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SOCIAL JUSTICE
DECENT WORK



ASSESSING THE POTENTIAL
FOR MULTI-TIERED
CHILD BENEFITS
IN VIET NAM
A POLICY BRIEF



POLICY BRIEF¹

1. Introduction

Incorporating the informal workforce into the Vietnam Social Security (VSS) scheme is a high priority for the Government of Vietnam. However, to date, the Government has struggled to devise incentives that encourage voluntary participation among informally employed people. Only around 250,000 workers were voluntarily insured with the VSS in 2015, leaving some 50 million working-age people outside the formal social insurance system.² At the same time, in response to widespread low incomes and insecurity among families with children and high levels of undernutrition, there is a growing recognition of the importance of ensuring that every child can access social protection, and indeed children’s “right to social security” is defined in the Law on Children.

Currently, Viet Nam’s social security system is characterised by a distinct divide between, on the one hand, social insurance covering those who work in registered establishments and pay contributions, and on the other hand, social assistance for specifically and narrowly defined groups, resulting in low coverage overall. To begin to address this, the Government has embarked on reform processes with ambitious targets, as captured in the recently approved Master Plan on Social Insurance Reform (MPSIR) and the Master Plan on Social Assistance Reform and Development (MPSARD) and their corresponding Action Plans.

Despite the fact that the MPSIR and MPSARD processes have been undertaken separately, there are clear linkages between them, in particular with respect to two key targets: in the MPSIR, the overall intention to expand social insurance coverage to reach 60 per cent of the working age population by 2030; and in the draft MPSARD Action Plan, the goal of introducing a child benefit for all children under age 6 years by 2025. In this report, we examine the potential for a multi-tiered child benefit to help the Government meet both objectives simultaneously. A multi-tiered child benefit can act as an incentive for workers to join VSS, while at the same time ensuring children’s basic right to social protection. It therefore has great potential to bridge the social insurance/assistance divide and is fully consistent with the Government’s objectives of building an integrated ‘multi-pillared’ or ‘multi-tiered’ social security system.

¹ The full report is available upon request or at the ILO website.

² Nguyen (2015).



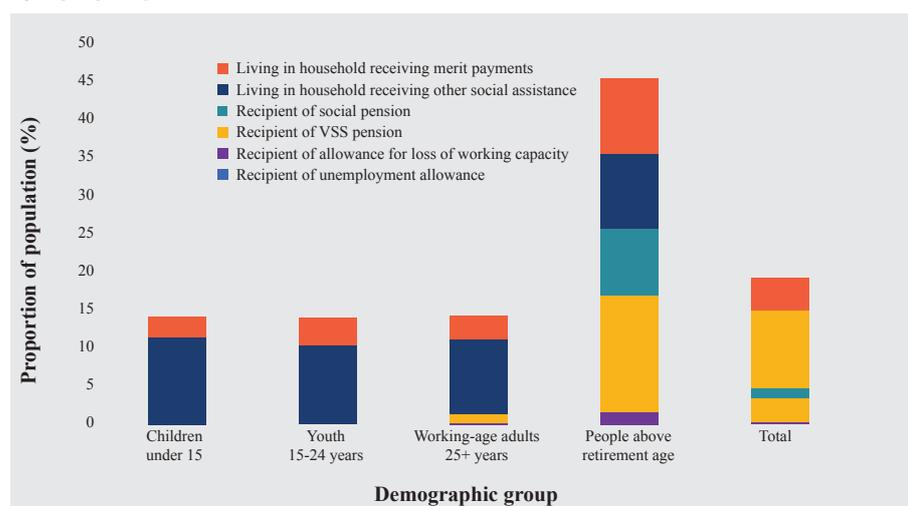
2. Overview of Viet Nam's social security system

Generally speaking, formal-sector workers with contracts of at least one month can expect to be protected against loss of income due to old age, disability, survivorship, ill health, employment injury or unemployment in line with provisions of the Social Insurance Law No. 58 of 20 November 2014, provided the employer is in compliance.

Unlike the social insurance system, which is organised around lifecycle risks, the social assistance system is constructed around a logic of ensuring basic needs for persons in difficult circumstances. It consists of three components: regular transfers; emergency assistance; and social care and social work. Regular transfers comprise the largest component and include targeted cash support for certain groups of children (such as orphans and children with disabilities), persons with disabilities, single parents, persons living with HIV/AIDS, and older persons aged 60-79 who lack any means of support as well as the universal social pension for all persons aged 80 and above. By design, the social assistance programmes have relatively small target populations.

