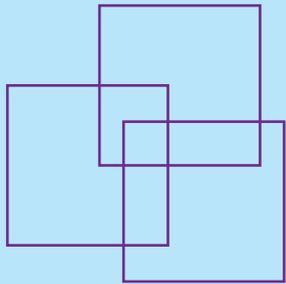




A FOCUS ON FAMILIES

A SHORT-TERM BENEFIT PACKAGE FOR THE EXTENSION OF MULTI-TIERED SOCIAL SECURITY COVERAGE IN VIET NAM



The Government of Viet Nam has placed the social insurance system at the centre of its plans for social protection expansion. Resolution 28 sets ambitious targets of covering 60 per cent of the working age population by 2030, with the eventual goal of achieving “social insurance for all”¹.

At the same time, Viet Nam’s current social protection benefits aimed at families and children are fragmented, unequal and incomplete. The social assistance system offers only narrowly defined benefits for certain categories of families and children in need. Meanwhile, the social insurance system provides an unequal and incomplete selection of family-oriented benefits – one that includes cash maternity/paternity benefits under the compulsory system but not under the voluntary system, and which lacks child or family benefits in either system. Not only do these systems fail to accommodate key lifecycle risks associated with family life, but they leave out millions of vulnerable families and children, particularly those in the “missing middle”.



However, the current social protection reform context – including the mandate in Decision 488² to introduce a child benefit for all children up to age 36 months and in Resolutions 28 and 125³ to expand social insurance through a package of short-term benefits – presents a key Resolution 125 opportunity to close these gaps and move toward developing a coherent and well-designed family support system within the emerging social security system.

¹ Socialist Republic of Viet Nam: Resolution No. 28-NQ/TW dated 23 May 2018, of the Seventh Plenum of the XII Central Committee on Social Insurance Policy Reform (Ha Noi, 2018). Hereafter referred to as “MPSIR”.

² Socialist Republic of Viet Nam: Decision No. 488/QĐ-TTg dated 14 April 2017, on approval of the “Master-plan on social assistance reform and development for the period 2017–2025 with vision to 2030 (Ha Noi, 2018). Hereafter, referred to as “MPSARD”.

³ Socialist Republic of Viet Nam: Resolution No. 125/NQ-CP dated 8 October 2018, on implementation of the Resolution No. 28-NQ/TW (Ha Noi, 2018)

WORKING FAMILIES AND CHILDREN AS THE NEXT FRONTIER FOR SOCIAL PROTECTION COVERAGE EXTENSION

In Viet Nam, around 44 per cent of uninsured workers have children. Of these working parents, more than half (56 per cent) are considered insurable under existing Viet Nam Social Security (VSS) regulations, so it makes sense for the social insurance system to develop tools to appeal to this group's particular needs and challenges.

Recent reforms have prioritized improving coverage of older persons in Viet Nam. However, children and people of working age (many of whom are also of childbearing age) are actually the least likely of all age groups to benefit from the existing social protec-

tion transfer system, as shown in figure 1. The social assistance system provides only benefits focused on specific types of children, rather than a conventional child/family benefit for all children. At the same time, family benefits are the only contingency from the ILO Social Security (Minimum Standards) Convention, 1952 (No. 102) that is not covered in the social insurance system, as shown in table 1. Moreover, the absence of maternity/paternity benefits in the voluntary system is another gap that generates an inequality in entitlements between the two contributory systems.

