

## SOCIAL INSURANCE

### Enhancing social security right for everyone

*"...Social security includes ensuring minimum income, social insurance approach, assistance for people with particularly difficult circumstances by self secured capacity building for population, State subsidy, insurance system and voluntary contributions of organizations and individuals..."*

*"...By 2020, social insurance coverage is targeted of achieving 50% of labour force, 85% among them are the subjects involved. The participation rate of unemployment insurance reaches 35% of workforce..."*

Resolution No. 15 dated 1 Jun 2012 of the Central Party Committee.

#### 1. Social insurance coverage measurement

Article 34, Constitution of the Socialist Republic of Vietnam stated: "Citizens have the right to social security".

In the social security policy system, social insurance is the main pillar, which's functions are minimizing risks, support to people in compensating or partially replacing for their income when they have to face the risks (illness, losing job or working capacity), reducing pressure on the social assistance system. Thus, increasing the social insurance coverage is the measure for countries to strengthen their competitiveness in the global market. All countries are trying to find solutions to facilitate their citizens in accessing and participating in social insurance.

Therefore, **social insurance coverage** means effectiveness of the social insurance policy and program implementation; ensuring people's participation, strengthen social security protection (benefit level).

According to ILO<sup>1</sup>, social insurance coverage has two dimensions; those are breadth and depth coverages.

**a) The breadth social insurance coverage** is measured by three basic criteria: potential

coverage, statutory coverage (policy) and the actual coverage, in which:

- **Potential coverage** reflexes the level of policy development and people's social insurance rights, which is measured by the percentage of population participating in labour force (people with social insurance demand) in the total of working age population.

- **Statutory coverage** reflexes the level of people's satisfaction to the social insurance policies, which is measured by the percentage of the population covered under social insurance policies in the total of working age population or population participating in labour force.

- **Actual coverage** reflexes the level of the effectiveness of social insurance policy implementation, which is measured by the percentage of social insurance insured population in the total of working age population under social insurance policies (or labour force).

**b) The depth social insurance coverage** reflexes the level of the sustainability of social security policies, which is measured by numbers of basic indicators such as: percentage of the insured social insurance population in the total population participating in social insurance policy; The gap between average pension and statutory minimum wage; percentage of social insurance expenditure per social insurance revenue, etc.

<sup>1</sup>ILO, World Social Security Report, 2010-2011.

## 2. The principle of social insurance coverage extension

- *Firstly, universal*: social security policy should aim to cover the entire working age population in order to ensure welfare right for all employees.
- *Secondly, justice*: social insurance policies has to ensure that all groups can participate and get equal benefit.
- *Thirdly, publicity and transparency*: social insurance policies has to ensure the publicity and transparency of its policies, regulations, rights and responsibilities of entities regulated by the policy.
- *Fourthly, financial sustainability*: social insurance development has to ensure the sustainability of the social insurance fund.
- *Fifthly, the role of the Government*: ensuring all citizens can participate in the social insurance system. There should be appropriate solutions for each specific target groups.

## 3. Real situation of social insurance coverage in the period 2009 – 2014

### a) *Breadth social insurance coverage*

#### - *Potential coverage*

In the period 2009-2014, working age population who participates in labour force increased from 49.6 million in 2009 to 54.2 million in 2014 with the growth rate of 1.6% per year.

Percentage of population participating in labour force in the total of working age population (15 and older) have been consistently high and slightly increased, from 77% in 2009 to 77.6% in 2014. This is a big challenge for social insurance because the working participation demand is getting higher and higher.

#### - *Statutory coverage*

Along with the social insurance policies expansion (by the types of insurance, participants, benefit, etc), social insurance coverage (mandatory and voluntary) was increased to 100% of workforce (diagram 1).

