International Labour Organization

1919·2019

ILO/Japan Muti-bilateral Programme

Summary note on options for the design of a multi-tier pension system in Viet Nam

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First published 2019

Summary note on options for the design of a multi-tier pension system in Viet Nam

ISBN: 9789220313602 (print); 9789220313619 (web pdf)

Also available in Vietnamese:
Báo cáo tóm lược các phương án xây dựng hệ thống hưu trí đa tầng ở Việt Nam

ISBN: 9789220313732 (print); 9789220313749 (web pdf)

Information on ILO publications and digital products can be found at: www.ilo.org/publns.

Printed in Vietnam

Acknowledgements

The present research was conducted as part of the International Labour Organization's (ILO) technical cooperation in Viet Nam, under the supervision of and with the funding from the ILO/Japan project on Extending Social Security Coverage in ASEAN (ESSA); the ILO/Japan project on New Industrial Relations Framework in respect of the ILO Declaration on Fundamental Principles and Rights at Work (NIRF); and the ILO–Irish Aid project on Inclusive Growth, Social Protection and Jobs (IRISH).

The authors would like to extend sincere appreciation to the Social Security Department of the Ministry of Labour, Invalids and Social Affairs (MOLISA); Doan-Trang Phan and Nguyen Hai Dat (ILO/Japan); and Betina Ramirez Lopez (ILO-IRISH) for providing valuable input. Appreciation is also extended to Dang Thi Hanh and Chadapa Krailassuwan (ILO/Japan) for administrative support.

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Abbreviations

GDP	gross domestic product
GSO	General Statistics Office
ILO	International Labour Organization
MOLISA	Ministry of Labour, Invalids and Social Affairs (Viet Nam)
MPSAR	Master Plan on Social Assistance Reform and Development
MPSIR	Master Plan on Social Insurance Reform
NRA	normal retirement age
VND	Vietnamese dong (currency)
VSS	Viet Nam Social Security

1. Introduction

This paper is based on a series of technical documents prepared by the International Labour Organization (ILO) to support the policy dialogue related to the development and implementation of Party Resolution 28-NQ/TW on the Master Plan on Social Insurance Reform (hereafter, "Resolution No. 28") in 2018.[1] The report aims to summarize the rational to reform the pension system in Viet Nam while providing recommendations on the design of a multi-tier pension system in Viet Nam aligned with the objectives established by Resolution No. 28. In addition to the Master Plan on Social Insurance Reform (MPSIR), which seeks to establish an effective social security system based on both contributory and non-contributory schemes, the Prime Minister has also approved a Master Plan on Social Assistance Reform and Development (MPSAR). The 2017 MPSAR sets out the broad objectives for the expansion of non-contributory benefits, including regular transfers and specifically the old-age pension. Part of this vision is the establishment of a coherent multi-tiered approach where "all lifecycle income transfers, whether financed from general government revenues or social insurance, become one inter-related social security system". The Government approved the MPSAR to improve tax-funded schemes mainly for the poor and the vulnerable; while the Communist Party endorsed the resolution on the MPSIR to establish an effective social insurance system based both on general revenues and contributions. This paper is structured to highlight the current challenges in the social security system, particularly on pensions, and to outline key options to structure the different tiers of a multi-tier pension system.

[1] This paper has benefited greatly from the following key reports: ILO: *Exploring reform options for a multi-tier pension system in Viet Nam (Hanoi, forthcoming); ILO: Viet Nam – Report to the Government: Actuarial valuation as at 31 December 2015 of long-term benefits administered by the Viet Nam Social Security Organization* (Geneva, 2018); *ILO: Improving women's access to old-age protection in Cambodia and Viet Nam* (Geneva, forthcoming).

2. Challenges to the current pension system

As in many other countries in the world, including throughout Asia, Viet Nam's old-age protection system faces the pivotal problems of having a relatively low level of coverage, while at the same time needing to ensure social and financial sustainability in the mid and long terms. Despite the fact that not all of these challenges are immediately being felt, they required an urgent and comprehensive answer, particularly in light of the rapid pace of population ageing.