Figure 1: Access to social transfers across age groups, Viet Nam

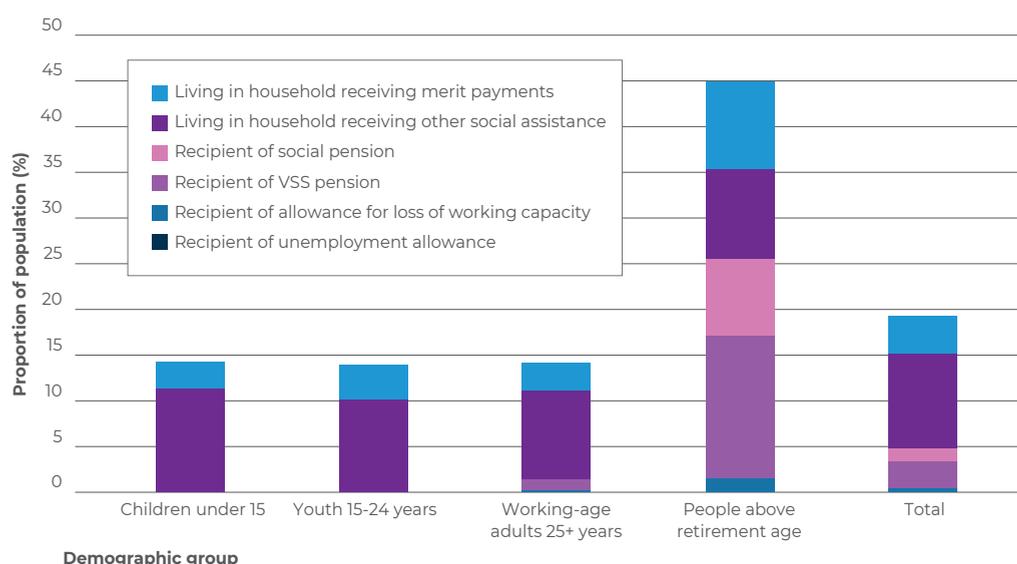


Table 1: Contingencies covered under ILO Convention No. 102 and year of introduction¹

Social insurance system	Old age	Disability ²	Survivors	Sickness (cash)	Maternity/paternity (cash)	Employment injury	Unemployment	Family and child benefits	Medical (health)
Compulsory	1995	No scheme	1995	1995	1995 ³	1995	2006 ⁴	2005	2014
Voluntary	2006	No scheme	2006	No scheme	No scheme	No scheme	No scheme	2005	1995

¹ The first year of introduction refers to the first law covering private sector workers. The 1995 law covered State employees and employees of non-state enterprises with more than 10 employees. See ISSA and SSA (multiple years), Viet Nam country profile.

² Under the compulsory system, disability benefits were possible only as lump-sum payments under the 1995 law. Even the 2014 law does not pay specifically defined disability pensions, but rather pays early retirement pensions due to disability. Under the voluntary system, there is a possibility of withdrawing a lump sum, but only for narrowly defined diseases or conditions.

³ Paternity benefits were added in 2014.

⁴ Law No. 71/2006/QH11 of June 29.

Main source: Viet Nam country profile in International Social Security Association (ISSA) and Social Security Administration (SSA) (multiple years).

Investing in families and children is good for society, the economy and gender equality. Children represent the future workforce, the future tax base, and the future caregivers for ageing elders (whether or not the elders are parents themselves). There is ample evidence from around the world that social protection for families and children not only reduces poverty but also supports better nutritional and health; improves school attendance and performance; reduces the risk of abuse, maltreatment and child labour; and generally improves children's overall well-being, setting them up to be happier and more productive workers and citizens in the future.

At the micro-level, child and family benefits have also been associated with enhanced productivity of households, where the stability and predictability of transfers encourages adult labour market participation and investment in assets and business ventures. Similarly, the extra income for families enables people to shift into less arduous forms of employment and provides income security in the face of covariate shocks. At the macro-level, a well-designed family benefits system can help governments to confront declining fertility levels, which is crucial for ensuring sustainability of future growth. Evidence also shows that businesses that increase social security coverage are more profitable, likely because their employees are more secure and therefore more productive.



Equally, supporting parents through paid parental leave is a fundamental part of any effort to promote gender equality and shared responsibility for social reproduction. In particular, offering public transfers or services to families alleviates the private burden of care – disproportionately borne by women around the world – which can enable women to remain in or rejoin the workforce.

However, most working families in Viet Nam are not benefiting from the social protection system: their incorporation – whether through the tax-financed or contributory systems – is imperative. The current reform context opens up opportunities to provide them with better support as they care for their children, while also helping to extend coverage.