Less than 20 per cent of all households in Viet Nam have a beneficiary of any social protection programme, as shown in Figure 1. Indeed, there are large coverage gaps across all ages, but younger generations and people of working age are distinctly disadvantaged in Viet Nam's existing social protection system, with more than 85 per cent living in households with no access to any social protection.

Figure 1. Proportion of population with access to social protection in Viet Nam, by age group



Source: Based on VHLSS 2016.

In effect, by providing social assistance for the 'poor' and restricting social insurance coverage to civil servants or relatively high-income workers in the formal economy, the system currently excludes many people in the so-called 'missing middle' who are still struggling.

Table 1. Key targets of MPSIR and MPSARD

MPSIR Targets to 2030			
	Coverage to 2021	Coverage to 2025	Coverage to 2030
% working age population participating in social insurance schemes	35%	45%	60%
% working age population in unemployment insurance scheme	28%	35%	45%
% persons above normal retirement age entitled to a pension, monthly insurance benefits and social allowances	45%	55%	60%
MPSARD Targets to 2025			
	Eligibility/coverage		Transfer Values
Social pension	Age of eligibility gradually reduced to 75 (70 for ethnic minorities); inclusion of social insurance pensioners with low pensions		Gradually increased to 11% of GDP per capita (21% for those with severe disabilities)
Disability benefits	Gradually increase coverage to 100% of disabled persons of working age and their caregivers (1.8% of persons of working age)		Gradually increased to 10% of GDP per capita (20% for those with severe disabilities)
Carers' benefits	Those unable to work due to their care responsibilities for persons with disabilities		Increases to 20% of GDP per capita
Child benefits (including disability)	A child benefit for children up to 36 months and gradually expand to include all children younger than age 6 years; A child benefit for all children in special circumstances (as legally defined), regardless of age		Set at 5% of GDP per capita for all children but rises to 10% for children in special circumstances and 20% for children with disabilities. or children of single parents)
Benefit for persons with HIV/AIDS	Persons with HIV/AIDS living in poor families initially and gradually expanded to include those in near-poor families		Set at 8% of GDP per capita, then raised to 10%

Source: MPSIR (Resolution No. 28-NQ/TW dated May 23rd, 2018) and MPSARD Action Plan.

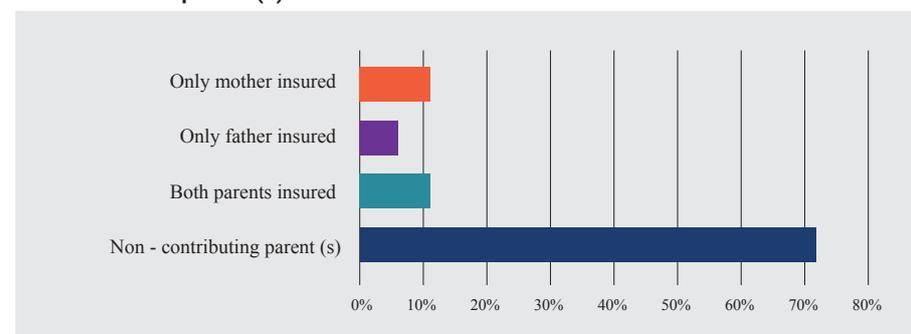
The recently approved Master Plan on Social Insurance Reform (MP-SIR)³ and the Master Plan on Social Assistance Reform and Development (MPSARD)⁴ and their corresponding Action Plans set the framework for reform. The targets of the MPSIR and MPSARD are summarized in Table 1.

3. A focus on working families and their children

Working parents simultaneously confront the high cost of social insurance and the high cost of bringing up children. Working parents with dependent children make up some 45 per cent of all workers in Viet Nam. As the custodians of Viet Nam’s future, it is particularly important that families with children are supported through their childhood and working lives by a comprehensive social security system. Very often, these families work in the informal economy. The challenges facing the informal economy workforce are well documented and pose significant barriers to their incorporation into the social insurance system. People working informally are much more likely to have low incomes and lower levels of education, be self-employed, and work in ‘non-standard employment,’ including in part-time and temporary work. They often face irregular (very short or excessively long) hours, where they are more likely to be exposed to work-related health and safety risks. All of these factors pose challenges for incorporating informal economy workers into the social insurance system, where participation depends not only on being registered but on regularly paying contributions and meeting minimum qualifying periods.