2.1 Fast-paced ageing of the population

Viet Nam is entering a rapid ageing transition that is among the fastest worldwide.[2] Today, the country is still a demographically young country, with an old age dependency ratio of 6.6 percent. However, the number of people aged 60 and above will increase from 9.1 million in 2015 to 33 million in 2105. In comparison to other countries – both developing and developed – Viet Nam has a very high pace of ageing. In particular, the time needed to move from an "ageing phase" to an "aged phase"[3] is much shorter in Viet Nam than that experienced by other countries. Viet Nam will only need 18 years, while France needed 115 years, the United States needed 69 years, and China and Japan needed 26 years (World Bank, 2015). While in 2015 there were 6.6 working age adults aged 15–59 for each older person above 60 years; in 2055 there will only be 2.1 working age adults per one older person. Given the current socio-economic developments, such trends can become a challenge for Viet Nam, and will undoubtedly require a significant adaptation of its pension system.

Ageing hits women even stronger than men.[4] Women's life expectancy at age 60 stands at 2.7 years above that of men. Given this longer life expectancy, women need greater lifetime transfers to finance a longer period of retirement. Women are also more likely to become widows. In Viet Nam, older women are about four times more likely than men to live alone, and they are also more likely to be living only with an unmarried child, which suggests that they may be taking on significant care responsibilities (Kidd, Gelders, and Tran, forthcoming). Women who lack a retirement pension of their own can be particularly

[2] Where not otherwise indicated, the data in this section are based on ILO, 2018b.
[3] This is defined as the number of years needed to increase the elderly population aged 65 and above as a percentage of the total population from 7 to 14 per cent.
[4] More details are available in ILO, forthcoming a.

vulnerable in old age; even more so if they are not entitled to derived benefits, such as widow's pensions (Arza, 2015). Access to such benefits continues to be complex to navigate, to the detriment of the most vulnerable.

The demographic trend, including changes in family structures, makes the requirement to expand pension coverage urgent. Rising longevity and declining fertility will swell the number of elderly in need of adequate protection once they get older. The working age population risks being "sandwiched" between caring both for their children and for their parents, facing an increased burden of caring financially for three generations, i.e., their children, themselves, and their parents. This burden will be aggravated as there will be fewer working age adults, and thus fewer siblings with whom to share the increasingly heavy burden of caring for ageing parents (Economist Intelligence Unit, 2010).

A change in prevailing cultural norms is already showing signs of a higher expectation on the State's responsibility to provide older persons with adequate income security. While the family has traditionally been the guarantor of retirement security in Viet Nam, a survey finds that only 22 per cent of today's working age population in Viet Nam expects to be dependent on their family for their retirement, and 62 per cent of current workers sees the Government as being responsible for providing them with income security (Jackson, 2015).

2.2 Significant protection and coverage gaps for the elderly

Viet Nam made a significant progress in the extension of social security legal coverage. The amendment of the law in 2014 brought significant expansion in legal coverage. Starting on 1 January 2018, all employees with at least a one-month contract are subject to registration with the social insurance system, including migrant workers in Viet Nam.[5] In addition, all other workers are allowed to join the voluntary scheme. Therefore, in terms of legal coverage, the combination of compulsory and voluntary social insurance schemes covers the total labour force.

The extension of effective coverage remains challenging. Despite the progress made in extending legal coverage, the number of pensioners is still low. The ILO estimates that about 8.3 million out of 10.1 million elderly did not receive a pension in 2017, representing about 83 per cent of all elderly above 60 (ILO, 2018b).[6]

Without an ambitious strategy to expand pension coverage, the low number of contributors today will result in limited pension coverage in the future. In 2017, over 41.1 million persons were not participating in the social insurance system; whereas only around 13.8 million people were contributing to social insurance (ILO, 2018b).[7] This means that

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[5] Law on Social Insurance, 2014. Available at: https://www.ilo.org/dyn/natlex/docs/ELECTRONIC/99775/126463/F-1921723198/VNM99775%20Eng.pdf

[6] The presented figures for 2017 are projections based on 2015 data from Viet Nam Social Security (VSS) and the General Statistics Office (GSO).

