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# Actuarial valuation of the public pension scheme in Viet Nam

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# Outline



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- Status Quo analysis
  
- Impact of planned reforms
  - ILO proposals
  - Government
  
- Social insurance and budget
  
- Conclusions and recommendations

# Status quo – 30% coverage by 2050



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Year	Number (million)				Demographic ratio (percentage)		
	Contributors	Pensioners			Total	Old-age	Survivors
		Total	Old-age	Survivors			
2010	9.69	0.91	0.90	0.01	9.3	9.3	0.1
2019	12.90	1.98	1.87	0.12	15.4	14.5	0.9
2029	15.86	3.98	3.63	0.35	25.1	22.9	2.2
2039	16.98	7.01	6.24	0.76	41.3	36.8	4.5
2049	16.80	10.72	9.27	1.45	63.8	55.2	8.6
2059	16.29	13.83	11.54	2.29	84.9	70.8	14.1
2069	15.67	15.85	12.97	2.88	101.2	82.8	18.4
2079	14.89	16.97	13.67	3.30	114.0	91.8	22.2
2089	14.26	16.93	13.48	3.45	118.7	94.5	24.2
2099	13.68	16.36	13.18	3.18	119.6	96.4	23.2

# Aging faster than GSO expected



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## Vietnam's population of over 88.5 million is aging fast

TUOITRENEWS

05/21/2013

Meanwhile, the number of people above 65 accounted for only 5.8 percent of the population in 1999, but the rate **increased to 7.1 percent as of April 2012**

Based on such figures, Vietnam's aging index soared from 24.3 percent in 1999 to 42.7 percent in 2012 -- a relatively fast increase rate over the past two decades, the Office said.

## GSO population projections 2009-2049

**GSO projected 6.2% by 2012!!!**

GSO projected 88.6 million people by 2012



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## Results – Financial ratio

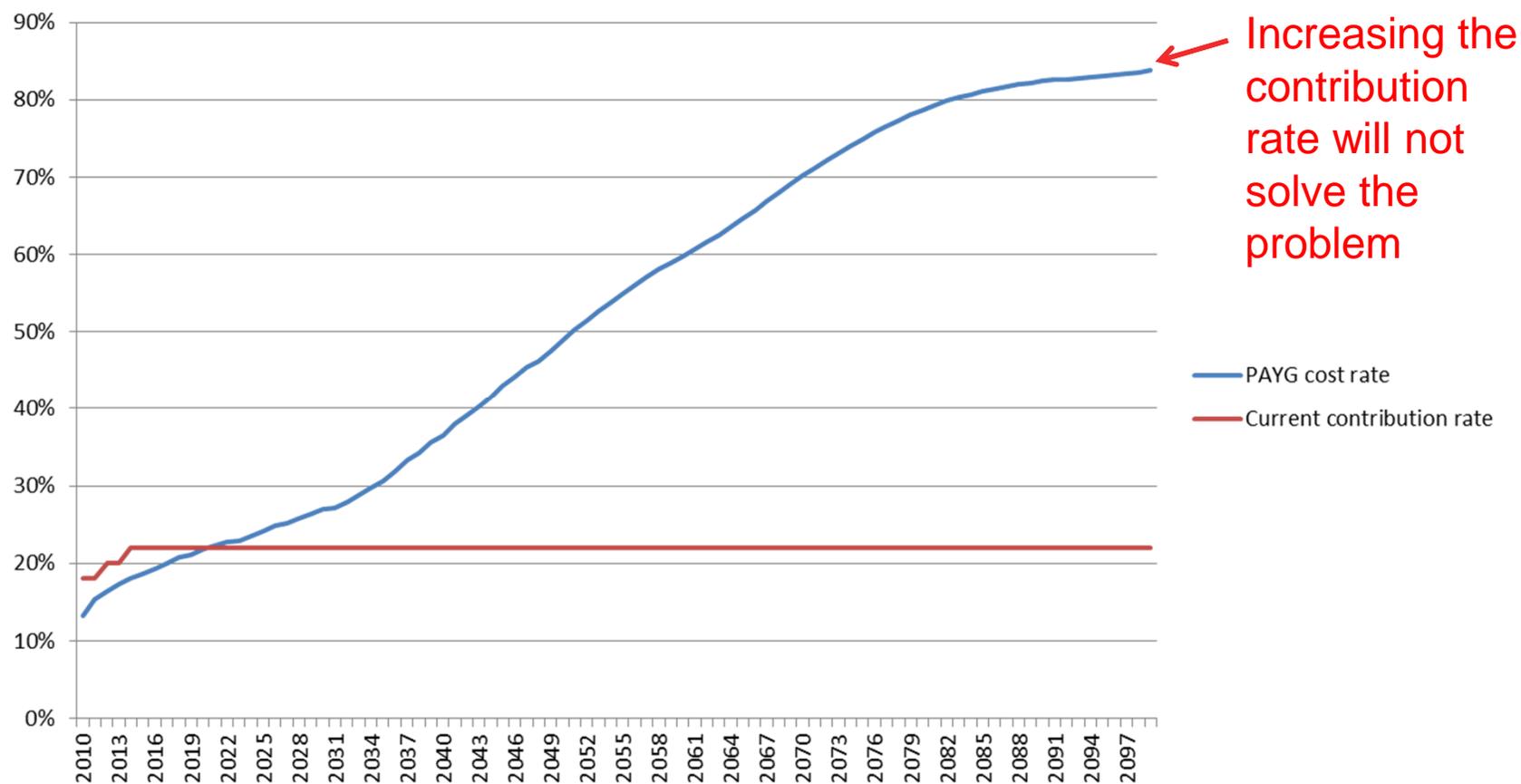
Year	Total	Public	Private
2014	126.4%	105.8%	-
2019	123.1%	103.7%	33.9%
2029	95.3%	99.7%	38.1%
2039	81.5%	101.2%	38.8%
2049	70.3%	105.6%	39.8%
2059	64.1%	102.4%	42.6%
2069	62.7%	100.9%	45.5%
2079	62.8%	100.4%	48.3%
2089	63.7%	99.2%	50.5%
2099	64.8%	99.6%	51.7%