Most children in Viet Nam similarly find themselves outside the social insurance system altogether. As shown in Figure 2, nearly three quarters (72 per cent) of children in Viet Nam have no parent enrolled in social insurance.

Figure 2 Percentage distribution of children according to the social insurance status of their parent(s)



Source: Based on VHLSS 2016.

³ As expressed in Resolution No. 28-NQ/TW dated May 23rd, 2018, of the Seventh Plenum of the XII Central Committee on Social Insurance Policy Reform. Hereafter, referred to as “MPSIR”.

⁴ As expressed in Decision No. 488/QĐ-TTg dated April 14th, 2017, on approval of the “Master-plan on social assistance reform and development for the period 2017-2025 with vision to 2030”. Hereafter, referred to as “MPSARD”.

⁵ MOLISA (2018).

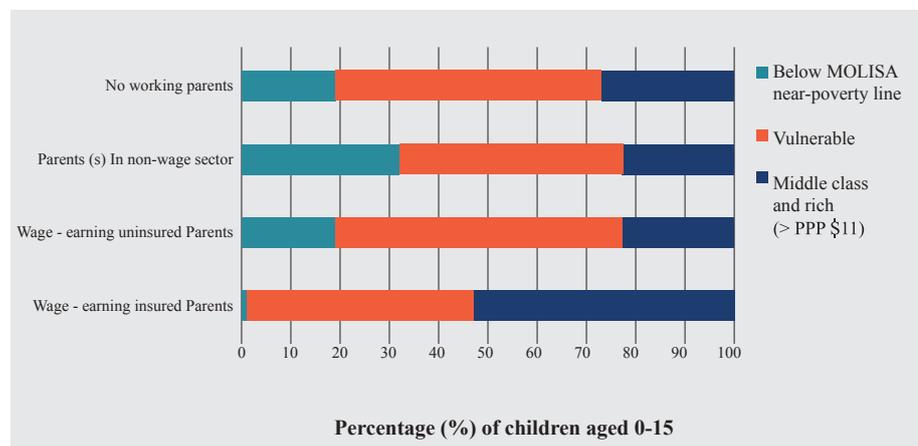
⁶ ILO (2018).





Poverty and insecurity are not confined to families in the informal economy. As shown in Figure 3, significant proportions of children are either vulnerable or near-poor, regardless of whether their parents work in the formal or informal economy, or as wage earners or non-wage earners. However, many more children of parents working in the informal economy are near poor: around one third of children with non-wage earning (self-employed) parents, and around one fifth of children with wage-earning uninsured parents, are below the official near-poverty line.

Figure 3 Percentage of children (0-15) classified as near-poor, vulnerable or middle class/rich, according to the employment status of their parent(s)



Source: VHLSS 2016.

What is striking about Figure 3 is how many families of VSS members themselves are struggling to get by. Indeed, a full 46 per cent of children of VSS (wage-earning insured) parents could be considered vulnerable, living on monthly per capita incomes of between VND 1 and VND 3.03 million. In other words, being a member of VSS comes at a high relative price for many.

Clearly, the vast majority of Viet Nam’s working families would benefit from additional support provided through an expanded social security system that offers protection across the lifecycle, but particularly during childhood and early working life and parenthood. One way to do this is through a child benefits system that pays benefits in respect of all children.

4. Child benefits from a global and regional perspective

Indeed, almost every high-income country —and, increasingly, many low- and middle-income countries around the world, including in Asia— provides income support for children and families, generally

delivered through tax-financed and/or contributory child or family transfers⁷. But so far, no country has introduced child benefits with the express purpose of encouraging formalisation.

Bringing up children is costly. Studies in Europe have suggested that the direct costs of having a child amounts to up to one third of the budget of a childless household. For people in Viet Nam's informal economy, the difference in average monthly per capita income between a couple without children and a couple with one child is roughly VND 600,000. For those living near the poverty line (VND 700,000 per person per month), having a child is precisely the kind of shock that can force a family into poverty. Indeed, these costs are reflected in the fact that children more likely than other age groups to be classified as near poor.