[7] Ibid.

only 25.1 per cent of the total labour force contributes to the social insurance system, and can therefore expect to receive a contributory pension upon retirement.

Women are more likely to lack adequate old-age protection.[8] In 2016, only 12 per cent of women aged 65 years and above received a social insurance pension; while the percentage was 26 for men (Kidd, Gelders, and Tran, forthcoming).[9] Moreover, due to an earlier retirement age, women currently have five fewer years to accumulate contributions than men. This, on top of challenges related to unpaid or unstable working arrangements, contributes to lower pensions at retirement. In addition, women's life courses, characterized by longer periods dedicated to taking care of others, result in lower labour market participation, more part-time or irregular work, shorter contributory histories, and lower earnings. All these features affect their pension entitlements in contributory pension systems. As a result, women receive 20 per cent lower pensions than men in Viet Nam (ILO, 2018b). As stated earlier, women in Viet Nam live longer than men, and thereby their requirement for mechanisms that guarantee old-age income security are even more relevant.

The extension of social security and the formalization of the informal economy are two faces of the same coin. Among the key issues associated with the low coverage of social security is the incompatibility of the current design of the Viet Nam Social Security (VSS) scheme with labour market characteristics, particularly for workers in non-standard forms of work, and the low compliance among formal sector firms, especially among small and medium enterprises. About 76.2 per cent of total employment is informal (see box 1), and many of these workers are not covered by the contributory pension scheme or the non-contributory tax-funded pension.[10] About 97.9 per cent of informal workers do not have access to social insurance benefits.

Box 1.
Profile of informality in Viet Nam

Approximately three out of four workers in Viet Nam hold informal employment arrangements. Excluding agriculture, the share of informal employment is 57.9 per cent of total employment (ILO, 2018a).[11] The majority (61 per cent) works in the informal sector in individual business households where neither employers nor employees are registered to VSS.

Among those in informal employment, most are waged employees who make up almost half of all workers in informal employment. A high number of employees

[8] ILO, 2018b; Counting Women's Work, 2017.

[9] The estimates in this literature are based on the dataset of Viet Nam Household Living Standards Survey 2016.

[10] ILO estimates based on the 2015 Labour Force Survey.

[11] For countries with a high share of agricultural production in the economy, such as Viet Nam, the share of non-agricultural informal employment might give a better indication of informal employment.

without an employment contract or social insurance coverage is found in the formal sector (5.4 million), which illustrates the need for enhanced compliance and enforcement in the formal sector. The second largest group are own-account workers, who account for a third of all informal workers. Roughly 2 million informal workers are contributing family workers, mostly female and belonging to the most vulnerable groups in the informal economy pyramid.

Women are more likely to find themselves in more vulnerable employment arrangements, often as own-account workers, contributing family workers, and domestic workers. Moreover, people in rural areas are more likely to work in the informal economy without any labour and social protection, compared to people living in urban areas. More than half of all workers who hold informal jobs work in the agricultural sector, followed by the services sector (25.1 per cent) and the manufacturing sector (17.1 per cent).

Source: ILO, forthcoming b.

The voluntary contributory pension scheme has been shown not to be effective in closing coverage gaps. While the voluntary social insurance scheme aims at covering workers without compulsory coverage, the scheme only reached about 227 thousand people in 2015 – equivalent to about 0.3 per cent of the 53,673 thousand active labour force participants between the ages of 15 and 69 (ILO, 2018b).[12] Viet Nam's experience, as well as other countries' experiences, illustrate the limited effectiveness of voluntary schemes for the extension of coverage, as they only reach a minority of workers.

