

# Social Security and Population Ageing in Vietnam: A Guarantee for the Elderly People's Life

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**Abstract:** Demographic change affects the socio-economic development of any country. In Vietnam, the population and housing censuses from 1989 to 2019 showed an appreciable increasing proportion of the elderly in the total population and fast ageing pace. Older people have many difficulties in their life. Among them, only 27% have pensions or stable incomes, and the rest 73% live without pensions, facing many difficulties. Vietnam is a developing country, and social security policies are in the process of completion. Therefore, improving the social security system, as well as creating opportunities for active ageing and wellbeing for older people, was one of the strategic goals of the Long-Term Development Plan that Vietnam's government has been carried out for more than half a century. In this article, the issues of demographic change, population ageing, social security system, social assistance and pension benefits as the actual sociological problem are studied by using quantitative methods and comparative analysis approach to confirm the research questions; the proposals made by the authors can be helpful for today's reforming social security system in Vietnam and social policy making in context of ageing in Vietnam where a large number of elderly people do not have any social benefits.

**Keywords:** Demographic change, Population ageing, Pension scheme, Social pension, Social protection.

## INTRODUCTION

Population ageing is a global phenomenon. As an inevitable trend, the growth in size and proportion of the elderly in the population is recorded in all countries. Globally, the number of persons aged 65 years and older was 703 million, accounting for 9% of the world's population in 2019, and is expected to double to 1.5 billion (16%) by 2050, so that one in six people in the world will be aged 65 years or over. The percentage of the population aged 65 years or over almost doubled from 6% in 1990 to 11% in 2019 in Eastern and South-Eastern Asia (UN, 2019).

A United Nations' study estimated that Vietnam is expected to begin ageing at a very rapid pace. The number of Vietnamese aged 65 years old and older comprised around 6.5 million people, accounting for 7% of the population as of 2016. By 2040, this number is projected to be 18.4 million, accounting 17% (WB, 2016, p. 8). UN prediction was similar to reality. The results of the census taken in 1989, 1999, 2009, and 2019; by Central Population and Housing Census Steering Committee (CCSC) this share, respectively, was 4.7% in 1989 and reached 7.7% in 2019 (CCSC, 2019, p. 62) (Figure 4). The average life expectancy of

Vietnamese people continued to increase from 65.2 years in 1989 to 73.6 years in 2019 (CCSC 2019, p. 95). In this regard, a person reached retirement age (full 60 years old for male and full 55 years old for female under the 2012 Labor code) could expect to live, on average, an additional 14–19 years or more because of improving healthcare and living conditions. If the retirement age on average was 54.15 years old (55.44 years old for men and 52.86 for female) published by the National Centre for Socio-Economic Information and Forecast (NCIF) as of 2015 (NCIF, 2019), the number of years to receive a retirement pension would become even more.

Only persons who participate in the pension scheme shown in Figure 2 will get retirement pensions. The pension scheme in Vietnam has been in operation since 1962. Before 1995, the pension scheme was defined benefit (DB), which covered only the employees of the state sector, and it was managed by the government agency named Vietnam Social Insurance (VSI) or Vietnam Social Security (VSS).

World Bank Review (2016, p. 35) showed that in Vietnam two-thirds of people over 60 years old report own labor as their primary source of support; only 10% to 12% of the elderly consider pensions as their primary sources of support, reflecting the low coverage of pensions and limited social benefits. Otherwise, data from the General Department of Population and Family

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Planning of Ministry of Health (MOH) presented that 65.7% of the elderly are farmers, who live in rural areas and have low and precarious incomes; most of them have no pensions when they can no longer work (MOLISA, 2019a).

One aspect worthy of note is that the number of people participating in social security schemes is not high. The number of people participating in social security nationwide, as of March 2019, was about 27% of the total workforce (MOLISA, 2019b). It means that social insurance coverage (SIC) is too low, and the rest of the workers (73%) may have experienced problems with retirement incomes.