#### - *Actual coverage*

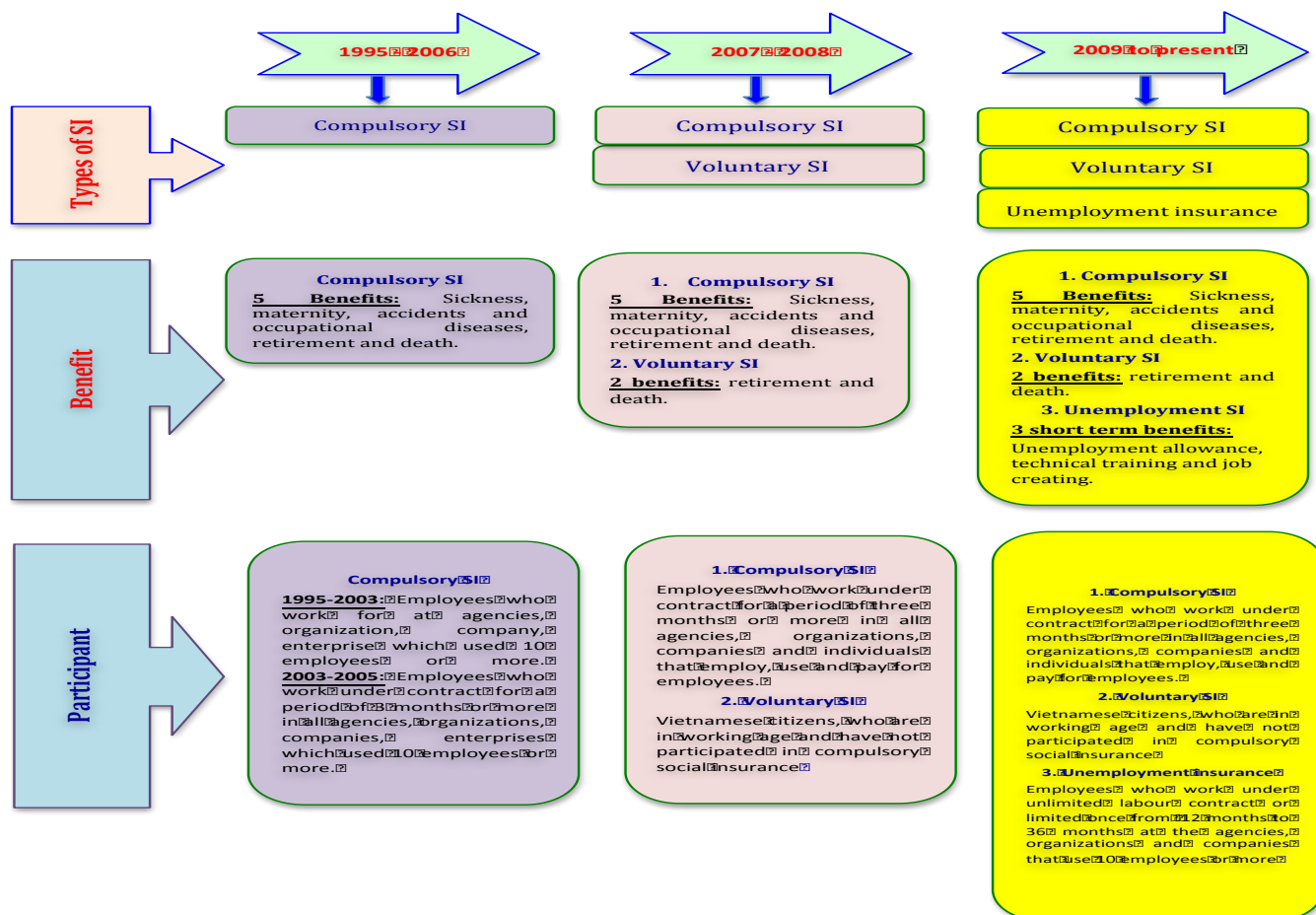
+ Social insurance participation: Total of social insurance participants increased from nearly 9 million in 2009 to about 11.4 million people in 2014, the growth rate of 5.1% per year. Among them, the majority are mandatory participants. Compared with population participating in labour force, social insurance coverage was quite low, it was 21.1% in 2014, covered approximately 1/5 workforce.

+ Compliance: Compliance is measured by the ratio between the number of participants and the total number of eligible population.

- Compulsory social insurance: In the period 2009 - 2014, the compliance rate in the formal sector increased from 60.4% (8.9 million people) in 2009 to 66.9% (11.2 million) in 2014. However, there have been nearly 33% of the employees, who either repudiate social insurance participation or were not contributed by their employers.

- Voluntary social insurance: Due to the low attractiveness of voluntary social insurance and the ineffectiveness of the implementation, its participation rate has been low. By 2014, about 0.51% (191 thousand employees) in informal sector participated, although it was higher than in 2009 (only 0.12%).

Diagram 1. The statutory coverage of social insurance in period 2003-2014



## b) Depth social insurance coverage

### - Pension beneficiaries

Total number of pension beneficiaries increased from nearly 1.74 million in 2009 to 2.2 million in 2014. However, compared to the number of people aged 60 years and older (population needs pension entitlement), the proportion of pensioners was low, even decreased, from 22.4% in 2009 to 20.9% in 2014 due to the impact of the population aging.

### - Pension benefit

In the period 2009 - 2014, over the five times adjustments of Government, the average pension increased from 1.97 million/person/month to 3.41 million/person/month, reaching an average growth rate of 12.7%/year. The gap between average pension and statutory minimum wage tends upward, from 2.7 times (2009) to 3 times in 2014.

### - Revenues – expenses balance of social insurance fund

+ Social insurance revenues: During the period 2009 - 2014, the growth rate of social insurance revenues was 25.6% per year, reached nearly 139 trillion in 2013 and was estimated to reach nearly 94 trillion by September 2014. Of which, gross compulsory social insurance revenue increased 25.5% per year, reached 93 trillion; voluntary social insurance revenues reached 548 billion with a high growth rate of 49.9% per year.