An increase in the number of contributors in the short term is not expected to lead to an immediate increase in the number of beneficiaries under the current system. By the nature of the contributory pension scheme, time will be required before new contributors start retiring and receiving pensions. In addition, the high share of workers in non-standard forms of employment – including short-term and irregular employment – creates an additional challenge for workers to accumulate enough contributions to qualify for a decent pension.

The current tax-funded pension schemes provide a minority of elderly with low benefits. Although the social pension is legally available to all elderly above 80, a recent analysis of the 2016 Viet Nam Household Living Standards Survey estimated that less than 60 per cent of eligible recipients actually receive the benefit, with a bias existing towards men (Kidd, Gelders, and Tran, forthcoming). The benefit is set at 270,000 Vietnamese dong (VND) (US$11.60), which is only equivalent to 33.75 per cent and 27 per cent of the rural and urban poverty lines of VND800,000 and VND1,000,000, respectively. At 5.6 per cent of

[12] The presented figures are estimates based on 2015 data from VSS and the GSO.

gross domestic product (GDP) per capita, the benefit value is among the lowest compared with other similar middle-income countries. The low value of transfer may explain in the high poverty rates among over-80s, even though they receive a social pension. Moreover, the value of the means-tested pension for people aged 60–70 and living in poverty and with no family support is slightly higher at VND405,000 per month, but only reaches about 95,000 older persons (Kidd et al., 2016).

In addition to considerable coverage gaps, the contributory benefits provided are often low compared to the total wage, and hence insufficient to ensure a decent living in old-age. Rather than being associated with the pension formula, this issue stems from the common practices of under-reporting of wages, using base salaries rather than full salaries as the reference for insurable earnings, and the limited compliance of employers and workers.

The expansion of tax-funded pensions is key to close coverage gaps. Without a significant expansion of the tax-funded scheme, 16.4 million elderly – or 79 per cent of the 20.7 million elderly above the statutory retirement age in 2030 – risk ending up without a pension. Even with an increase in the share of contributors, it will take at least a few decades until the number of beneficiaries receiving a contributory pension will significantly change. Until then, the only solution to extend effective coverage in this context is the establishment of a wider tax-funded pension scheme, integrated into a multi-tier pensions system.

2.3 Financial sustainability of the pension system

In Viet Nam, the financial pressure on the system is compounded by demographic changes and several other factors. The rapid ageing transition and the natural maturation of Viet Nam's pension system creates a particular situation with consequences for the pension system and the cost of that system. Rising costs are a normal phenomenon shared by many ageing societies around the world as their pension systems mature and their population ages. As in many other countries, Viet Nam needs to take action.

High replacement rates and low statutory retirement ages seem to be at odds with the fast ageing population. Presently women can retire at 55 years and men at 60, whereas the life expectancy at age 60 is expected to increase from 18.9 years for men and 21.6 years for women in 2015 to 20.9 years and 25.0 years, respectively, by 2060 (ILO, 2018b). Longer life expectancy implies that people will require pensions for a longer period of time (or will extend their working careers if their health conditions allow it). In combination with a decreasing ratio of contributors to beneficiaries, this trend may pose financial challenges to the system. This argument presents an important argument for the need for the establishment of equal retirement age for both women and men. The current replacement rates are too high to ensure the financial sustainability of the system. The maximum replacement rate is 75 per cent of the reference wage after 35 years of contributions. For people with between 20 and 35 years of service, the replacement rates in Viet Nam are too high compared to the “insured wage” (not necessarily to the total wage). Meanwhile, 20 years of contributions are required to qualify for minimum pensions.[13]

The high number of lump-sum withdrawals negatively impacts the extension of social insurance coverage. People who have discontinued social insurance payments for at least one year and have not reached 20 years of contributions are entitled to receive a lump-sum payment. However, lump-sum payments do not provide adequate protection in old age. The number of insured persons opting for the social insurance lump sum comes to nearly 500,000 per year, which is high compared to the number of social insurance pensioners per year. In addition, lump-sum payments are concentrated among young cohorts, which impacts even more on the level of old age income protection.