Social insurance spending in Vietnam, on average, is lower than that in developed countries. Total expenditure on social security has increased sharply from 5.88% of gross domestic product (GDP) in 2012 to over 6.6% of GDP in 2015 (Yen, 2019), but it is considered relatively low compared to that in developed countries. The average pension expenditure of 15 assessed European Union (EU) countries was projected to increase from 10.4% of GDP in 2000 to about 13.6% around 2040 (Holzmann, 2004). Obviously, a well-balanced pension fund will ensure payment for beneficiaries, but Vietnam's pension fund, as assessed by the World Bank's experts based on the research of the Vietnam Institute of Labor Science and Social Affairs, is expected to turn into a deficit in the near future, and the date that the reserve will be depleted depends on the profit. Around 2030, Vietnam's pension system will start to run deficits and will stop accumulating reserves (WB, 2012).

In this paper, Vietnam's pension scheme and demographic structure changes, as main factors influencing the pension fund sustainability, were analyzed by reviewing updated data; the reasons of the low social insurance coverage rate were clarified. Shortcomings in the social assistance policy for the elderly aged 61-79 years old and the poor people living in rural areas were also studied to make policy proposals to ensure social protection for the elderly who do not have a public pension in the context of population ageing in Vietnam.

## LITERATURE REVIEW

Studying the role of the social security and income of the elderly, Chapman and Ettlinger (2005) proved that although social security is an important insurance program for people of all ages, at any given point in

time, the largest single demographic group of recipients is those age 65 and over. A Prammer's (2019) static analysis based on the three population scenarios showed that ageing leads to declining per capita income tax revenues and social security contributions.

The arguments on the causes of the pension fund imbalance have been presented by Vietnamese researchers in many of their related works. Obviously, population ageing, management of social security fund use, low contribution rates and irrational beneficiaries, and other factors can cause its imbalance. Castel and Pick (2018) found that SIC among Vietnamese small- and medium-sized enterprises (SMEs) remains very low and very few workers in this sector are expected to receive a pension in retirement. Kidd *et al.* (2016), summarized the challenges facing Vietnam, concluded that the current social assistance transfer system is not fit for the purpose of a middle-income country.

Moreover, Long, Giang Thanh (2004, 2017), in his studies, stated that the current pension scheme in Vietnam is not financially sustainable in the context of an ageing population, and it is needed to expand a partially funded defined contribution (DC) scheme as a supplementation to the "Pay As You Go" DB scheme to the existing public pension system in order to meet the requirements of an ageing society. New challenges and development prospects of Vietnam's pension system were also evaluated by Anh and Hang (2018), Son, Tran Van (2012), focusing on the impacts on pension fund sustainability, social assistance, and the policy option for the renovation of Vietnam's pension system.

The aforementioned studies have touched on the pressing issues posing to the VSS system, and somehow raised proposals for its reform.

## MATERIALS AND METHOD

Secondary data of four censuses (one survey every 10 years) conducted in Vietnam between 1979 and 2019 are used in this study and presented as reference tables and figures. In addition, the data were collected and verified from various sources of Vietnamese state agencies, such as General Statistics Office (GSO), Ministry of Labor, Invalids and Social Affairs (MOLISA), VSS and international organizations such as World Bank, International Labor Organization (ILO), and Association of Southeast Asian Nations (ASEAN) statistics, as well as related studies published by Vietnamese and foreign researchers.

Methods of argument were used to analyze the impact on the sustainability of a social security model and its relevance to the World Bank's five-pillar pension model. The comparative research method was applied to identify the unique characteristics of Vietnam's social security fund (VSSF) in comparison with the social security issue in Japan and China. In this regard, integrated research was also used to gain a comprehensive understanding of the current social security status and relevant government policies, as well as to make proposals for improvement of social security policy on ensuring the elderly's life in the context of Vietnam's intrinsic conditions in the next period.