Financial ratio of old-age pensioners (= average pension / average wage of contributors)



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# Results – PAYG cost rate



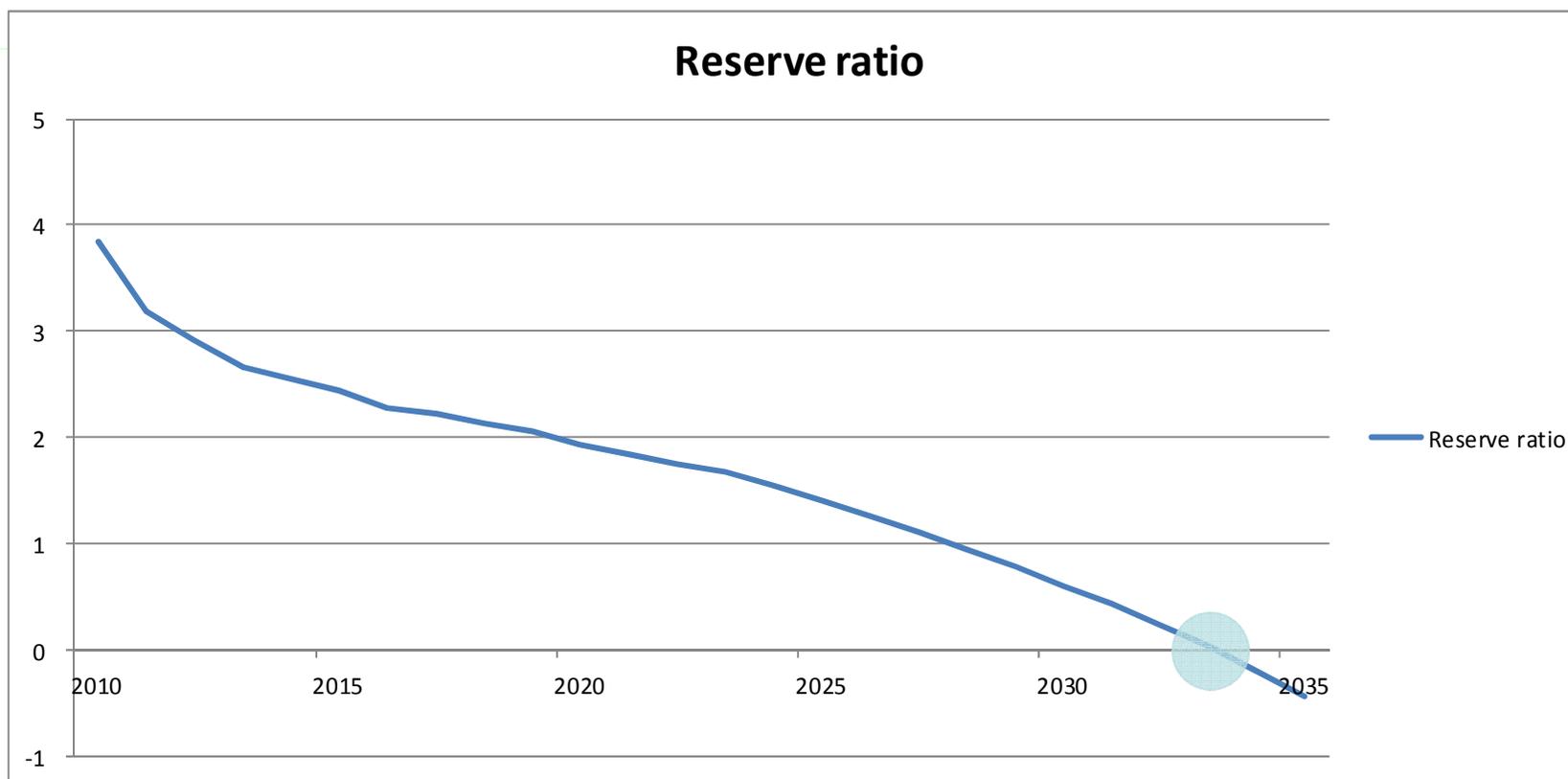
PAYG cost rate vs. current contribution schedule