The pension scheme for the civil servants is exposing the pension fund of private sector workers to financial risks. Pensions for the private sector are based on lifetime earnings; while pensions for the public sector are still based on the average earnings of the last few years of insurance.[14] As the latter reference earnings are generally higher, the private sector workers are partially financing the public sector’s fund.

[13] The presented figures are estimates based on 2015 data from VSS and the GSO.

[14] Last five, six, eight, or ten years of contributions, depending on when the insured began contributing.

3. A multi-tier pension system

The MPSAR and MPSIR set the goal of achieving universal pension coverage through an effective multi-tier pension system that combines non-contributory and contributory pension schemes. The MPSIR intends to guide future policy, legal, institutional, and governance reforms of the social insurance system, including pensions, until 2030, with a view at a gradual extension of social security coverage to all.[15] Acknowledging the current coverage challenges in the system, the Vietnamese Government aims at gradually closing the coverage gap by combining non-contributory and contributory elements in a multi-tiered social protection system, and by specifically developing a pension-tested component that aims at covering all elderly who lack contributory pension coverage. These reform measures reflect a significant commitment by the Government towards universal social protection, grounded in a number of core values aligned with ILO social protection Conventions and Recommendations.

A variety of countries have followed an approach to the expansion of coverage that involves a multi-tier pension system consisting in most of cases of a flat, tax-funded base pension; a mandatory, earnings-related contributory pension; and supplementary pension plans. Tier 1 of the system is mostly comprised of a component normally financed by government general revenues to ensure basic old-age protection for all. This approach has proved to be one of the most effective ways to expand coverage in the short and medium terms, including to people who were not able to accumulate enough years of contribution or to contribute at all. Tier 2 is based on an earnings-related contributory scheme. The ILO recommends that this Tier 2 scheme be a defined benefit scheme financed on a pay-as-you-go or partially funded basis, similarly to what the Vietnamese system currently offers under VSS. Finally, Tier 3 consists in most of the cases of a voluntary, supplementary defined contribution pension component to allow individuals to achieve even higher levels of benefits.

3.1 Tier 1: Tax-funded non-contributory pension

Tier 1 aims at guaranteeing that everyone has at least a minimum income level at retirement through tax-funded pensions. It is strongly aligned with the ILO Social

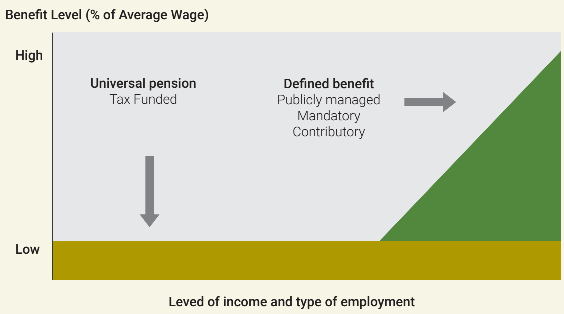
[16] In addition, the MPSIR envisages to adjust a number of parameters in the social insurance system to make the system financially sustainable and attractive (increase of retirement age to 60 for women and 62 for men, reduction of qualifying conditions for future pension recipients from 20 to 10 years, and modification of parameters such as insurable earnings, flexible retirement age, replacement rate and accrual rate).

Protection Floors Recommendation, 2012 (No. 202). Such a guarantee is particularly relevant for those who had no or only limited capacities to contribute to the contributory pension schemes during their working lives, including low- and irregular-income earners, workers in informal employment, and difficult-to-reach groups like agricultural workers. Box 2 below presents select practices from around world regarding Tier 1 tax-funded non-contributory pensions.