**RESULTS**

**Social Security System in Vietnam: Distinction in the Structure**

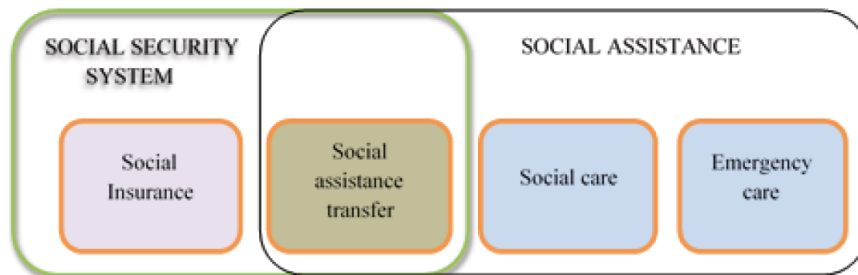
In Vietnam, if systematically researched, there are two main systems related to the social security system,

i.e., social security and social assistance (Figure 1). Social security and social assistance can both be conceptualized within Vietnam as comprising three pillars to reach. The three pillars of social assistance are social assistance transfers, social care, and emergency assistance. Social security overlaps with social assistance by including social assistance transfers, as well as social insurance transfers.

If the two systems were unified and adapted to the model of other countries, the VSS system, in general, could be presented, as shown in Figure 2.

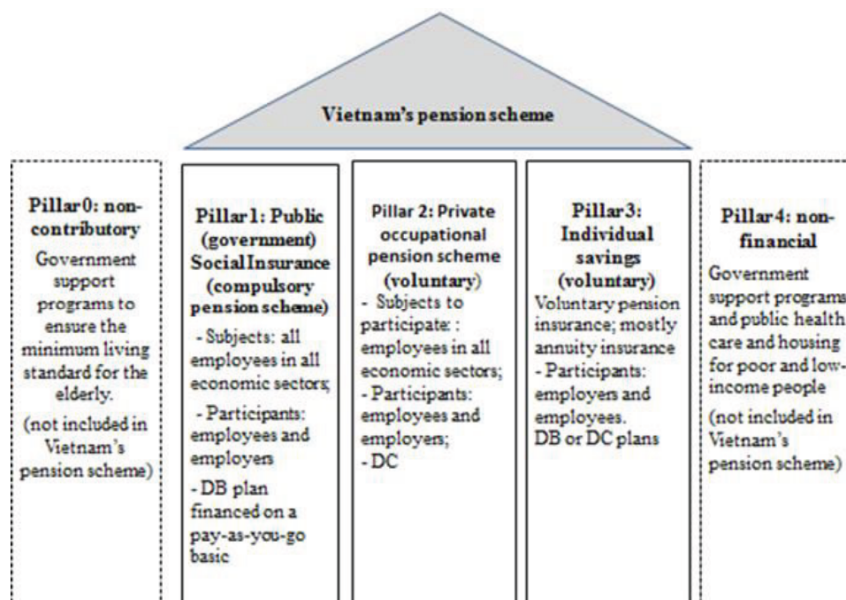
Currently, Vietnam's pension scheme, as a part of the VSS system, consists of the three main form as presented in Figure 2 (pillars 1, 2 and 3).

Vietnam's pension scheme has been in operation since 1962. Before 1995, it covered only the employees of the state sector with a DB plan. Since 2013, voluntary social insurance as a DC plan was



**Figure 1:** The overlap between the pillars of social security and social assistance systems.

Source: Kidd *et al.* (2016).



**Figure 2:** Vietnam's social security system and Vietnam's pension scheme under the 2014 Law on social insurance.

officially expanded and legalized by the 2014 Law on social insurance. VSS, run by the state agency, has been continuously improved and structured like today's presented in Figure 2. It consists of the public pension (pillars 1 and 2), excepting voluntary supplementary personal insurance or annuity insurance (pillar 3), offered by insurance companies. Pillar 0 (non-contributory social pension) and pillar 4 (government support programs for health care and housing and government's "social security programs" called "social protection" or "social assistance" in some documents and researches) are not part of the public pension insurance. Systematical review shows the similarity of the current VSS system to the World Bank's Five Pillars Pension Conceptual Framework (Hinz & Holzmann, 2005).

