SOCIAL INSURANCE SYSTEM IN VIETNAM

INPRS/OECD Conference on Private Pensions
28-30 May 2003
Hyderabad, India
Outline

- Social Insurance in Vietnam from 1995 - present
- Pension Mechanism
- Tax Treatment
Social Insurance in Vietnam from 1961-1995

- Structure
- Membership
- Benefits
- Contribution Mechanism
Social Insurance System

MOLISA

Long-term Benefits
- Pension
- Early Retirement
- Survivorship

VGCL

Short-term Benefits
- Sickness
- Maternity
- Occupational accident and diseases

MOLISA: Ministry of Labour, Invalids, and Social Affairs
VGCL: Vietnam General Confederation of Labour
Membership

- Officials of government administrative bodies
- Employees of state owned enterprises
- Members of Party’s organisations
Benefits

- Pension
- Early retirement
- Survivorship
- Sickness
- Maternity
- Occupational accident and diseases
Contribution Mechanism

- Employers and organisations
- State budget
  - During the period from 1990 - 1995, the State budget covered over 90% total expenditures of the social insurance activities
Social Insurance in Vietnam from 1995 - present

- Establishment of VSI
- Organisation of VSI
- Membership
- Contribution Mechanism and Benefits
- Operation of VSI
Establishment of VSI


VGCL
Organisation of VSI

- Head Office
  - Provincial Office
    - District Office
  - Provincial Office
    - District Office
  - Provincial Office
    - District Office
Membership

- Employees of state owned enterprises
- Employees of non-state owned enterprises with 10 employees or more
- Employees of foreign invested enterprises, foreign organisations
- Employees of governmental administrative bodies, government’s activities
- Members of Party’s organisations
# Contribution Mechanism and Benefits

<table>
<thead>
<tr>
<th>System</th>
<th>Program</th>
<th>Contribution % Wages</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social insurance</td>
<td>Pension and death benefits</td>
<td>10% 5%</td>
<td>-Pension Survivorship</td>
</tr>
<tr>
<td></td>
<td>Sickness, maternity, and workers’ compensation</td>
<td>5% -</td>
<td>Sickness Maternity Occupational accident and diseases</td>
</tr>
</tbody>
</table>
Operation of VSI

- Sources of Income
- Expenditures
- Investment Activities
- Allocation of Investment Income
Sources of Income

- Contributions of employers: 15% basic salary of employees
- Contributions of employees: 5% basic salary of employees
- Contributions and Supports from the State Budget
- Investment Income
- Other assistance and supports
Expenditures

- Pension benefits
- Surviorship benefits
- Sickness benefits
- Maternity benefits
- Occupational accident and diseases benefits
- Health insurance contribution
- Other (delivery, administrative expenses and expenses on buildings...)

Investment Activities

- Interest bearing bonds or securities issued by the government or commercial banks, state treasury bonds
- Direct loans to the national budget, national investment fund and state commercial banks
- Public development projects and enterprises subject to approval of the Prime Minister
Allocation of Investment Income

- 50% to pay social insurance benefits
- An amount (equal to 4% revenue from social insurance contributions) to cover current administration expenses
- An amount (average salary for 3 months) to set up bonus and welfare funds
- Remaining amount allocated to capital expenditures
Pension Mechanism

- General Features
- Conditions
- Benefit Formular
General Features

- A legal and independent accounting entity under the direct guidance of the Prime Minister but subject to the management of MOLISA
- Mandatory participation to all employees
- Defined benefits indexed to average monthly salary and years of contributions
- Pay-As-You-Go basis
Conditions

Pension benefits are available:

- 20 years of contributions, age at 60 for men and 55 for women (normal retirement age)
- 20 years of contributions, age at 55 for men and 50 for women (5 years earlier for employees):
  - Working in hazardous occupations
  - Living in designated areas and war veterans
Benefit Formular

Monthly pension benefit = AMS x (0.03 x 15 + 0.02 x (YoC - 15))

AMS: Average Monthly Salary
YoC: Years of Contribution
Service factors: 3% for the first 15 years and 2% thereafter

AMS = Weighted Average Monthly Salary for last 5 years if the employee’s contribution calculated by the state salary system
= Weighted Average Monthly Salary for the period of service if the employee’s contributions both calculated by the state salary system and non-state salary system

Minimum Basis Salary ≤ Monthly pension benefit ≤ 75% AMS
Tax Treatment

- Employer contributions are CIT deductible expenses
- Employee contributions are PIT deductible expenses
- Pension benefits are PIT deductible expenses