PAYG cost rate = demographic ratio \* financial ratio

# Results – Reserve ratio



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Reserve ratio = reserves / total expenditure



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# Problems

- Short career vs increasing life expectancy
  - Average retirement age is 53
  - 25-30 years of contributions vs 20-25 years of pensions
- Average wage
  - Civil servants: only the last 5, 8, 10 years
  - Lead to higher average wages than contributing salaries
- Pension formula
  - 45% in 15 years – crazy high – leads to 2.5-3% accrual rate
  - Average in world 1 to 2%
- Revalorisation
  - Civil servants – minimum wage

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# Reform options - ILO

- Increase the retirement age

Increase firstly females retirement age in 2018 to 56 and continue to increase it by one year every two years till it reaches 60 and increase both males and females retirement ages by one year every two years till they reach 65 and kept constant afterwards.

- Wage used for the calculation of the pension

Whole career both for civil servants and for private-sector workers



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# Reform options - ILO

Revalorization of the wage used for the calculation of the pension

In line with the average wage increase both for civil servants and private sector workers

Adjustment of the pension level (pension formulae)

Starting from 2016, the pension formula will change into a flat annual accrual rate of 2.5% till it reaches 2.0% (ILO Option 1) or 1.5% (ILO Option 2) over 20 years.

People are expected to work longer in this scenario (incentive to increase their pensions by working longer)



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# Reform options - Government

- Increase retirement age  
Up to 62 (M) and 60 (F) from 2016
- Pension formula (ultimate) – for new civil servants  
Min  $(45\% + 2\% * (\text{cont. years} - 20), 75\%) * (\text{wage})$
- Wage used for the calculation of the pension  
Whole career wage revalorized in line with wage increase (option) or inflation
- In this scenario, people will extend retirement in line with the retirement age increase, but shorter than ILO options.

# Results



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Options		Year		Year 2049				Year 2099			
		PAYG cost rate exceeding 22%	Depletion of reserves	PAYG cost rate (%)	Financial ratio of retirement pensions (%)			PAYG cost rate (%)	Financial ratio of retirement pensions (%)		
					Total	Civil servants	Private- sector workers		Total	Civil servants	Private- sector workers
SQ	Status-quo	2021	2034	47.5	70.3	105.6	39.8	83.8	64.8	99.6	51.7
ILO 1	1.5% flat + 65 yrs. old	2050	2080	21.3	51.4	48.7	48.9	45.9	53.8	48.4	58.9
ILO 2	2.0% flat + 65 yrs. old	2046	2066	26.2	67.5	61.6	66.8	57.7	73.9	66.9	80.8
Gov. 1	62 (60) yrs. old + salary revalorization	2027	2040	44.6	88.8	95.1	76.2	75.0	72.2	73.7	73.7
Gov. 2	62 (60) yrs. old + CPI revalorization	2044	2067	25.9	45.6	55.9	32.7	48.7	39.7	42.7	39.7

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# Social insurance and budgetary questions

- The Government budget should cover pensions pre-1995. Is this really happening?
  - If yes, no problem for VSS (questions on redistribution effect)
  - If no, big problem for VSS and current contributors
- Pension fund sustainability is not a concern only to workers, VSS and social insurance experts.
  - Big problem for the economy
  - According to unofficial estimates: 30% in bonds, 6% in budget deficit, around 50% in loans to State banks
- Two considerations:
  1. Is this the right portfolio for Vietnamese contributors?
  2. From 2021, VSS would stop taking bonds, deficit or channelling loans to State Banks. Is the economy ready?

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# Some reflections

- Balance between financial sustainability and benefit level
- Increasing the contribution rate will not address the problem
- Expanding coverage will not cure the sickness, it will postpone it
- Improving the rate of return of VSS will not solve the problem
  - Increasing the rate of return from 7.3% to 12% will only give 2 years to the fund
- In order to improve the financial sustainability:
  - Demographic changes = difficult
  - Longer careers and shorter periods of pensions = increase retirement age
  - Reduced benefits = changes in formula
  - Method for average wage calculation = the longer the better
  - Reform speed

# ILO recommendations

- Increase retirement age to 65
- Uniform accrual rate (1.5% or 2%)
- With the revalorization in line with the wage increase and
- Proper annual actuarial reduction factor (5-6% order or higher)
- Towards a more comprehensive pension scheme
  - Supplementary voluntary pension schemes
  - Linkages between Social Insurance Law and social allowances for old people (Decree 13)
- This will make the scheme financially viable, the pension level predictable for scheme members and provide work incentives for members in line with the increase of the retirement age.

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# Thank you

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