### The Demographic Change as the Main Factor Affecting the VSS System

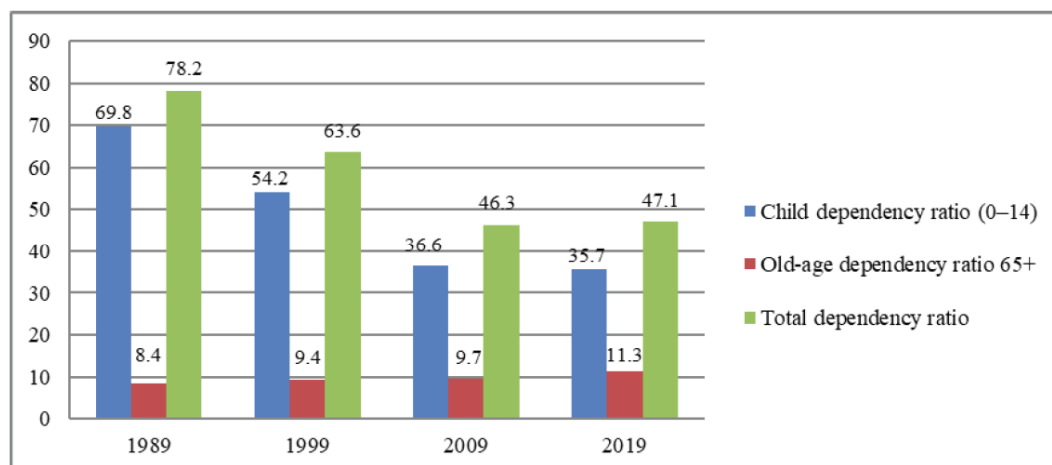
Vietnam's pension system is not financially sustainable in the long term. ILO, based on the conservative assumption of the coverage rate of VSSF to be more or less constant for the projection period, suggests that it is projected that the reserves of the fund will be depleted in the year of 2027 (ILO, 2012). The challenges, which VSSF faces with, were identified by World Bank (2012) as follows: (1) Vietnamese population is expected to age rapidly; thus, Vietnam will grow old before it becomes rich; (2) Low average retirement age and growth rate of the minimum wage; (3) High pension levels in relation to contributors' wages; (4) Lack of VSS investment and long-term funding strategy (excessively risk-averse investment and limitation of fund investment capacity); (5) The inequality in the participant's groups and pension benefits caused by calculating pension between public

and private sector workers; and (6) Low coverage of both mandatory and voluntary schemes.

In general, factors affecting pension funds can be combined into three main categories: economic, pension scheme factors, and demographic change (Long, Giang Thanh & Cuong, Nguyen Viet, 2017), in which demographic change is considered to be the most important because it relates to the labor force and pension fund imbalance. The impact of demographic change is shown by the dependency ratio (DR); the number of dependents aged 0–14 and those aged 65 and older in a population divided by the number of working people aged 15–64, and in turn, DR affects the socio-economic development, including the social security system (Holzmann *et al.*, 2000).

However, when analyzing the data of four censuses conducted in Vietnam in 1979–2019, we found a different point of the issue. Data show that the total DR in Vietnam has decreased rapidly over the time of the last four censuses from 78.2% in 1989 to 47.1% in 2019 (Figure 3). This decline was based on the reduction of child DR (the number of children aged 0–14 to the total number of working people aged 15–64) and a slight increase of old-age DR entirely because of the population ageing and decreased fertility, which leads to a reduction in child DR over the past 30 years. In general, Vietnam's current old-age DR is not high compared to this in Australia (24.0%), Germany (33.0%), Japan (46%), Singapore (15%), Thailand (17.0%), and the world average in 2018 (13.58%) (WB, 2018).

