



# A comprehensive old age pension system for Viet Nam:

## Delivering on Resolution 28/NQ-TW\*

### Introduction

All nations, as they develop, eventually establish pension systems offering all citizens income security on reaching old age. At least 56 countries worldwide offer a pension to at least 90 per cent of older people – aged 65 and above – and growing numbers of low and middle-income countries are expanding their pension systems.<sup>1</sup> Viet Nam's Constitution recognizes, in Article 34, that "Citizens are guaranteed the right to social security" and this becomes particularly important when people reach old age since, as they become increasingly frail, they are progressively less able to support themselves through their own labour.<sup>2</sup> Indeed, a mark of a decent society, many would argue, is that it ensures all citizens are guaranteed income security in old age.

In recent years, Viet Nam has progressed towards building a comprehensive and effective old age pension system comprising a mix of social insurance and tax-financed pensions. In May 2018, the Central Committee of the Communist Party made

further progress when it passed Resolution 28-NQ/TW, which aims to ensure that "social insurance is a main pillar of the social security system, step by step expanding firmly the coverage of social insurance, towards the goal of social insurance for all."<sup>3</sup> Resolution 28 also recognizes that universal coverage can be achieved only by building a multi-tiered social security system that combines both social insurance and tax-financed schemes. It aims to ensure that by 2030, 60 per cent of those above the age of retirement – which will rise to age 60 for women and 62 for men by 2030 – will be able to access a pension. According to ILO estimates, this means that, at a minimum, the age of eligibility for the social pension should be 67 by 2030.

This briefing note aims to show that achieving universal old age pension coverage in Viet Nam is feasible and, if implemented, would transform the lives of all citizens once they reach old age, as well as bringing economic benefits to the nation.

\* A briefing note from ILO's full report "Potential impacts of social pensions in Viet Nam". Stephen Kidd et al, 2018.

<sup>1</sup> According to the ILO (2017), 44 countries worldwide provide universal old age pension coverage.

<sup>2</sup> Socialist Republic of Viet Nam, 2013.

<sup>3</sup> Socialist Republic of Viet Nam, 2018.

# Old age in Viet Nam

Viet Nam is an ageing society. Currently, 12 per cent of the population are age 60 and above, rising to 18 per cent in 2030 and 23 per cent by 2040.<sup>4</sup> It is, therefore urgent to establish an effective old age pension system, otherwise older people will, at some point, become an unsustainable burden on society. Moreover, this burden will be unfairly distributed, with the poorest members of society experiencing the greatest challenges in supporting their older relatives. The introduction of a social pension would reduce this burden immeasurably.

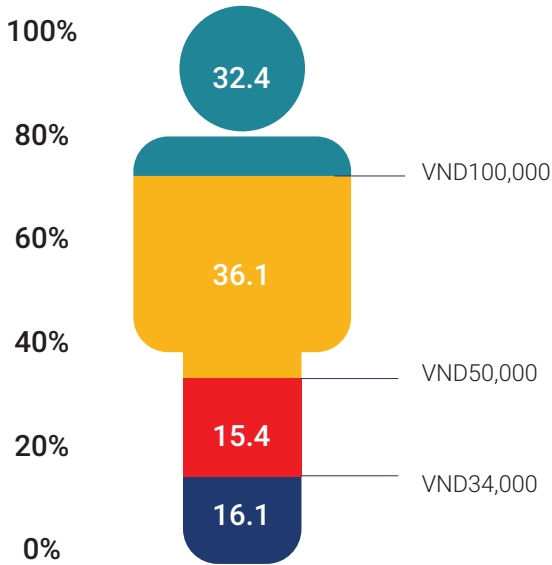
Further, old age in Viet Nam is becoming increasingly feminized. Women comprise 59 per cent of all older people, increasing to 70 per cent among those aged 80 and above.<sup>5</sup> However, because women are less likely to be employed in the formal economy, they are less able to access social insurance pensions from the Viet Nam Social Security (VSS) fund: in 2016, 26 per cent of men aged 65 and above but only 12 per cent of women accessed a VSS pension.<sup>6</sup> Older women are more at risk of income insecurity and isolation than older men: over 60 per cent of women aged 65 and above are single or widowed compared to only 17.8 per cent of men, and the proportion rises with age. Women, therefore, would benefit from a social pension more than men.