At the same time, joining social insurance is costly for working families who are struggling to make ends meet. In Viet Nam, the total contribution rate for employees insured under VSS is 10.5 per cent of earnings for all cash benefits and health insurance. For voluntarily insured self-employed workers, who must also make up for a portion of the employer's share of contributions, the total contribution for a non-poor worker is at least 26.5 per cent (22 per cent for cash benefits and at least 4.5 per cent for health insurance). This is one of the main reasons why, despite working parents with dependent children making up some 45 per cent of all workers in Viet Nam, only around one in five working aged parents contribute to VSS. For workers currently enrolled in VSS, these costs are experienced as a welfare loss of between 5.5 per cent (for the bottom quintile) to 6.4 per cent (4th quintile). In addition, working parents facing the immediate costs of children struggle to overcome their myopia with respect to social insurance benefits they will only receive many years down the line when they reach retirement.

5. The case for multi-tiered child benefits

A multi-tiered child benefit can offset these costs, making joining VSS more attractive while also ensuring all children are adequately protected. The MPSARD and its accompanying Action Plan recognises this in proposing the gradual introduction of a universal, tax-financed child benefit to cover all children up to age 3 by 2025. However, the targets set out in the MPSARD are ambitious, and there is so far no clear plan as to how to finance this expansion. Further, the plans for expansion of the social insurance system are relying heavily on assumptions of growth in the insured population that are equally ambitious and, as of

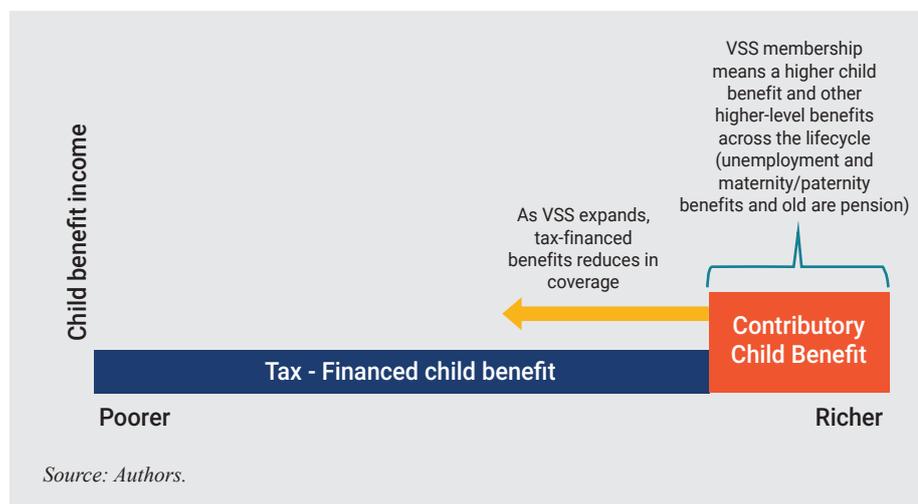
MISSOC (2018); ISSA/SSA (2017/2018); Stanescu and Nemtanu (2015).

yet, it is unclear how they will be achieved. Multi-tiered child benefits offer great potential to not only reduce the costs of joining, but to provide an immediate and tangible benefit, which makes joining social insurance both more feasible and more attractive.

In Viet Nam, working parents who might otherwise consider joining social insurance as they are just starting out in the labour market, must contend with the direct and immediate cost of having a child. Therefore, the decision to have a child implies a big financial commitment. For those living near the poverty line (VND 700,000 per person per month), having a child is precisely the kind of shock that can force a family into poverty. If the Government of Vietnam really wants to achieve its objective of increasing the number of VSS members from the informal economy, it must find ways to, at the very least, offset the significant welfare loss incurred by the additional financial burden of a social insurance contribution. Such an approach would also alleviate some of the burden felt by parents currently enrolled in VSS.

A multi-tiered child benefit, unlike many other social insurance cash benefits, is immediate for the millions of people who already have children of eligible age. And, unlike premium subsidies, which may not be visible, a multi-tiered child benefit instantly offsets the losses associated with a social insurance contribution in a tangible way while also guaranteeing the right to social security. From a design perspective, a multi-tiered child benefit offers an adequate, tax-financed tier-1 benefit to all children outside of VSS and a higher-rate contributory tier-2 benefit for VSS members. This benefit-tested structure can both encourage formalisation and reduce the Government's liability to finance the tax-financed benefit over the longer term, as shown below.