COVERAGE EXTENSION IN THE CONTEXT OF A DIVERSE UNINSURED WORKFORCE

Despite a legal framework that theoretically offers full coverage under the compulsory and voluntary social insurance systems, between 70 and 80 per cent of workers in Viet Nam do not contribute to the VSS. Misconceptions about the nature of informality, combined with high contribution rates, among other factors, has led to a misplaced hope in the voluntary system to unilaterally solve the serious coverage challenges.

However, just under a third of all uninsured workers are wage earners who, because they lack labour

contracts, are in fact falsely excluded from the compulsory system. Efforts to reach these workers through the voluntary system would be misdirected and, more importantly, ineffective, for reasons outlined below.

A further distinction must be drawn between uninsured workers who potentially have the capacity to contribute – the “technically insurable” – and those who do not. Using a technical definition of “insurability” based on existing VSS regulations, around three quarters of uninsured wage earners

and around 45 per cent of non-wage earners would be able to contribute to the VSS. However, more appropriate measures of insurability based on notions of affordability – especially for non-wage earners – suggest that the numbers are, in fact, significantly lower. Among those who are technically insurable, paying a contribution to the VSS would push 32 per cent of wage-earners and 19 per cent of non-wage earners into near-poverty.

Therefore, the challenges facing efforts to extend coverage under a multi-tiered system are threefold:

- (1) The compulsory system is not reaching the people it is designed to reach.
- (2) The voluntary system is not affordable and may not be attractive enough for those it is intended to reach.
- (3) There are many people who will not be able to join – even if incentives are offered – who still need protection.

Many people who will not be able to join social insurance – even if incentives are offered – still need and deserve social protection. Understood in this way, the components of a benefit package to grow the insured population must address the different types of constraints facing the following subgroups of uninsured workers:

- wage earners (dependent employees);
- non-wage earners (self-employed); and
- “uninsurable” persons (whose incomes are irregular or below the insurable threshold for participation).

In addition to the above three subgroups, the challenges and constraints facing a fourth subgroup – employers – must also be addressed if uninsured wage earners are to be able to access the contributory system.

Resolution 125 requires policy-makers to develop a short-term benefit package, but in order for such a package to make social insurance more attractive, it must appeal to a very broad cross-section of workers. While all workers could in theory benefit from all working age social security benefits if they face the unfortunate risk of, for example, ill health, unemployment, or disability (work-related or otherwise), the fact is that very few short-term benefits reach a large number of workers at any one moment in time. Mandated social insurance risk pooling exists precisely because most people are not experiencing these risks right now and tend to discount the possibility of experiencing the risks in future, even when the risk is almost certain (as with old age).

However, child and family benefits are different. They present an opportunity to focus on the large group of workers (44 per cent of all workers) that are currently experiencing the contingency – the extra cost of bringing up children. Bringing all of them in could increase social insurance coverage to 50 per cent of the working age population, while also securing adequate protection for all families.

In consultation with the ILO and the Social Security Department of the Ministry of Labour, Invalids and Social Affairs (MOLISA), we have identified the key components of a package that could potentially address the needs and constraints of each of these groups to help extend coverage within a multi-tiered system, and specifically with respect to the social insurance coverage targets expressed in Resolution 28. We explore four key components:

- (1) multi-tiered family/child benefits;
- (2) multi-tiered maternity/paternity benefits (adding tax-financed and voluntary elements to the existing compulsory scheme);
- (3) tax breaks for microenterprises;⁴ and
- (4) reformed contribution subsidies for the voluntary system.

⁴ Analysis of the costs and impacts of measures aimed at employers are beyond the scope of the current assignment, since assessing these measures would require in-depth analysis of additional databases. We nevertheless include them as part of a comprehensive package, since reaching wage earners depends on addressing the reasons behind non-compliance by their employers.

BRINGING WORKING INTO THE SOCIAL SECURITY SYSTEM THROUGH A WORKING FAMILIES SUPPORT PACKAGE

Each component’s effectiveness depends on the size of its target populations and the inherent complementarity between different components (such as between child/family benefits and maternity benefits; or between child/family benefits and employer support). Bundling the measures into potential family support packages exploits these synergies. To this end, we consider three packages that revise slightly the pre-defined packages proposed based on stakeholder consultation:

- **Package 1** is a full multi-tiered package that combines all elements of the four solutions presented.
- **Package 2** contains only solutions for the contributory system.
- **Package 3** contains only solutions for the voluntary system.