The change in the population age structure with the trend of reducing the proportion of children under 15 years old and increasing the proportion of the



**Figure 3:** The dependency ratio in 1979–2019. Source: (CCSC, 2010, p. 43) and (CCSC, 2020, pp. 62–64).

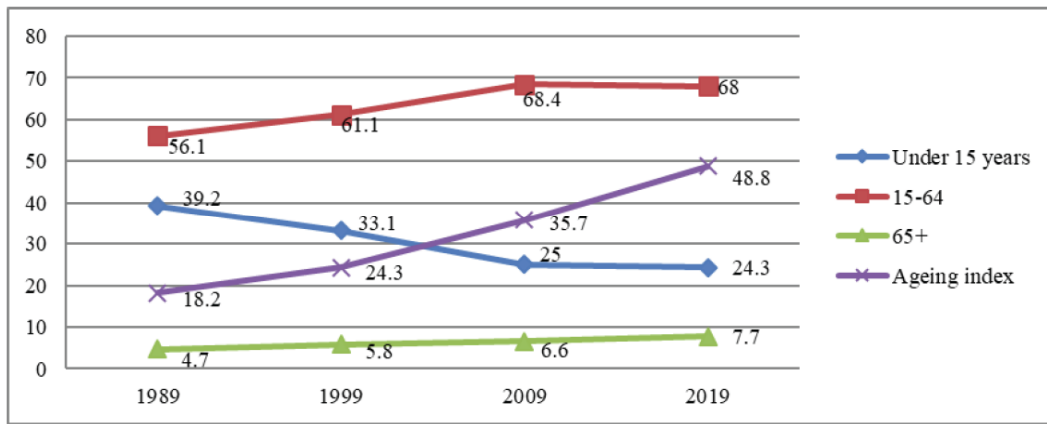


Figure 4: The proportion of the population age group, ageing index in 1989–2019 (in percent).

Source: (CCSC, 2010, p 43; (CCSC, 2020, pp. 62-64).

population aged 60 and older leads to an increase in the ageing index at a rapid pace in the past two decades: It comprised 18.2% in 1989 and soared to 48.8% in 2019 (Figure 4). The ageing index tends to continuously increase in the coming years because of the lower fertility and increase of life expectancy.

The variation of DR and population rate by the age group (decline in the age group 0–14 years and increase in the age group 65 years and over) shown in Figures 3 and 4 can be explained by the population policy of the birth control called “Family Planning,” which have been implemented in Vietnam since 1961 when the total population growth rate in the early 1960s was very high (3.8%) as a result of the high total fertility rate (6.3%) (Phuong, Nam & Phuong, Le., 2018), unsuitable to the underdeveloped economy of the country at this time.

Fertility rate also plays an important role in changing the population structure and contributes to maintaining the period of the golden population. Over the last twenty years, the total fertility rate in Vietnam was maintained reasonably, equivalent to the replacement

fertility of 2.1% that helps to avoid China’s mistake, suffering from the one-child policy, which has caused diversiform substantial costs, rapid population ageing, and severe gender imbalance as a consequence from a son preference (Zhang, 2017).

The ageing of society, ongoing with the low birth rate, causes an inevitable demographic change. In this case, long-term social protection, including policy social security benefits, as well as public and social pensions, would be expected to be diversified. Matsuda *et al.* (2014), reviewing the ageing in Japan, stated that, to finance increased social security benefits, the burden of social security payments, mainly those paid by employed workers, is expected to grow under the existing social security system. Thus, population ageing directly affects the state budget, threatens the pension fund stability in the long term, and puts the needs to improve the government’s policies to ensure retirement pensions, health care, and other social protection benefits for the elderly.