+ Social insurance expenses: From 2009 to September 2014, total social insurance expenses increased faster than social insurance revenues. Its growth rate was 29.20% per year, reached 99.5 trillion as of September 2014. Of which, the growth rate of compulsory social insurance expenses was 29.17% per year, reached 99.4 trillion in 2014. The growth rate of voluntary social insurance expenses has increased rapidly, 126.2% per year, reached 112 billion in 2014.

+ Revenue - expenses balance of social security fund: Because social insurance expenses growth rate was higher than social insurance revenues growth rate, the ratio of expenses/revenue has been increasing in the period 2009 - 2012, from 75.7% in 2009 to 76.2% in 2012, in 2013, it was reduced in 55.9%. However, its trend has been increasing rapidly and was estimated of 70.5% as of September 2014. It shows the huge potential

instability. In details, compulsory social insurance fund tends to be unbalanced faster, from 75.7% in 2009 to 76.5% in 2012 and was estimated of 70.8% as of September 2014. Voluntary Social insurance expenses compared to total revenue has been in the safe side. However, its proportion has been increased rapidly, from 1.4% in 2009 to 20.5% as of September 2014.

**Table 1. Summary of social insurance coverage in the period 2003-2014**

	2009	2010	2011	2012	2013	Sep 2014*
<b>1. Total (1000 people)</b>						
Population aged 15 and over	64.421	65.710	67.166	68.195	68.687	69.832
Population participating in labour force	49.602	50.837	51.724	52.348	53.246	54.165
<i>Formal labour force</i>	14.747	15.050	15.780	16.062	16.351	16.801
<i>Informal labour force</i>	34.855	35.787	35.944	36.286	36.895	37.364
Population participating in social insurance	8.856	9.523	10.201	10.577	11.055	11.422
<i>Compulsory social insurance</i>	8.901	9.441	10.104	10.437	10.881	11.232
<i>Voluntary social insurance</i>	41	81	96	140	174	191
Population aged 60 and over	7.742	8.172	8.872	9.259	9.745	10.332
<i>Pensioners (1000 people)</i>	1.736	1.818	1.881	1.958	2.082	2.157
<b>2. Monthly pensionaverage (1.000 VND per person)</b>	1.971	2.176	2.465	2.697	3.106	3.412
Monthly pension average/minimum wage (times)	2,7	2,6	2,3	2,6	2,7	3,0
<b>3. Ratio, %</b>						
Potential social insurance coverage (% compared to working age population)	77,0	77,4	77,0	76,8	77,5	77,6
Statutory SI coverage (% compared to labour force)	100,0	100,0	100,0	100,0	100,0	100,0
Actual social insurance coverage (% by breadth)	17,9	18,7	19,7	20,2	20,8	21,1
Compulsory social insurance compliance	60,4	62,7	64,0	65,0	66,5	66,9
Voluntary social insurance compliance	0,12	0,23	0,27	0,38	0,47	0,51
Coverage of social insurance demand satisfaction (% compared to population aged 60 and over)	22,4	22,2	21,2	21,1	21,4	20,9
<b>4. Social Insurance fund (billion VND)</b>						
Total revenue	37.557	48.137	62.260	78.484	138.899	93.537
Total expenses	28.420	35.186	43.190	59.842	77.699	65.825
Coverage (by depth) of stability of social insurance fund (% expenses/revenue of Social Insurance Fund)	75,7	73,1	69,4	76,2	55,9	70,5

Source: i) Vietnam social security – annual report; ii) the General Statistics Office - Statistical Yearbook.

#### 4. Policy implications

Promulgating guidelines for applying amended social insurance law, which has been approved in the eighth session by the National Assembly XIII, dated 20<sup>th</sup> November 2014.

Continuing to improve the Government management of social insurance: payment, beneficiaries monitoring, abolishing “household registration” condition in the criteria of participating in social insurance (contribution and entitlement).

Continuing to improve voluntary social insurance policy towards ensuring equality of policies and regimes between compulsory and voluntary social insurance to encourage employees in informal sector to participate in voluntary social insurance.

Enhancing propagation in order to higher awareness of employees and employers about the rights and responsibilities to participate in social insurance. Deploying drastic solutions to strengthen the inspection, monitoring of compliance in participation and reimbursement.

Continuing to research the roadmap for increasing retirement age to reduce the pressure on the social insurance fund; Promulgating guidelines for implementing Articles 187 to prolong working time of experts. Along with this, continuing to study the roadmap for increase the retirement age of other groups.

Continuing further and deeper study on the impact of the retirement age on the balance of social insurance fund, labour market and social - economic development.

Continuing to adjust and expand the coverage of social pension policy (monthly social cash transfer) for the elderly (from 60 to under 80 years old) who has no stable income source, pension or other social insurance allowance.

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**For more information, please contact:**

Tel: 04-39367155

Website: [www.ilssa.org.vn](http://www.ilssa.org.vn)