Package 1, the most generous and ambitious, would offer a child or family benefit (component 1) to all families in Viet Nam under a multi-tiered design; a multi-tiered maternity benefit (component 2) to all mothers of newborns in Viet Nam, as well as providing a tier 2 maternity benefit to non-wage earners who join the voluntary system; tax breaks for microenterprises (component 3), to address the constraints facing employers and their uninsured wage-earning employees; and, because none of the subsidy regimes was found to have a large effect on

coverage, we propose either leaving in place the existing system of subsidies that lowers the contribution rate for the voluntary system for certain non-wage earners, or eliminating the subsidy scheme and redirecting the resources toward the tier 1 benefits (component 4).

Package 2 is a less ambitious proposal which would also contain elements of all four components but would focus on the tier 2 contributory system only. It would offer a tier 2 child/family benefit (component 1) to those workers in the compulsory or voluntary systems, as applicable; a tier 2 maternity benefit to non-wage earners in the voluntary system (component 2); tax breaks for microenterprises (component 3); and either leave the existing subsidy regime for the voluntary system or remove it and potentially redirect it.

Package 3 is the least generous or ambitious of the three packages considered. It would focus only on encouraging participation in the voluntary system and would therefore offer a new maternity benefit for voluntarily insured persons (component 2) and either leave the existing subsidy regime for the voluntary system or remove it and potentially redirect it.

The maximum potential coverage gains of each package are related to the size of the potential groups that would be affected, as shown in table 2.

Table 2: Maximum coverage potential of packages

Package	Maximum coverage potential
1 – Full multi-tiered package	<p>System-wide: 100% of the population legally covered for child/family benefits (from 0%) and maternity benefits (from 30%)</p> <p>Social insurance: Up to 45% working age population (from 30%) would benefit directly; many more would benefit indirectly</p>
2 – Contributory (tier 2) solutions only	<p>System-wide: No gains for tier 1</p> <p>Social insurance: Up to 45% of working age population (from 30%) would benefit directly; many more would benefit indirectly</p>
3 – Voluntary contributory solutions only	<p>System-wide: No gains for tier 1</p> <p>Social insurance: Very small gains, 1–3% would benefit directly</p>

ASSESSING THE POTENTIAL EFFECTS AND COSTS OF THE COMPONENTS OF A FAMILY PACKAGE

A multi-tiered child or family benefit acts as an implicit contribution subsidy for parents and caregivers, instantly making the social insurance system more attractive and more affordable. On average, the welfare loss from a contribution to the VSS for insurable workers and their family members amounts to 8.5 per cent across all workers but is significantly higher among non-wage earners in the voluntary regime. The addition of a child and family benefit for all children turns a welfare loss of 8.2 per cent for all working parents, into an average net gain of 3.8 per cent of household income per capita.

Seen in another way, although 45 per cent of all workers would still be at a net loss after a contribution, more than half (56 per cent) would either be in a neutral (21 per cent) or better off (35 per cent) position than before, despite having paid a high contribution. Additionally, the mitigating impacts would be biggest among those at the lower end of the income distribution, as shown in figure 2. This is thanks entirely to the compensatory effect of a child/family benefit. These results are truly striking