As a policy on appropriate demographic structure adjustment, the Vietnam Population Strategy to 2030,

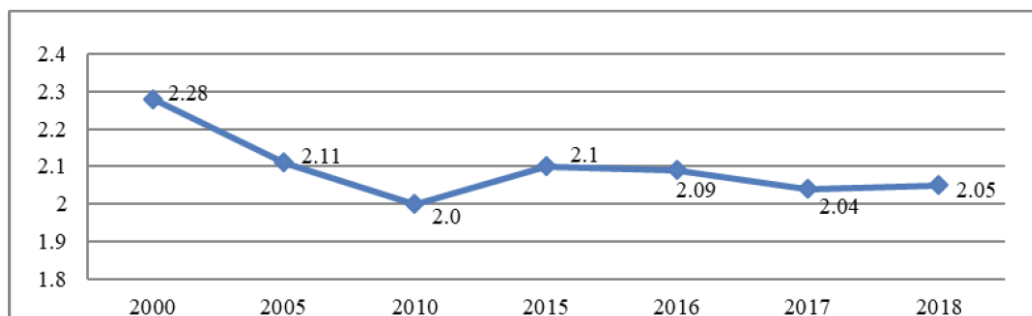


Figure 5: The total fertility rate (children per woman) of the survey years.

Source: General Statistics Office, Vietnam.

**Table 1: The Population Size and Population Growth Rate, 1979–2019**

| Year | Population (thousand persons) | Average annual population growth rate (%) |
|------|-------------------------------|---|
| 1979 | 52 742                        | -   |
| 1989 | 64 736                        | 2.10                                      |
| 1999 | 76 323                        | 1.70                                      |
| 2009 | 85 790                        | 1.18                                      |
| 2019 | 96 209                        | 1.14                                      |

Source: (CCSC, 2019, p.53).

approved by Decision No. 1679/QĐ-TTg dated November 22, 2019, sets the main goals as follows: (a) maintaining replacement fertility (on average 2.1 children per woman of reproductive age); (b) bringing sex ratio at birth to natural equilibrium; (c) effectively taking advantage of the golden population structure; (d) adapting to population ageing; (e) keeping population size of 104 million and rational population distribution (reducing 50% of fertility gap between rural and urban areas, mountain areas, and plains); and (f) improving population quality.

#### Low Coverage of Pension Systems

Another noteworthy problem for the VSS system is the low coverage rate. The number of people participating in both mandatory and voluntary insurance (DB and DC pension plans) is surprisingly low. As of March 2019, the total number of participants nationwide was 14.8 million, accounting for around 27% of the labor force; voluntary insurance covered only 2% (Table 2). Meanwhile, the labor force, composed of people aged 15–60 years, comprised 55.43 million (MOLISA, 2019b).

In our opinion, this reality could be explained by the following facts:

- (1) There are a huge number of people working in informal labor. The 2015 National Internal Migration Study conducted by GSO and United Nations Population Fund (UNFPA) showed that the percentages of migrants and non-migrants having verbal agreements with their employer were 20.7% and 17.9%, and migrants and non-migrants having no labor contracts were 9.7% and 8.7%, respectively (GSO, 2016, p. 7).
- (2) As of 12.2019, the total number of SMEs with less than 200 workers, defined by Decree No. 39/2018/ND-CP, accounted for 98% of the total number operating in Vietnam (GSO, 2019, p. 371). Studying SIC in Vietnam's SMEs with fewer than 300 workers, Castel and Pick (2018) found out that very few (5.2%) enterprises with fewer than five employees participate in social insurance. About 83.9% of firms, which do not participate in social insurance, are household businesses with fewer than ten employees. Similarly, 59.5% of uncovered employees work in household businesses, 38.3% in small enterprises, and 2.1% in medium-sized enterprises.
- (3) According to the results of the 2019 Census (CCSC, 2019, p. 59), the rural population is 63.1

**Table 2: The Social Security Coverage Status for the First Quarter, 2019**

|                                      | Unit            | Q I/2018 | Q II/2019 |
|--------------------------------------|-----------------|----------|-----------|
| <b>Total number of participants</b>  | Thousand person | 13 920   | 14 795    |
| The ratio to labor force             | percent         | 25.26    | 26.95     |
| <b>By the social insurance forms</b> |                 |          |           |
| Compulsory SI                        | percent         | 98.28    | 98.00     |
| Voluntary SI                         | percent         | 1.72     | 2.00      |

Source: Vietnam Social Security (2018, 2019).

million people, accounting for 65.6% of the total. Most of them live in rural areas, complying with traditional customs and do not even know about the existence of social insurance.