Currently, the majority of older people live in low-income households. In 2016, almost 68 per cent of older people were living in households where the per capita income was less than 100,000 Vietnamese dong (VND) or US\$4.50 per day, while 31.5 per cent were living on less than VND50,000 (US\$2.25), as figure 1 shows. Specific categories of older people are more likely to live in low-income

households: for example, 81 per cent of older people in rural areas and 88 per cent of older members of ethnic minorities were living on less than VND100,000 per day.

These statistics, sobering as they are, underestimate the challenges faced by older persons since they assume that incomes are shared equally across the household. In reality, a high proportion of older people are no longer able to work or contribute financially to the household: 48 per cent of women and 35 per cent of men aged 65–69 no longer participate in the labour force, rising to 91 per cent of women and 85 per cent of men aged 80 and above. This is largely the result of increasing disability in old age: around 30 per cent of those aged 65 have a disability, rising to 70 per cent by 80 years of age.<sup>7</sup>

**Figure 1**  
**Proportion of older people living under different per capita daily incomes**



<sup>4</sup> Figures are based on United Nations Department of Economic and Social Affairs (UNDESA) estimates for 2019 (2017).  
<sup>5</sup> Figures are based on estimates for 2019 (UNDESA, 2017).  
<sup>6</sup> Analysis conducted for this study, of the Viet Nam Household Living Standards Survey (VHLSS), 2016.  
<sup>7</sup> Kidd et al., 2016.

Without an independent source of income, older people can lose their autonomy. They are less able to contribute to society and become increasingly dependent on others, potentially losing their sense of self-worth and dignity. If they are perceived as a burden, they can experience social exclusion, including discrimination and mistreatment. Already, 11 per cent of older women and 3 per cent of older men live alone. A pension can help older people retain their autonomy for much longer, ensuring that they continue as givers to society rather than takers.

### Challenges with the current pension system

Viet Nam’s old age pension system has two tiers: those who have contributed to the VSS for at least 20 years receive a higher value social insurance pension, while a small proportion of older people access a social pension. The design of the pension system varies by age group. There is a large coverage gap for persons aged 60–79: some of the better-off can access the VSS pension, but only a small number living in poverty can access a tax-financed social pension, as figure 2 demonstrates. However, after age 80, a social pension is available to everyone not

accessing a VSS pension which, in theory, offers universal coverage.

Although the current pension system contributes to the well-being of recipients, the VSS pension has a greater impact than the social pension, as figure 3 indicates. The social pension reduces the poverty rate among those aged 65 and above by only 0.8 percentage points (or 3 per cent), while the pension system as a whole reduces it by 32 per cent, from 23.7 per cent to 16.1 per cent.<sup>8</sup> Therefore, many older people continue to live in poverty.

Figure 3

The current design of Viet Nam’s old age pension system

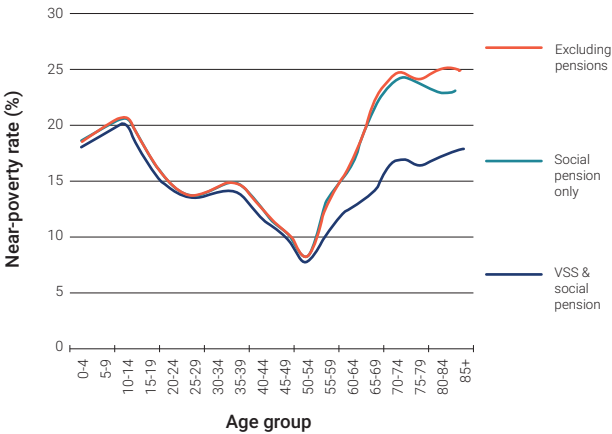
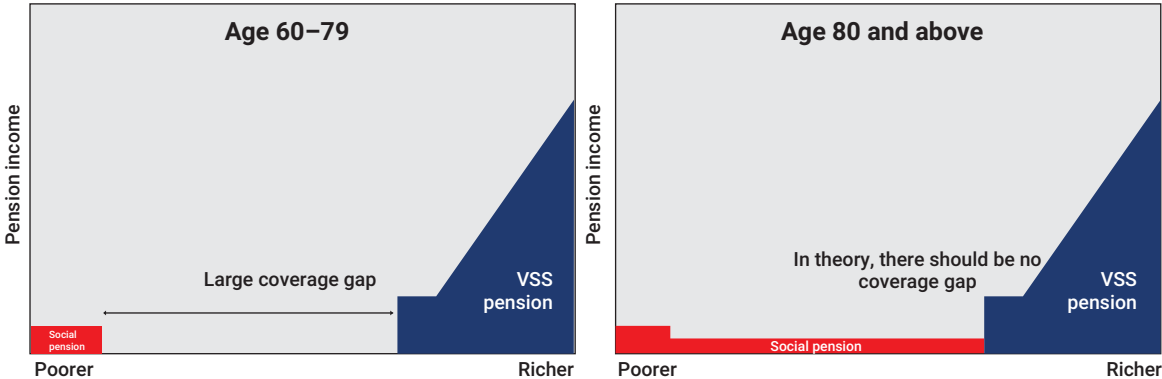


