 beneficiary	2.5	2.7	3.0	3.1	3.1	3.2	3.5		

## **2. Social pension fund: collecting, spending and investing**

### ***2.1. Collecting social pension***

Financial report on Vietnam social security in 2000- 2007 show that total collected money of compulsory social pension is increasing. Particularly, in 2003, social pension collected money increases significantly; increasing 65% comparison with year 2002, total collected money is 11,481 billion VND. This result is thank to minimum salary increased from 210,000 to 290,000 VND per month, and participants of compulsory social pension increased after Decree number 01/2003/NĐ- CP signed in January, 2003 on social pension supplement provisions and Decree number 12/CP signed in January, 25<sup>th</sup>, 2003 took effect.

The grow of social pension revenue in 2005, 2006 was 30%, which was due to minimum salary increased from 290,000 VND to 350,000 VND in 2006, from 350,000 VND to 450,000 VND in 2006. The average grow rate of the social pension revenue period 2003-2006 was 26.33%, in which increasing minimum salary played main role because the participants increased 6, 31% in average.

However, the result of collecting social pension fees is not exactly right according to labor law and Social security law. As a consequence, collecting grow rate is always lower than spending grow rate about 10% to 25% as following:

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total revenues (billion VND)	6,348	6,963	11,481	13,239	17,162	23,573			
Collecting grow rate (%)	22.12	9.69	64.89	15.31	29.63	37.36			
Delayed money to the	448	379				1,058			

following year (billion VND)									
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The reason of low collecting:

- Executive body does not identify clearly and manage closely the number of compulsory participants: in 2006 there are 6,746,553 participants in fact (including armed forces), while the participants must be 11,000,000 (about 63%). Identifying compulsory participants mainly based on registered license of enterprises and annual labor statistic report. In fact, the compulsory participants in fact cannot be counted accurately.

- Not least enterprises report lower salary than salary in fact to reduce social pension fees, more than that some enterprises pay social pension for employees at minimum salary level.

- Owing and delaying social pension money exist in a number of enterprises. In 2001, owing money was about 450 billion VND, in 2006 doubled to 1,058 billion VND

## **2.2. Compulsory social pension expenditures**

Beneficiaries of per month allowance and package allowance increase evenly through the year lead to increasing social pension spending. Before 2003, increasing spending growth was rather high at 22% to 45%, particular in 2003, and this spending growth increases 48% comparison with 2002, from 2.572,22 billion VND to 3.792,03 billion VND, mainly due to increased minimum salary. In 2004 and 2005, the growth rate was 30% to 40% due to increasing beneficiaries and due to increasing minimum salary from 290,000 VND to 350,000 VND per month. Spending grow rate in 2006 was 60%, 4000 billion VND higher than in 2005. The reason is that the state repaired social pension provisions, and increased minimum salary from 350,000VND to 450,000 VND per month.

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total spending (billion VND)	1,936	2,572	3,792	4,865	6,759	10,780			
Spending grow rate (%)	44.99	32.86	47.42	28.32	38.92	59.48			
% spending/ total collecting	30.50	36.94	33.03	36.75	39.39	45.73			
Collected money/ 1 spending	3.28	2.71	3.03	2.72	2.54	2.19			

## **2.3. Investing and raising social pension fund**

Social pension fund is in surplus which amounted to 60.000 billion VND in 2006. In fact, the money has not been invested to make profit. Specifically, the money is deposit into the commercial banks rather than invested so as to gain earnings. Then these banks lend people the money to receive interest rate paid on borrowed money. Obviously, such ways of investment make social pension fund poorly profitable in comparison with its ability to earn income. From 2000 to 2006, the amount of interest rate is earned from social pension investment achieved fivefold increase from 824.16 billion VND to 4,081 billion VND, but the average interest rate stands at only 7,58%.

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Growth of invested surplus (billion VND)	20,430	25,273	34,118	42,568	51,558	60,738	72,430		
Interest from investment (billion VND)	865	1,606	1,911	2,605	3,055	4,080			
Interest rate (%)	5.52	7.86	7.56	7.63	7.18	7.91			

If annual expense on managing social pension fund is deducted from interest received from investment, interest rate earned by social pension fund is lower than the mentioned ones. It seems that the collected interest is not enough to meet the requirement of long-term security for and growth of the fund because the consumer price index was 6,9% and 12% in 2006 and 2007, respectively. This problem has been long lasting for years.

### 3. Expense for management of social pension fund

In 2001, the total amount of collected social pension fund reached 6,348,184 million VND, expense on management 239,263 million VND, the equivalent to 3.77% of the former. In 2002, the collected social insurance fund attained 6,963,022 million VND in total, expenditure on management 268,520 million VND equal to 3.86% of the former.

