

Some Issues in Building a Multi-Pillar Pension System in Vietnam



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ABSTRACT: In the context of rapid population aging, building and implementing a multi-layered pension system to ensure old-age benefits for all elderly people is an inevitable development trend, bringing social security for all people. This study focuses on analyzing and clarifying arguments about multi-pillar pension insurance and related issues. Based on documents and secondary data collected, the authors have analyzed and clarified arguments about the theoretical basis and international experience in implementing multi-pillar pension insurance. Along with that, this article analyzes the need to design and build a multi-pillar pension insurance system in Vietnam with three interwoven layers that complement each other, including universal social pension, pension mandatory contributions, and voluntary supplementary pensions, towards the goal of universal pension coverage.

KEYWORDS: multi-pillar pension insurance, pension, Vietnam.

1. INTRODUCTION

Vietnam is one of the fastest-aging countries in the world. According to forecasts of the General Statistics Office and the United Nations Population Fund, Vietnam's golden population structure period will end in 2039, when the population aged 65 and over exceeds 15%. An aging population often leads to many problems such as a reduced labor force and an increase in the number of people receiving social security policies, posing the challenge of "getting old before getting rich" in general and social security challenges for the elderly in particular in the coming years. Currently, Vietnam's social security system has two components to ensure income for the elderly: social insurance and social assistance. According to Resolution No. 28-NQ/TW of the Central Committee of the Communist Party of Vietnam, term XII, issued on May 23, 2018, the goal of ensuring income for the elderly is determined to be "about 55 % of people after retirement age receiving pension, monthly social insurance and social retirement benefits (period to 2025); About 60% of people after retirement age receive pensions, monthly social insurance and social retirement benefits (period to 2030). However, in reality in Vietnam today, according to statistics from Vietnam Social Insurance and the General Statistics Office of Vietnam, by the end of 2022, the country currently has about 12 million elderly people (all working age), of which only about 3.3 million people are receiving monthly pensions or monthly social insurance benefits (accounting for more than 20% of people after retirement age) and about 1.7 million people receive monthly social benefits from the state budget, currently about 7 million elderly people do not receive any subsidy policies from the state budget or Social Insurance fund. Thus, the number of subjects currently entitled to monthly pension benefits is still very low (accounting for only 15% of the total number of people who have reached the end of working age). The number of people outside of working age who do not have a pension still accounts for a relatively large proportion (mainly living on their children or accumulated assets). The current fragmentation of the pension system in Vietnam means that a portion of the elderly cannot access this source of income and live precariously. In the context of rapid population aging, to ensure income for the elderly in Vietnam, it is necessary to build a multi-layered, multi-pillar pension system; to ensure that all elderly people enjoy the policy.

2. CONCEPTS

Pension insurance

According to ILSSA & GIZ (2011), a pension is a social insurance scheme that ensures the provision of income to employees reaching the retirement age stipulated by law. In the national social security system, the pension regime always plays an important role in ensuring the future income of workers when they reach the prescribed retirement age or lose their working ability. Ensuring a stable life for the population that has reached the end of working age, contributing to ensuring fairness, and social stability, and

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reducing the burden from the state budget. International social security standards have stipulated periodic pension payments as a form of income security for workers in old age (Convention 102 on Minimum Rules for Social Security, 1952 and Convention 128 on Disability, Old Age and Survivors Benefits, 1967 of the International Labor Organization). In particular, in the context of the rapidly aging population trend globally, the role of pension insurance is becoming more and more important.