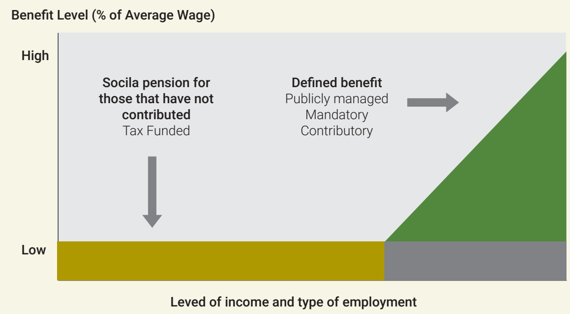
Box 2.
International practices of tax-funded non-contributory pension

There are a variety of Tier 1 design options that guarantee universal coverage depending on the national context. Two observed options are the launch of **universal flat pensions**, which are based on a flat amount provided to everyone who has reached the age of eligibility, or a **pension-tested social pension**, which is granted to everyone who has reached the age of eligibility but does not receive a social insurance or civil service pension.

Universal pension



Pension-tested benefit



In Asia and the Pacific, several countries have pension systems in which general government revenues constitute an important part of the funding mechanisms. Some examples include Brunei Darussalam, China, Japan, the Republic of Korea, Malaysia, Mongolia, the Philippines, Thailand, Timor-Leste, Viet Nam, and more recently, Myanmar for those above 90. Those experiences show that there are indeed various options to build a universal basic pension tier while balancing different pensions' objectives and funding modalities. Countries such as Brunei Darussalam, Thailand, and Timor-Leste have introduced tax-funded universal pension schemes, providing a flat pension amount paid on a monthly basis to all people above the pensionable age. Such schemes have the advantage of aiming at full coverage of the population by ensuring that everyone has at least a minimum of income security upon retirement. Other countries, such as Mongolia, have used pension-tested schemes targeting those who are not benefiting from other pension schemes. Others, such as Indonesia, Malaysia, and the Philippines, have means-tested schemes targeting those who do not reach a minimum level of income from pensions or other sources, but to date the level of coverage has been rather low. The Republic of Korea achieves universal coverage by complementing its partially funded defined benefit scheme (National Pension Services) with a fully tax-funded means-tested Basic Pension for low-income citizens above 65 years, which in practice guarantees that every person above retirement age has a pension. Means-tested pensions that ensure universal coverage are typically to be found in countries that have the administrative capacity to effectively measure income levels, and where the majority of the older population is covered by social insurance schemes, constituting therefore a residual element of the system.

Resolution No. 28 establishes that the expansion of coverage will be based on pension-tested benefits. Traditionally, a pension-tested benefit means that everyone without a contributory pension (a VSS pension in the case of Viet Nam) receives a tax-funded pension. Resolution No. 28 sets out targets to increase coverage to 45, 55, and 60 per cent of people who are above normal retirement age and are entitled to a pension, monthly social insurance benefits, and social allowances by 2021, 2025, and 2030, respectively. A question that then arises in this context is how to achieve these targets, as the concept of a pension-tested benefit implies by design the exclusion of the use of means-testing. An option then would be setting the pace of coverage extension through a schedule of gradual reducing the eligibility age of the current 80+ social pension in order to achieve these targets. Table 1 below presents two potential roadmaps for achieving this.

Table 1. A possible roadmap towards achieving the MPSIR coverage target in 2030

Scenario 1: Reduction of eligibility age in the initial years – reaching the MPSIR targets in 2021, 2025, and 2030	2021	2025	2030
Normal retirement age (NRA)	Male: 60 1/4 Female: 55 1/2	Male: 61 1/4 Female: 57 1/2	Male: 62 Female: 60
(A) Number of people above NRA (million)	14.6	15.4	16.5
(B) Coverage target of MPSIR (million)	6.6 (45%)	8.5 (55%)	9.9 (60%)
(C) Number of projected VSS pensioners above NRA (million)	2.3	2.4	2.4
(D) Number of people required to receive tax-funded pensions to reach the established targets (million)	4.3	6.1	7.5
Eligibility age for pension-tested social pension	**68 3/4**	**67 1/3**	**68 1/4**
Coverage (%): (C + D) / (A)	**45%**	**55%**	**60%**
Cost for VND350,000 per month in 2018 indexed to inflation (% of GDP)	**0.32%**	**0.35%**	**0.29%**