Since 2003, the mechanism of managing Vietnam's social pension finance has complied with the resolution No. 02/2003 QĐ-TTg which stipulates that Vietnam's social insurance is allowed spend 4% of the total annually collected social pension on management (exclusive of repairing and buying fixed assets). The total collected social pension fund was 11,481,350 million VND, expense on management 572,359 million VND, the equivalent to 4.99% of the former, the collected social pension fund reached 12,997,060 million VND in total in 2004, expenditure on management 540,273 million VND equal to 4.16% of the former.

As from 2005 such factors increasing social pension income as extending participants paying compulsory social pension according to the government's Decree No 01/2003/NĐ-CP passed on January 8<sup>th</sup>, 2003, which was on modification and amendment to some social pension regulations enclosed with Decree No.12/CP issued on January 26<sup>th</sup>, 1995; adjusting wages in state sector under wage reform policy taken into effect as from October 1<sup>st</sup>, 2004 led to absolute increase in expenditure on managing Vietnam's social pension. If the number 4% of deduction was maintained under resolution No. 02/2003/QĐ-TTg, the deduction for managing Vietnam's social pension in 2005 would increase by 25% compared to that of 2004, a fairly high rise in comparison with general increase in expenditure in the state agencies (annual increase by 10% on average). Given the demand for management expenditure and estimated earnings in 2005, 2006 and 2007, Prime Minister passed Resolution No. 144/2005/QĐ-TTg on June 14<sup>th</sup>, 2005 modifying and amending some provisions of regulation on financially managing Vietnam's social pension promulgated together with resolution No.02/2003/QĐ-TTg on January 2<sup>nd</sup>, 2003 by Prime Minister. The

resolution stipulates that the percentage of deduction for operation expenditure is 3.6%. The total collected social pension fund in 2005 attained 17,161,980 million VND, management expenditure 649,990 million VND, the equivalent to 3.79% of the former.

The total collected social pension fund in 2006 reached 23,573,000 million VND, management expenditure 846,520 million VND equal to 3.59% of the former.

**4. Balancing social pension fund**

One of problems of Vietnam’s concern is that after over 10 years’ establishment, social pension fund has had surplus of 60,000 billion VND. However, it contains potential imbalance in the future (by 2030 according to the forecast). The risk of imbalance of Vietnam social pension fund can be recognized as the following signals:

*a/ In term of Vietnam population structure:*

Vietnam’s population is older; beneficiaries from social security will be larger in near future if Vietnam’s participants do not growth. In 1999- 2009, the old people (over 60) increases 1.4% (nearly population’s natural) grow rate. This rate is lower than 10 past years (in 1989-1999, the old increases 2.9% per year, two times larger than population grow rate)

In 2009- 2019. The old people is estimated will be increase fast (about 5% per year). Increase 4.5 folds population grow rate in the same period. Predicted that Vietnam population will be older in 1014- 1015, the old rate will be 10% at that time, the balance age (the age where population is divided into 2 equal parts) of the population is 30 years. In 2019- 2029, the old grow rate will increase at high rate (5% per year), in 2029), Vietnam will have 16.8 million old people, making up 17.8% population.

These predictions show the imbalance in social pension fund may occur if there is no effective solution in participating and spending social pension in the next few years.

*b/ In term of revenues and expenditures of the Vietnam social pension fund:*

Considering revenues and expenditures of the Vietnam social pension fund, there are some inadequate issues effecting social pension safety:

The growth of surplus of social pension fund has been inclined to decrease since 2001. Retirement fund and pension alone increased from 9,000 billion VND in 1998 to nearly 22,000 billion VND in 2001, with an average growth rate at 36% annually in this period. Nest period witnessed an increase in surplus to nearly 62,000 billion VND in 2006, with average growth rate at 30.8% per annum.

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Surplus of social pension in the previous year	16,285	21,690	26,507	33,698	41,352	51,108			
Increasing generated amount	7,261	7,777	10,983	12,519	16,151	21,510			
Decreasing generated	1,856	2,960	3,792	4,865	6,759	10,780			

amount									
Transferred surplus of fund in the following year	21,690	26,507	33,698	41,352	51,108	61,838			
The growth rate of transferred surplus in the following year	33.19	22.21	27.13	22.71	23.59	20.99			

The decrease of social security surplus will also results to imbalance of the Vietnam Social security fund in futures.