Multi-pillar pension system

The construction of a Multi-pillar pension system comes from the perspective of building a social security floor system of the International Labor Organization (ILO), based on Convention 102 on ensuring a minimum income level and increasingly improved for all people and Convention 202 on ensuring people's access to social security regimes (minimum health services and minimum income). Accordingly, multi-pillar pension insurance is a collection of many pension insurance regimes, aiming to achieve the goal of ensuring that every person when reaching retirement age has at least one source of income from the retirement insurance system. According to ILSSA & GIZ (2011), a multi-pillar pension system is a pension system consisting of a first pillar that is public (generally PAYG); a second pillar that is mandatory and funded; and a third pillar that is voluntary and funded. There are other combinations: a first pillar could be a universal social pension, for example. Retirement systems in other countries are usually built with three layers: social benefits, mandatory retirement, and voluntary retirement, to ensure wide coverage, provide flexible retirement products, and ensure the needs and rights of the elderly; Aims to ensure that every person when they reach the end of working age has at least one source of income from the pension insurance system, or in other words, implement universal pension insurance (every person is entitled to old age pension policy).

3. METHODS

In this study, the authors used the method of collecting secondary data from sources including domestic and foreign research works related to the topic of building a multi-pillar pension insurance system, data statistics of Vietnam Social Insurance and the General Statistics Office of Vietnam (on the implementation of pension regimes, benefits for the elderly, etc.) and legal documents serve as the basis for the implementation of pension and benefits for the elderly in Vietnam. At the same time, the authors used data analysis methods: (i) the method of synthesizing and analyzing research works related to this study and, from there, selecting valuable findings closely related to the topic of building a multi-layered pension system to include in the theoretical basis section; (ii) Statistical, comparative, and systematic approaches are used in the study to assess the current state of the pension system in Vietnam, analyze the international experience and Vietnam's future context, and analyze the design and construction of a Multi-pillar pension system in Vietnam towards the goal of universal pension insurance coverage.

4. BUILDING A MULTI-PILLAR PENSION SYSTEM IN VIETNAM

4.1. International experience in building a multi-pillar pension system

Currently, pension systems in most countries are facing challenges in terms of adequacy and especially sustainability in the context of rapid population aging globally along with economic, social, and labor changes. Many countries have implemented pension system reforms to build a more stable and sustainable pension system in the long term, following the trend of replacing the single-pillar pension system with a multi-pillar pension system, and moving towards ensuring that all elderly people enjoy the policy. In designing pension systems, policymakers must consider many options and combine them with other policies to optimize; Regardless of design, the pension system needs to ensure the basic principles of increasing coverage, reducing informality and ensuring financial efficiency. Pension systems pursue multiple goals, including (i) ensuring spending for the elderly, (ii) reducing poverty among the elderly, (iii) insuring against risks related to longevity increase and (iv) gender equitable (Barr and Diamond, 2008, 2009). Typical multi-pillar pension insurance models in the world (such as: World Bank's multi-pillar pension insurance model, ILO's pension insurance system, Multi-pillar pension system model according to Organization for Economic Cooperation and Development) all have the following in common: (i) all models have a floor for elderly people without the income to fight poverty (wide coverage, depends on the state budget), called social pension; (ii) layer for subjects with mandatory participation (can be divided into 2 sub-layers: according to PAYG or NDC model, managed by the state); (iii) voluntary contribution layer, including voluntary pension insurance, voluntary supplementary pension insurance and commercial insurance (Wang et al., 2014; Gillion, 2000; Duran, 2018; OECD, 2011). For developing countries, some of the challenges that these countries face in their efforts to protect their people against age-related risks have been cited by the study of Bloom and McKinnon (2013), these are populations "aging" (in some cases, rapidly) before they "get rich", large rural/agricultural populations and large informal sector workforces, and weak institutions, information systems and governance. Therefore, developing countries are increasingly aware of the need to design and implement improvements in public systems to provide pensions for the elderly, to achieve the goals of ensuring income for the elderly and increasing access to the pension system for the elderly.