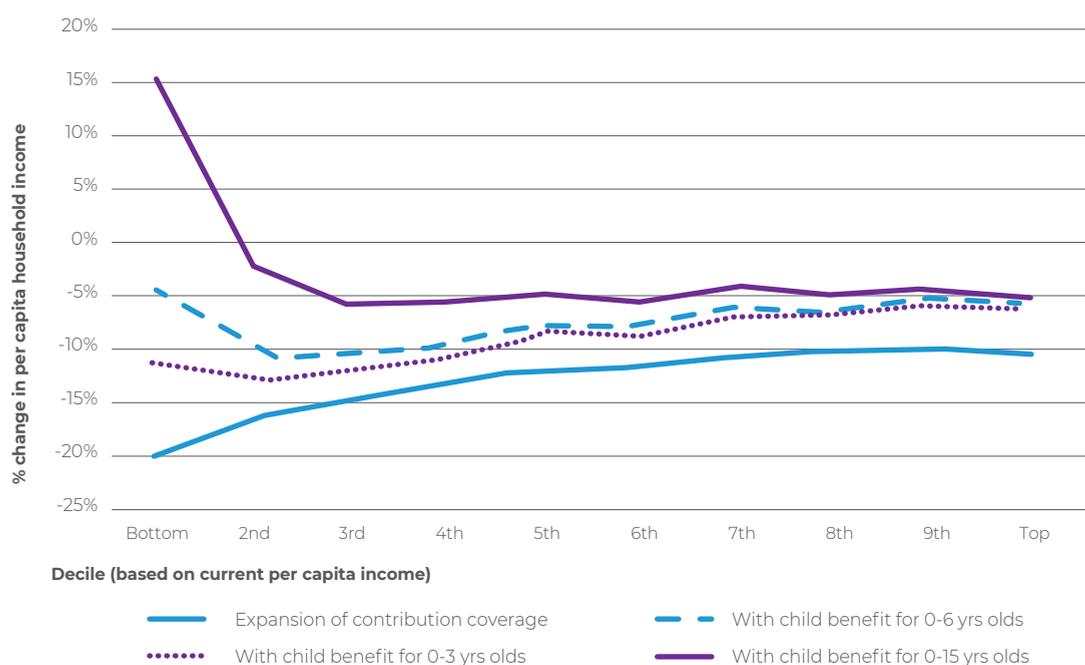
and strongly suggest that adding a child/family benefit to the VSS benefit structure would substantially enhance the affordability of joining social insurance for many workers.

The results of the analysis also support the importance of putting in place a tier 1 child/family benefit. The so-called “uninsurable” workers experience the largest average welfare gains (2.2 per cent for all uninsurable workers, and 5.3 per cent for uninsurable parents) after receiving a tax-financed child/family benefit directly or living in a household that receives a tier 1 or tier 2 child/family benefit.

The system-wide effects of a multi-tiered maternity benefit would be relatively small owing to the small size of the population of working mothers with newborns. That said, the benefit levels proposed are relatively generous and would no doubt have a significant impact on household welfare for recipient families, which is their primary objective.

The analysis also shows that the system of subsidies for the voluntary system is likely to be ineffec-

Figure 2: Simulated average effect on insurable workers (wage and non-wage workers combined) of multi-tiered child/family benefits, by income decile (measured as the percentage change in per capita household income)



⁵ Socialist Republic of Viet Nam: Decree No. 134/2015/ND-CP of 29 December 2015 detailing a number of articles of the Law on Social Insurance regarding voluntary social insurance (Ha Noi, 2015).

tive in increasing coverage significantly. This is true for the current subsidy regime under Decree 134⁵, as well as for both reform scenarios – the increased subsidy regime being considered by the National Assembly and the proposed flat rate subsidy of 25 per cent for all non-wage earners. Thus, we examined a range of flat rate subsidies to try to identify a “tipping point” at which subsidies might achieve meaningful gains. While estimates of take-up related to the subsidy are not possible, we would expect the subsidy to mitigate the impact on poverty of expanding the contributing population. We find that to contain the relative increase in the near-poverty rate to below 5 per cent, the subsidy would have to cover at least 90 per cent of the contribution.

The additional benefit components of a family support package, even when combined into the most generous package, are not prohibitively costly, as shown in table 3. The tier 1 benefits in package 1 would cost around 0.5 per cent of GDP in 2020 and fall to 0.33 per cent of GDP in 2030. In the beginning, the tier 2 benefits in packages 1 and 2 would cost 3.6 per cent of insurable earnings (child/family benefit)

and 1.6 per cent of insurable earnings (voluntary maternity benefit) in 2020, declining to 1.5 per cent and 0.9 per cent, respectively, in 2030.