Scenario 2: Slower reduction of eligibility age in the initial years – still reaching 60% of MPSIR target in 2030	2021	2025	2030
(E) Number of projected VSS pensioners above NRA A(million)	2.3	2.4	2.4
(F) Number of people to receive tax-funded pensions to reach the established targets (million)	1.7	3.0	7.6
Eligibility age for pension-tested social pension	**78**	**73**	**68**
Coverage (%): (E + F) / (A)	**28%**	**35%**	**61%**
Cost for VND350,000 per month in 2018 indexed to inflation (% of GDP)	**0.11%**	**0.16%**	**0.30%**

Source: ILO estimates based on ILO, 2018b, and Kidd, Gelders, and Tran, forthcoming.

A cost estimation shows that Viet Nam can afford to expand the tax-funded pension scheme to everyone above the age of 67 without a substantial impact on public finances. For instance, assuming the gradual reduction of the eligibility age for the tax-funded pension from 80 to 68 years by 2030 as a requirement to achieving the MPSIR's coverage target of 60 per cent of those above retirement age and a transfer set at VND350,000 per month (equivalent to 25 per cent of the basic salary of a civil servant),[16] the pension-tested benefit (i.e., the tax-funded pension) is estimated to cost only 0.3 per cent of GDP in 2030, and thereafter will start to decrease as more people start to receive VSS pensions. The costs of the pension-tested component are sensitive to reform of the lump-sum payment (ILO, 2018b).

An effective combination of pension-tested benefits and VSS pensions would lead to significant impacts on pension coverage and socioeconomic indicators. Under the second scenario proposed in table 1 above, there would be 7.6 million pensioners receiving tax-funded benefits and 2.4 million receiving VSS pensions. The impact would include a 9.6 per cent increase in the average income of people aged 65 years and above, and a reduction of overall inequality by 1 per cent (Gini coefficient). Moreover, it is crucial to ensure that the pension system has an indexation mechanism to maintain the value of pensions; otherwise the impact on beneficiary purchasing power would be diluted with time. However, it should be noted that coverage will not be universal, as 6.5 million elderly above the statutory retirement age would still be without a pension in 2030.

Pension's levels should be meaningful to ensure a decent living in old-age. A relatively low pension of VND350,000 would already make a difference to recipients' lives and their households, by reducing the near-poverty rate among recipients by 34.9 per cent. A higher

[16] More details are available on Kidd, Gelders, and Tran, forthcoming.

value, for example VND700,000, would obviously have even greater impacts on poverty and the wellbeing of the elderly, while the cost would still be reasonable, rising from 0.3 to 0.54 per cent of GDP.

3.2 Tier 2: Mandatory public social insurance tier

The mandatory social insurance tier is associated with the income smoothing and insurance functions of old-age income security schemes. While guaranteeing a basic level of income security, tax-funded pensions alone can hardly provide an adequate level of benefits in relation to working age earnings. Tax-funded schemes address the poverty reduction and redistribution objectives of pension systems, but lack the income smoothing function. Mandatory public pension schemes financed by contributions are key to ensure adequate levels of benefits for large groups of the population, including the middle class. Tier 2 is usually a contributory tier. In the context of ILO standards, Tier 2 ideally should be organized in the form of a publicly managed defined benefit scheme. The Social Security (Minimum Standards) Convention, 1952 (No. 102) stipulates a minimum replacement rate of 40 per cent of lifetime earnings (after 30 years of contributions) together with Tier 1. The Old-Age, Invalidity and Survivors' Benefits Convention, 1967 (No. 128) sets higher standards requiring a replacement rate of at least 45 per cent of lifetime earnings.

In the long-term, the expansion of Tier 2 will need to be accompanied by a comprehensive and integrated formalization strategy to increase the contributory base, including efforts to increase compliance within the formal sector. In addition, it is important to adapt Tier 2 to labour market characteristics and developments.