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The practical experience of a number of Asian countries in designing and implementing multi-tiered pension systems has shown that these countries have achieved success in achieving universal coverage of a number of social security programs based on the combination of contributory social insurance programs and social assistance programs like China and Japan, it has moved towards universal pension insurance (ISSA, 2018a); Thailand has succeeded in universalizing pension insurance for the elderly with more than 80% of the elderly population enjoying pension benefits (ISSA, 2018b). According to Katsuya Yamamoto (2018), Japan built a universal pension system based on the foundation of a three-floor pension system. The first floor is called the National Pension layer, which covers everyone of working age. This is a mandatory level for everyone and the benefit level is determined according to the pay-as-you-go (PAYG) mechanism. All beneficiaries - regardless of income or assets - will receive retirement, death and disability benefits at a general rate of 65,000 Yen/month (pension only is based on 40 years of contributions or less depending on deduction conditions). The second floor is called the Employees' Pension Fund. This fund is a supplementary fund to the National Pension Fund to unify regulations for workers in the private and public sectors, managed by the State Pension Investment Fund. The benefit level is determined based on the average salary including working time, number of months participating in the system and the benefit adjustment system. The third floor is the voluntary tier with a higher expected benefit level. This is the floor for workers in the private sector on the 2nd floor or for self-employed workers on the 1st floor. Thailand's multi-tiered pension system has four tiers (Pisut Sampatanukul, 2018). The "Zero" floor is the universal, called old age benefits, previously designed in a conditional form (excluding pensioners) but since 2009 it has become a system covering the entire population. The first floor is administered by the Ministry of Labor through the Social Security Fund and is for private sector workers, with predetermined benefit levels. The second floor is for public sector workers (through the Government Pension Fund managed by the Ministry of Finance, benefits are based on contributions) and for teachers in private schools (through the Regional Teacher Support Fund). Private sector managed by the Ministry of Education, benefit level is based on contribution level). The third floor is for workers in the private and public sectors as well as self-employed workers and those outside the labor market. The Philippines pension system also includes four tiers (Angelo Taningco, 2018). Accordingly, the first floor is the tier aimed at poverty reduction and social assistance with the goal of covering the elderly and the poor; the 2nd floor is the mandatory retirement tier, for workers in the private, public and military sectors, with predetermined benefit levels; the third floor is the mandatory retirement level, for workers in the private, public and military sectors, with predetermined contribution levels; the 4th floor is a voluntary floor for the general public. Each floor is managed by many state or private agencies and organizations.

4.2. Designing a multi-pillar pension system in Vietnam

In Vietnam, ensuring income security for the elderly is an important goal of the social security system. Currently, the pension regime is adjusted according to the Law on Social Insurance No. 58/2014/QH13 dated November 20, 2014; the subsidy regime for the elderly is stipulated in the Law on the Elderly No. 39/2009/QH12 dated November 23, 2009. According to a report from the General Statistics Office of Vietnam, by the end of 2022, Vietnam has about 12 million elderly people, accounting for about 12% of the population; including 1,918,987 people aged 80 and over (accounting for 17% of the total number of elderly people). Of these, about 1.7 million elderly people are receiving monthly social benefits from the state budget (accounting for about 14.8% of the total number of elderly people). The standard social assistance level applicable from July 1, 2021 is 360,000 VND/month, accordingly, the lowest monthly social allowance for the elderly is 360,000 VND/person/month, and the highest is 1,080,000 VND/person/month (equal to 38.6% of the poverty line in rural areas, 30% of the poverty line in urban areas and 19.4% of the base salary); There are about 3.3 million people receiving pension monthly and social insurance benefits in the form of social insurance, the average pension benefit is about 5.4 million VND/month (of which the social insurance fund is paying about 2.7 million people enjoying monthly retirement and social insurance benefits with an amount of nearly 14,475 billion VND/month; the state budget pays for those who retired before 1995). It can be seen that the current pension system in Vietnam has different pension regimes, but they are still separate, and fragmented. The protection scope of pension floors is not enough to ensure that every employee has a pension when they reach the end of their working age. With an elderly population of more than 12 million people, the current pension system does not cover nearly 7 million people, meaning that more than half of the elderly population has no pension. In the context of population aging, designing a multi-pillar pension system to increase coverage and ensure a minimum income level for the elderly is an important and urgent issue.