We also extrapolated from the Viet Nam Household Living Standards Survey (VHLSS) 2016 to estimate the present day costs of the current and proposed subsidy regimes, which (in 2016 prices) would come to:

- VND3.82 trillion (0.08 per cent of GDP) if all insurable non-wage earners moved into the voluntary system and received the existing subsidy contributions;
- VND9.51 trillion (0.21 per cent of GDP) if the increased subsidy rates being considered in the National Assembly were implemented; and
- VND2.33 trillion (or 0.05 per cent of GDP) for a flat rate 25 per cent subsidy for all persons classified as insurable under the voluntary system.

Therefore, the theoretical cost of the subsidies appears to be quite significant. Given the apparently small effects on the welfare of the insurable population, their value is questionable.

Table 3: Potential costs of a family support package, 2020 and 2030

Package	Potential cost	
	2020	2030
1 – Full multi-tiered package		
Tier 1 child/family	0.37% GDP	0.22% GDP
Tier 1 maternity	0.13% GDP	0.11% GDP
Total Tier 1	0.5% GDP	0.33% GDP
Tier 2 child/family	3.4% insurable earnings	1.5% insurable earnings
Tier 2 voluntary maternity	1.6% insurable earnings	0.9% insurable earnings
Voluntary contribution subsidies	0.08%–0.21% GDP (2016 prices only)	0.08%–0.21% GDP (2016 prices only)
2 – Contributory system only		
Tier 2 child/family	3.4% insurable earnings	1.5% insurable earnings
Tier 2 voluntary maternity	1.6% insurable earnings	0.9% insurable earnings
Voluntary contribution subsidies	0.08%–0.21% GDP (2016 prices only)	0.08%–0.21% GDP (2016 prices only)
3 - Voluntary solutions only		
Tier 2 voluntary maternity	1.6% insurable earnings	0.9% insurable earnings
Voluntary contribution subsidies	0.08%–0.21% GDP (2016 prices only)	0.08%–0.21% GDP (2016 prices only)

IMPLICATIONS FOR THE DESIGN OF A FAMILY SUPPORT PACKAGE



From a system-wide perspective, package 1 is the only package that is truly rights-based, fair and equitable. The multi-tiered design ensures that no child, family or parent of a newborn goes without adequate protection, while allowing those who enter the social insurance system – a high policy priority – to access higher level benefits in the interest of further extending social insurance coverage for all. Finally, package 1 is also the only package that has a high potential to be politically sustainable over time, since after just one generation, everyone in Viet Nam will have benefited in some way from the policies.

Decisions about the respective financing of tax-financed and contributory tiers cannot be undertaken in isolation. For example, in the case of multi-tiered child/family benefits, financing a contributory tier 2 family benefit could be politically challenging, since employers and workers will not support additional

contributions. However, a decision to use State budget resources to finance extension of the contributory tier could affect the resources available to fund equally important priorities for expanding tax-financed benefits and, more importantly, would introduce regressive elements into the financing mix that could be difficult to reverse in the future. Alternative and/or short-term arrangements may need to be considered.

Ensuring coherence between the tiers may also require consolidating administrative responsibility for lifecycle income transfers between the social insurance and social assistance systems. If successful, the move to consolidate the payment of all old age pensions – including the social pension – under one agency, the VSS, could be a model for implementing a multi-tiered child/family benefit.

The current reform context presents a unique opportunity to take a bold and coordinated approach that simultaneously addresses multiple policy objectives:

- incorporating working families into the social insurance system;
- promoting women's employment through expanded paid leave and basic protections;
- covering children from birth as a right through a social security system that is blind to their parents' insurance status;
- reforming inadequate administrative and delivery systems; and
- potentially overhauling the governance system to reflect a lifecycle approach to income security.

Taking advantage of this opportunity can set Viet Nam on a path to developing a coherent and well-designed family support system within the emerging social security system, one that is fitting for a rapidly growing middle-income country.

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

Vietnam.ILO

With the financial supports from Irish Aid and Government of Japan



ILO/Japan
Multi-bilateral
Programme