- Another issue effecting social security find is that salary reform and increasing minimum salary. In the past, the participant pay social security fee by minimum salary, however minimum salary is increasing, retirement salary will therefore increase. This unequal rate is the result of fund deficit while receiving- spending does not only reduce but it also increases. Social security spending increases along with participants receive increases: retirement salary increases remarkably high, average retirement salary was 446,000 VND/ month in 2002, in 2002- 2007 strategy; average retirement salary is 1,374,000/ month, increasing 208% comparison with 2002.

*c/ The other signals:*

In view of management, there are two causes lying in such phases as raising and using fund and implementing regulations. Obviously, if it stipulates that participants pay little money and enjoy much, the fund will fail to maintain its balance. Additionally, if expense and receipt are not imposed tough control on, the fund will be also imbalanced.

The total level of contribution depends on such factors as contribution proportion, wages considered as contribution basis, a length of time and the number of payers. The amount of money payers receive depends on such factors as receipt rate, rate of retirement pension or benefits, length of time to receive and the number of people who obtain. The factor which has greatest impact on the balance of social insurance fund is the length of time to pay for and obtain insurance. Under the current regulation, employees and employers pay 15% of salaries for expenditure on retirement pension and death duties for workers. Workers are required to pay within 15 years. All men at 60 and women at 55 are allowed to retire and receive retirement pension equal to 45% of their official salaries within 13.5 years on average. Therefore, retirement pension triples the amount paid.

On the other hand, the balance of the fund is also affected by other social policies such as employment policy, salary policy and etc. the retirement age is 57.5 on average as men retire at 60 and women at 55. However, from 1995 to 2003, average retirement age is 51.5, decreasing by 6 years compared to that stipulated in the policy. Given 2003, if each retired person receives their pension one year before he retires, social insurance fund will decrease by 10 million VND. As the number of people retires before their retirement age increased for over the last 10 years, social insurance may have to spend so much. It is estimated that by 2022, receipt will balance expense, then the fund will gradually decrease and by 2030,

according to financial experts, the insurance fund will possibly face the imbalance unless we adjust the policy.

Social insurance policy is an important one among a set of our government's social policies. This policy is applied widely and more and more accessible to all people. However, to adjust social insurance policy there must be some certain disciplines to base on and targets to achieve such as equality and effectiveness. There are some basic disciplines. The first discipline is "pay-receive". This discipline stipulates that only those who pay for the fund should be allowed to benefit from it. The second discipline is risk sharing. It is also called as discipline of balancing the fund. According to this discipline, it is necessary to identify rate of paying and benefiting to avoid the imbalance.

To maintain the fund balance, we should increase participants of social insurance. The more people participate in social insurance, the more the rate of risk sharing is. It is suggested that we eventually increase the amount paid for social insurance. We should not increase it now, but at an appropriate moment when economic conditions is favorable. If we increase the amount paid for social insurance by employers, this leads to an increase in the fund's income. However, this results in rise in costs, goods and services prices and creates direct impact on the economy and society, especially in this period when our country is integrating into the regional and world economy. Thus, it is recommended that we consider the problem carefully. Key solution to this problem is retirement age. Young retirement age mainly affects the fund balance. In the long-term, when we have favorable economic conditions, high living standard, high income and life expectancy and improved supply of and demand for labor, we should increase retirement age.

## **5. The renovation of Viet Nam Social pension after 2007,**

Compare to the social pension policy before 2007 the following changes have been made:

### ***5.1. Social insurance benefits***

Added: Voluntary social insurance and unemployment in which:

- Voluntary social insurance benefits comprise:
  - a) Old age benefit; and
  - b) Survivors' benefit.
- Unemployment scheme comprises the following benefits:
  - a) Unemployment benefit;
  - b) Vocational Training benefit; and
  - c) Job seeking supports

### ***5.2. Coverage of old age benefit***

- The employee qualifying for old age benefit following conditions:
  - a) Having reached the age of 60 for a man and 55 for a woman;
  - b) Having reached the age of 55 to 60 for a man and from 50 to 55 for women and having worked 15 years in heavy, hazardous and dangerous occupations in the list issued by the Ministry of Labour, Invalids and Social Affairs and Ministry of Health or having worked at least 15 years regular in areas where the area allowance is indexed at least 0,7; in some other special cases, the qualifying age for an old age benefit shall be regulated by the Government.
- The employee who has paid social insurance premiums for at least 20 years is entitled to an old age pension if he/she is under one of the following conditions:
  - a) Having reached the age of 55 for a man and 50 for a woman; except those who are under other regulations of the Official Law of the People Army and the People's Public Security;
  - b) Having reached the age from 50 to 55 for a man and from 45 to under 50 for a woman and having worked at least 15 years in heavy, hazardous and dangerous occupations in the list issued by the Ministry of Labour, Invalids and Social Affairs and Ministry of Health or having worked at least 15 years regular in areas where the area allowance is indexed at least 0,7.