Low coverage of the VSS system inevitably reduces the contributions to the social security fund and threatens the sustainability of, and accordingly increases the burden on social assistance for unsecured older people.

### **Non-Contributory Social Pension as a Social Assistance for the Elderly Under the Legal Framework**

According to data from the General Department of Population and Family Planning/MOH, in Vietnam, 65.7% of the elderly live in rural areas, having low and unstable incomes. Most of them have to depend on others. Among older persons in Vietnam, only 27% have pensions or stable incomes, and the rest 73% live without a public pension, depending on their children and facing many difficulties in life (MOLISA 2019a).

Law No. 39/2009/QH1 on Elderly (approved in 2009) is a basic document on elderly care. This Law prescribes the rights and obligations of older people, as well as responsibilities of the family, the state, society, and Vietnam Elderly Association in taking care of/and promoting the role of the older people. The elderly, defined in the Law, are Vietnamese citizens aged full 60 years old or over. By the Law, in addition to physical, mental, and health care, social patronage as a non-contributory social pension bestows on the elderly of poor households without persons.

Currently, the regulations of giving a social pension, which is named "social protection benefits" in Vietnam, are specified in the Decree No. 762/VBHN-BLĐTBXH dated February 28, 2019, on social support policies for social protection beneficiaries. This type of social pension covers all older than 80 years of age and those aged 60–79 who do not have any public pensions and are identified as poor without a caregiver. The standard benefit level for the non-contributory social pension is 270.000 VND (about 13 USD) a month, though some groups receive more. Those aged 60–79 receive 18 USD a month; those aged 80 and above who are poor and do not have a public pension, as well as live alone without family support, receive 26 USD a month; all elderly who do not have any public pension receive 13 USD a month.

### **Key Directions for Social Insurance Reform**

Population aged 60 and over accounts for 12% of the total population (11.52 million persons), in which 2.7 million elderly receive public and social pensions nationwide as of 2019 (Nhưng, Thanh, 2020), leaving a gap of 8.8 million older persons who do not receive a pension in any form. Understanding the seriousness of the problem, the Communist Party of Vietnam has issued Resolution No. 28-NQ/TW dated May 23, 2018, in order to cover this gap. The Resolution announced determination that, by 2030, about 60% of the working-age workforce will be covered by social insurance, with farmers and informal-sector laborers participating in voluntary social insurance, making up about 5% of the working-age workforce. In this regard, about 45% of the workforce will be covered by unemployment insurance; about 60% of people passing the retirement age will enjoy monthly social assistance allowances; the rate of satisfaction of social insurance participants will reach 90%.

The reform of the social insurance system described in the Resolution will be taken by implementing following measures: (1) building a multi-layered social insurance system; (2) amending the regulations on the condition on minimum social insurance participation duration; adjusting the method of pension calculation and expanding subjects participating in compulsory social insurance to other groups; (3) strengthening linkage and support between social insurance policies, as well as the flexibility of the policies to achieve the goal of expanding coverage; (4) reforming the formulation and implementation of policies in order to win the trust and increase the level of satisfaction of social insurance participants; (5) increasing the number of informal-sector employees participating in social insurance; (6) correcting the irrationalities of the current retirement insurance regime; (7) raising the retirement age according to roadmap; (8) amending regulations on premium rates and grounds for payment of social insurance premiums so as to achieve the objective of expanding the coverage of social insurance; (9) adjusting the accumulation rate in order to maximize the rate of pensioners in line with international practices; (10) diversifying the investment portfolio and structure of the social security fund on the principle of safety, sustainability, and efficiency; and (11) adjusting pensions in a relatively independent manner compared to the wages of working persons, changing the way of adjusting pensions in the direction of sharing.



## DISCUSSION

Demographic change in the context of population ageing is considered as a direct impact on the stability of public and social pension funds, as well as on the state budget spending on aged care programs, but the researchers usually focus on the measures of response. In general, controlling population growth continues to be the concern of the long-term population strategy aiming at adjusting the reasonable population structure.