A multi-tiered child benefit with a benefit-tested tier 1



Because the social insurance benefit would be set at a higher level than the tax-financed child benefit, it should act as an incentive for some people to join the VSS. Importantly, the contributory component of the multi-tiered child benefit would not aim to attract all workers in the informal economy; rather, it would target those workers at the margins who, prior to having children, may have had some cushion of disposable income, but for whom saving for the future is now impossible due to the extra costs of children. In addition, by joining the VSS, these workers with limited or unstable resources would gain access not only to a higher child benefit, but also — potentially — to a range of other VSS benefits across the lifecycle, including unemployment, sickness/maternity, and employment injury insurance⁸. Ideally, these benefits would also need to be multi-tiered to ensure that everyone has access to a basic level of inclusive, lifecycle benefits⁹.

6. Assessing the potential for multi-tiered child benefits in Viet Nam

A multi-tiered child benefit could work in Viet Nam. In order to assess the theoretical compensatory effects of a child benefit on current and future VSS contributors, we simulated the likely welfare loss associated with VSS contributions —including the additional cost of a contributory child benefit— on those currently in the system, as well as on all those in the informal economy who would theoretically be eligible to join either as wage earners (paying the compulsory rate) or as non-wage earners (paying the voluntary rate). We subsequently simulated the compensatory effect of applying a multi-tiered monthly child benefit paid at VND 175,000 per child to all working parents whose earnings would not permit them to pay into VSS; and at VND 350,000 per child per month for those whose earnings would permit VSS membership.

The results suggest that a multi-tiered child benefit could compensate the vast majority —almost 90 per cent, if the benefit is paid to all children aged 0-15 years— of working parents contributing to VSS, and that all those receiving a tax-financed child benefit would be better off. The only groups who would not be better off are those at the very highest end of the income distribution. Strikingly, the results also show that

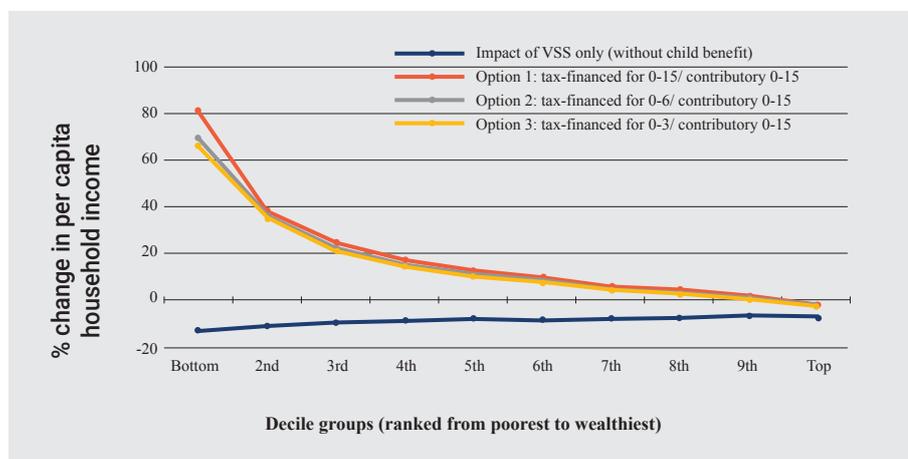
⁸ This only applies if the legal access restrictions are lifted for self-employment and other types of informal work for other contingencies.

⁹ In general, the Government should review the level of all benefits, including existing ones, to ensure they are providing adequate support.



a significant proportion —around 20 per cent— of those who would begin paying into the voluntary system at a rate of 34.5 per cent¹⁰ would actually be worse off, even after receiving a relatively generous monthly child benefit of VND 350,000 per child, suggesting that the contribution rate for the voluntary scheme could be too high. However, the fact that so many people would still be better off, even after paying a high contribution, attests to the redistributive power of even a modest flat-rate benefit.