The adjustment of pension parameters is essential to ensure financial sustainability, to extend coverage, and to provide adequate benefits. As partially discussed above, there are urgent needs for Viet Nam to increase and equalize retirement age; gradually reduce the accrual rate; limit lump-sum payments before retirement age; modify the pension indexation formula; lower the eligibility conditions; enforce the full salary declaration; and harmonize pension-tested benefits and social insurance pensions. Concerning the harmonization between Tier 1 and Tier 2, it is important to ensure that a social insurance pension always provide a higher level of pension than a tax-funded pension, in order to encourage workers to participate in the contributory scheme.

3.3 Tier 3: Supplementary private pensions

Occupational pensions or other voluntary private pensions that constitute the voluntary Tier 3 have a rather limited role throughout Asia, as only a few people have the contributory capacity to contribute. Such individual pension plans provide a supplementary pension on top of the mandatory public pension for groups seeking higher replacement rates. The risks and responsibilities in this case lie with the individual.

4. Conclusions and recommendations

The key objective of this paper was to briefly present and explain potential reform options for the design of a multi-tier pension system in Viet Nam to achieve the objectives determined by the MPSAR and by Resolution No. 28 on the MPSIR. Viet Nam has made substantial progress towards extending pension coverage, but the pension system needs to be urgently reformed to achieve the set goals. International experiences show that multi-tier systems combining funding from general taxation with social insurance contributions are effective in extending old-age protection while maintaining financial sustainability of the system. By designing multiple tiers addressed to different population groups with different needs and contributory capacities combined with different funding modalities, they can achieve a better balance than a defined benefit scheme or a defined contribution-funded scheme alone.

The set of recommendations is the following.

- **Establishing an integrated multi-tier system:** Viet Nam needs to establish an effective pension system today to reduce the burden of future generations. Postponing decisions will deprive many elderly of income protection in the coming decades; increase the risk of old age poverty; and make the required reforms more difficult in the future.
- **Establishing an effective tax-funded pension (i.e., Tier 1) integrated into a multi-tier system:** Tax-funded pensions are the only way – at least in the immediate term – to cover many of those who are in informal employment and did not have the capacity to contribute during their working lives. The social insurance tier will not be able to cover the majority of the population in the foreseeable future, due (among other reasons) to the large informal economy. Viet Nam can afford to expand the tax-funded pension scheme to everyone above the age of 67 at a relatively low cost and with respect to the targets set by Resolution No. 28.
- **Incentivizing those who can afford to participate in Tier 2:** This can involve the reduction of qualifying conditions and the introduction of a set of different minimum pensions to increase the incentives for contributing to the system. Alternatives, such as the provision of a flat child benefit under the contributory system, could also encourage social insurance participation.
- **Paying due consideration to gender equality in the policy design:** Women are more likely to lack old-age protection. They receive an inadequate level of pension support

because of shorter contribution periods and lower earnings. Because women live longer than men, they need a protection mechanism to guarantee old-age income security. The parametric reforms should therefore consider gender equality, particularly equalizing the normal retirement age to offer women a longer time span to accumulate social insurance contributions, and assessing the feasibility of introducing additional credits associated with maternity and care.

- **Gradually implementing the reforms:** It is important that changes to the social protection system should be undertaken in a gradual manner and be effectively communicated to the population so that they can prepare for the changes. While Tier 1 is essential to guarantee at least a basic level of social protection, the Government should also step up its efforts to promote the formalization of the economy in order to expand the contributory base.
- **Integrating approaches at the policy and operational level:** Policy coherence and coordination between the different tiers is the key to success. The MPSAR and MPSIR should be aligned to ensure policy coherence. The establishment of a comprehensive pension system will require adaptations in the institutional and legal frameworks. At the operational level, there should be an assessment of the potential and advantages of placing VSS in charge of the administration of the tax-funded pension, as it would most likely facilitate coordination with the earnings-related contributory pension.
- **National dialogue:** Following the decisions on the main design, the ultimate design details – including transfer values and the pace of expansion – should be determined by the Government in a national dialogue with social partners.

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