From analyses of international experience and Vietnam's socio-economic context, it can be seen that Vietnam needs a strategy to expand the coverage of the pension system, to provide pensions for current seniors and pensions for future generations of seniors. These strategic objectives can be combined using a contributory pension scheme and a social pension scheme, designed in such a way that they complement each other. To achieve the goal of universal social insurance, specifically that all elderly people have social pensions in the spirit of Resolution No. 28-NQ/TW of the Central Executive Committee of the Communist Party of Vietnam term XII, issued on May 23, 2018, on social insurance policy reform, it is possible to consider designing a multi-pillar

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pension system with three interwoven layers, including a universal social pension program, a contributory pension program and voluntary retirement program. With this multi-pillar pension system design, social pension programs and pension programs make a very important contribution to motivating low-income people in the informal sector to participate in the pension system, thereby increasing the coverage of the system. In particular, the universal social pension program is considered the foundation of the pension system, funded by Government tax revenue, with equal benefits for all subjects. This universal social pension program provides the same pension to everyone regardless of their income level. From a management perspective, the simplest model with the lowest transaction cost of a social pension program in this system is a universal pension program based on the conditions of "citizenship" and "age" (World Bank, 1994), especially for developing countries like Vietnam (where management capacity and information recording systems are limited). This helps avoid the reduced incentive to work and save in asset-targeted programs. Along with the social pension program, the multi-pillar pension system has a Contributory Pension Program with the purpose of generating additional income for those contributing to the system. Thus, it can be seen that the design of this pension system clearly defines the redistribution function and the income assurance function; In which the redistribution function is performed by the social pension program, the contributory pension program clearly demonstrates the function of ensuring spending for beneficiaries. Elderly people will be guaranteed a minimum standard of living as well as have benefits consistent with their contributions and income from the retirement levels in the system. Along with that is applying the method of excluding people with high incomes by stipulating that people with a living pension cannot receive social pensions and people with high incomes or assets should not receive social pensions. will not receive a social pension. In conditions where the income and asset tracking system is not yet complete, identifying subjects with high pension levels will be easier than reviewing income or assets. According to Ha et al. (2023), some policy suggestions can be considered to build a multi-pillar pension system, specifically as follows: First, add a social pension layer in addition to the basic social insurance layer; At the same time, add regulations on the link between the social pension benefit layer and the basic social insurance layer to expand the beneficiaries of social insurance regimes. Second, adjust the retirement age according to the roadmap; Gradually adjust and reduce the age to enjoy social pension benefits to ensure flexibility, consistent with the capacity of the State budget in each period, thereby expanding the beneficiaries of social pension according to the roadmap. Third, readjust the regulations on the contribution levels of subjects and the pension calculation formula, ensuring the principles of fairness, equality, sharing and sustainability; Adjust and increase the level of social pension benefits, ensuring the goal of fighting poverty for elderly people without pensions. Fourth, strengthen policies to encourage low-income workers to participate in basic pension insurance through measures to support payment costs and/or partially support benefits. In addition, promulgate policies to encourage businesses and employees to pay additional pensions for employees through reducing corporate income tax and personal income tax.

5. CONCLUSION

In Vietnam today, building and implementing a multi-pillar pension system is an inevitable development trend. In the context of a rapidly aging population, Vietnam needs to build a multi-pillar pension system to ensure that all elderly people can enjoy the policy. The article uses methods of analysis, synthesis, comparison, and contrast from documentary sources and secondary data to clarify arguments on the theoretical basis of international experience in multi-tier pension insurance. On that basis, analyze the construction of a multi-pillar pension insurance system in Vietnam, aiming at the goal of universal pension coverage. This overall pension system needs to be designed with three interwoven layers that complement each other, including universal social pension, mandatory contributory pension and voluntary supplementary pension. Accordingly, the elderly will be guaranteed a minimum standard of living as well as have benefits consistent with the level of contribution and income from the retirement levels in the system.

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