Figure 4 Relative change in welfare (per capita household income) of households with children up to 15 years, by decile



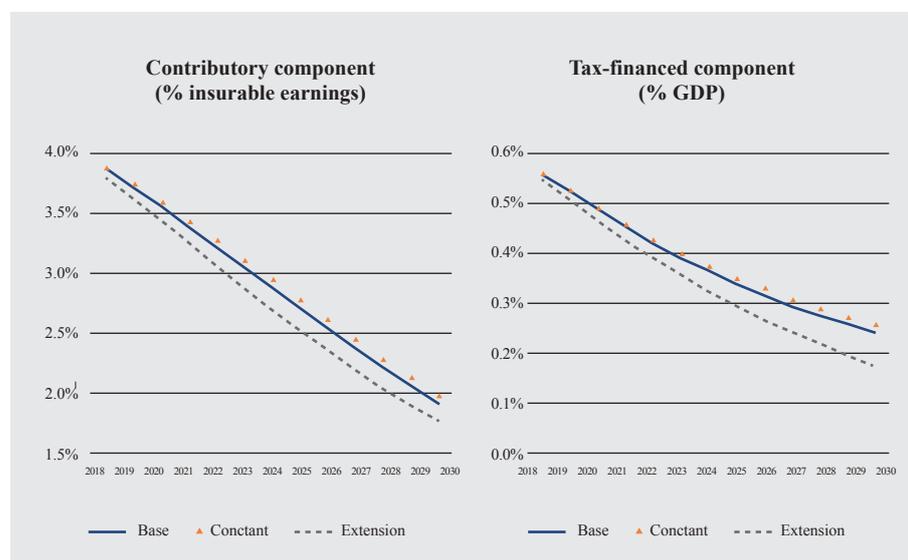
Source: Simulations based on VHLSS 2016.

In addition, the analysis suggests that a multi-tiered child benefit in Viet Nam would be affordable. While a contributory child benefit would initially cost around 3.9 per cent of insurable earnings, its cost would decrease significantly over time, declining rapidly to just 1.9 per cent of earnings (under status quo assumptions regarding insurable earnings) or even 1.3 per cent of earnings (under reform assumptions regarding insurable earnings)¹¹. Likewise, the cost of the tax-financed child benefit would also decrease over time, in line with the growth in VSS membership, costing just under 0.2 per cent of GDP by 2030.

¹⁰ The contribution rate includes the estimated additional contribution require to finance a contributory child benefit.

¹¹ As the child benefit is defined as a fixed amount indexed to inflation, its cost as a percentage of the insurable earnings is highly sensitive to the evolution of the salary subject to contributions. See Box 7 1.

Figure 5 Cost of contributory (% insurable earnings) and tax-financed (% GDP) child benefit components, age eligibility 0-15



Therefore, while further research will be required to forecast costs based on preferred options for parameters, this analysis has demonstrated that a multi-tiered child benefit like the one proposed is both feasible and cost effective over time. It offers the Government of Viet Nam a practical way of achieving its coverage targets, while also improving the comprehensiveness of the existing social security system through the provision of a benefit for families and children.

7. Conclusions

Introducing a child benefit system in Viet Nam will require making key decisions regarding the benefit’s intended purpose and parameters. These choices will determine the likely impact and functionality of the benefit, including —importantly— the extent to which it is able to act as an incentive to join social insurance, which will depend on the relative value of the contributory versus tax-financed components. It will also require a more critical examination of the limits of placing too much reliance on voluntary insurance to achieve large coverage gains, as well as opening up discussions on the potential for simultaneously closing gaps through shoring up compliance with existing labour laws and regulations surrounding compulsory insurance.

Most countries have not had the advantage of ‘starting from scratch’ with respect to mapping out a system of support in respect of children, but rather, must graft programmes atop what are often complex family



policy legacies. While there is a certain degree of fragmentation in Viet Nam’s social protection system, particularly with respect to the social assistance system¹², policy makers have a relatively clean slate to begin to lay the groundwork for a multi-tiered child benefit system that not only serves all citizens—since everyone either was a child, will have or care for children, or will one day depend on today’s children for care contributes to its growing economy—but reinforces the goal of growing the social insurance system.

Indeed, the time is ripe for discussions to move forward towards implementing a child benefit to reach everyone in Viet Nam. In the context of the recently approved MPSIR and MPSARD, a multi-tiered child benefit has the potential to align the two separate processes by focusing on the convergence of long-term objectives expressed in both proposals. Through a multi-tiered child benefit, the vision expressed in Resolution 28 of “social insurance for all” becomes at once consistent with the MPSARD’s roadmap to expanding tax-financed social assistance transfers.

¹² For a review of the social assistance system in Viet Nam, see Kidd et al. (2016).

ILO Country Office for Viet Nam

48 - 50 Nguyen Thai Hoc, Ha Noi

 +84 24 3 734 0902

 hanoi@ilo.org

 www.ilo.org/hanoi

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