### ***5.3. Adjustment of the old age pension.***

The old age pension shall be adjusted when the cost of living index increases to at least 10 per cent. The level of specific adjustment shall be regulated by the Government.

***5.4. Adjustment of the monthly wage on which social insurance premiums are based.***

The monthly wage of the employee on which social insurance premiums shall be adjusted based on the level of the common minimum wage at the time of receiving old age pension.

The monthly wage of the employee on which social insurance premiums shall be adjusted based on the cost of living index of each period regulated by the Government.

#### ***5.5. Funeral allowance***

The following employee when he/she dies, the undertaker for his/her funeral service shall be given funeral allowance if he/she is under one of the cases as follows:

- a) Having paid his/her social insurance premiums stipulated in Provision 1, Article 2 of this law;
- b) Having reserved his/her social insurance period; and
- c) Having received monthly old age pension, employment injury and occupational disease benefit after ceasing working.

The funeral allowance is equivalent to 10 months of the common minimum wage.

In case the employee stipulated in Provision 1 of this law is declared him/her late on deceased by court, his/her relatives shall be entitled to allowance stipulated in Provision 2 of this Article.

#### ***5.6. Level and mode of paying social insurance premiums from the employee***

Every month, the employee shall pay social insurance premiums equivalent to 5 percent of the wage on which social insurance premiums is based, to the pension and survivors' fund; from 2010, the contribution rate will be increased 1 per cent for every 2 years until it reaches 8 per cent.

#### ***5.7. Level and mode of paying social insurance premiums from the employer***

The employer shall pay social insurance premiums monthly from the employee's wage fund on which social insurance premiums as follows:

- a) 3 percent to the sickness and maternity fund, of which 2 per cent for the employer to pay for the entitled employees in times stipulated in Session 1 and Session 2, Chapter III of this law and draw the balance sheet with the social insurance organization quarterly;
- b) 1 percent to the employment injury and occupational disease fund;
- c) 11 per cent to the old age pension and survivor fund, from 2010 the contribution rate will be increased 1 per cent for every 2 years until it reaches 14 per cent

The employer shall pay social insurance premiums monthly based on the common minimum wage as follows:

- a) 1 percent to the employment injury and occupational disease fund;
- b) 16 per cent to the old age pension and survivor fund; from 2010 the contribution rate will be increased 1 per cent for every 2 years until it reaches 22 percent.

#### ***5.8. Monthly Wage on which social insurance premiums are based***

1. For the employee, who is getting wage as defined in the wage scale set by the Government, the monthly wage on which social insurance premiums are based shall be the wage based on the rank, position, military rank, leadership allowance, seniority allowance, regional allowance, and allowance for retained ratio differential, if any. This wage is computed based on the common minimum wage.

2. For the employee, who is getting wage as defined in the wage scale set by the employer in accordance with the regulations in the Labour Code, the monthly wage on which the social insurance premiums are based shall be the wage written in employment contract.
3. In case, the wage level stipulated in Provision 1 and 2 of this Article is higher than the common minimum wage 20 times, the wage which is used to calculate social insurance premiums shall be equivalent to 20 times of the common minimum wage.

#### ***5.9. Level of management fee***

1. The annual management fee of the compulsory social insurance is extracted from the profit earned from the investment of the fund.
2. The management fee of the compulsory social insurance is equivalent to the management fee of the State Administrative Organization. .

#### ***5.10. Sources of voluntary social insurance fund***

1. Social insurance premiums paid by employees
2. The Profit earned from investment activity of the fund;
3. Contributions from the State;
4. Other legal sources.

#### ***Level and Mode of paying social insurance premiums from employees***

1. The level of monthly contribution is equivalent to 16 per cent of the wage selected by the employee on whom the social insurance premiums are based; from 2010 the contribution rate will be increased by 2 per cent every 2 years until it reaches 22 percent.
2. The wage on which the social insurance premium is based shall be changed based on the solvency of the employee in each period, but not lower than the common minimum wage and not exceeding 20 times of the common minimum wage.
3. The employee can select one of the following modes of paying voluntary social insurance premiums:
  - a) on a monthly basis;
  - b) on a quarterly basis;
  - c) on every six months;

Above is assessment of social insurance management from 2000 to 2007. This report is based on data of balance sheet provided by Vietnam's social insurance from 2000 to 2007 and this is an individual report./.