There are many expert's opinions that need to put pillars 0 and 4 (Figure 2) into the pension system to approach the trend of pension reform applied in developed countries. In our opinion, the current structure of the VSS system is relatively suitable for the conditions in Vietnam being a developing country. This point of view is based on different functions of the VSSF system and social protection fund. VSSF as the public pension fund is an independent financial fund from the state budget, set up by contributions from employees and employers (DB and DC plans) with the state's support and managed by state agencies.

Regularly, the monthly pension paid to retirees is calculated upon the number of years of social security contribution and average monthly salary identified for monthly social security payment; lump-sum allowance is applied in line with the 2014 Law on Social Insurance (Article 60). Meanwhile, the state social protection fund, established by deduction from the central and local (provincial) budget, provides financial support with certain amounts to all those who face difficulties in life under the new Decree No. 762/VBHN-BLĐTĐTBXH. The specialty of Vietnam's non-contribution pension is that the government only regulates minimum standard subsidies and allows local authorities to deduct a portion of the local budget and use available resources to extend the fund capacity. Therefore, the amount of subsidy to be enjoyed by beneficiaries in each locality may be respectively varied.

The depletion of VSSF was predicted, and it will affect millions of elderly lives if it would turn into reality. Therefore, continuing implementation of the overall measures pointed in Resolution No. 28-NQ/TW will contribute to the stabilization of the fund and reformation of the VSS system as a whole.

The proportion of the elderly, living in rural areas, accounts for 65% (about 7.2 million) of the country's

total (Nhung, Thanh, 2019). Although the living conditions currently have gradually been being improved, most of elderly live in poor households and have no public pension. Hence, improving the social security policies, targeting this vulnerable population group, needs to be a concern of the Vietnamese government, which ensures social protection for the elderly in the context of a country's socio-economic development.

Social assistance needs to be addressed in two directions, i.e., increasing social assistance benefit and reducing the eligible age of social assistance beneficiaries in accordance with the capability to alleviate life difficulties for the old-age group. The proposal to reduce the eligible age for social assistance benefits from 80 to 75 and extend minimum standard social security benefit from 270,000 to 500,000 VND (submitted by MOLISA and the Ministry of Finance) is being reasonable because of the increase in per capita income.

Local governments and trade unions at all levels should be responsible for controlling the implementation of the Labour Code. Protecting workers' rights in the informal labor sector, limiting the circumstance of verbal agreements (as well as work without a labor contract), and organizing active ageing should be considered as measures to support older workers and promote their role in the community.

As a supplement to social pensions and non-financial government support programs, some other funds in the form of independent social protection fund or charity funds are created by donations from Vietnamese and foreign individuals and organizations, aiming to provide social protection to orphans, street children, homeless elderly, etc. These funds are also patrons of charitable institutions, schools for ethnic minority children in remote mountain areas, and are sponsors for 393 social protection centers, of which 213 are public-run, and 180 are managed by non-government entities, charitable individuals, or organizations (Kidd *et al.*, 2016).

In legal documents, the concept of "retirement age" should be corrected. In accordance with the 2012 Labor code, the retirement age of Vietnamese workers at normal working conditions was respectively full 60 years old for male and full 55 years old for female, while, under the 2019 Labor Code No. 45/2019/QH14, it will be raised to 62 for men by 2028 and 60 for



women by 2035. Therefore, the Law on Elderly and other legal documents related to government social policies on health care, social benefits, and other privileges for the elderly will have to be amended.

## CONCLUSION

Social security pension is the main foundation of the VSS system. It makes an important contribution to the realization of social progress and equity, which ensure the political and socio-economic stability of the country and improve the living conditions of millions of older people. Reforming the social insurance system and completing related policies, in the long-term in the context of population ageing, require regular and comprehensive research. A flexible, diversified, multi-layered, modern, and integrated social security system will mobilize social resources and help to expand SIC among the people in accordance with the roadmap that is suitable for socio-economic development.

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