Figure 2

The current design of Viet Nam’s old age pension system



<sup>8</sup> The poverty rate used in the simulations is MOLISA’s near-poverty rate.

One reason for the pension system's limited impacts is low coverage. Only 34 per cent of people aged 65 and above access a pension. For those aged 80 and above, coverage is less than 60 per cent, despite the pension system offering universal coverage. Overall, the system is biased against women: 39 per cent of men over 65 receive a pension compared to 30 per cent of women.

Furthermore, the value of the social pension is low. Currently, the majority of social pensioners receive only VND270,000 (US\$11.60) per month. This is 18 per cent of the near-poverty line, meaning that it contributes very little to the well-being of older people. In a 2014 survey, 94 per cent of older people stated that the social pension was insufficient for their needs.<sup>9</sup>

*"I am old, but the allowance is quite small and I have to feed my school-age grand-child; therefore, I still have to work to cover daily expenses."*

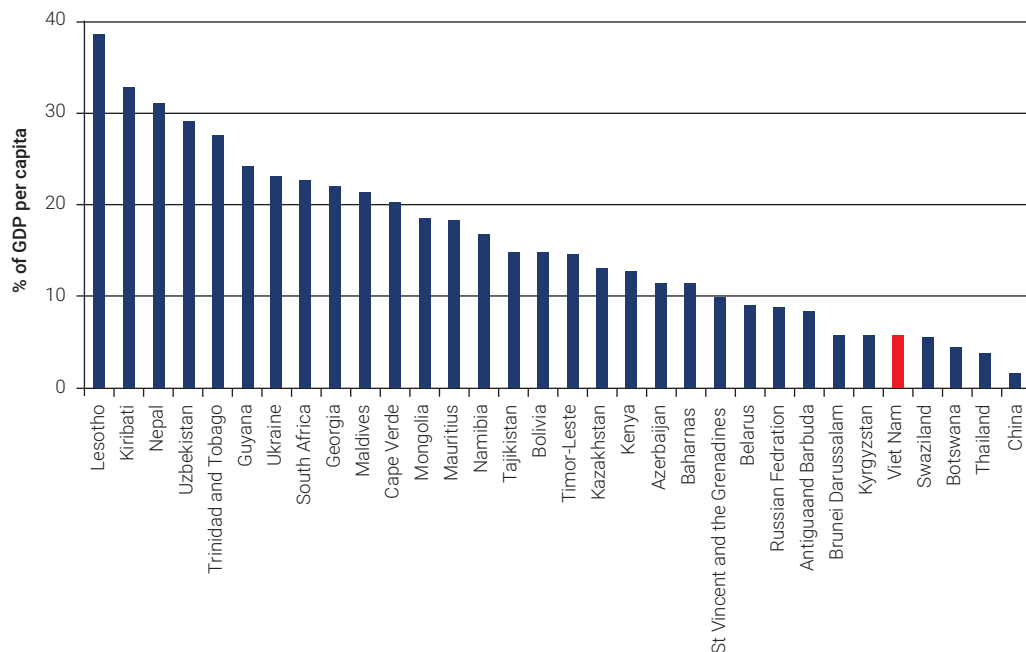
*—a pension recipient*

Source: Kidd et al., 2016.

Indeed, the transfer value – which is 6.5 per cent of GDP per capita – is low when compared to other low and middle-income countries, especially those offering universal pension coverage, as figure 4 demonstrates. Nepal – one of the poorest countries in Asia – already provides a social pension of over 30 per cent of GDP per capita to everyone over 65.

**Figure 4**

**The value of social pensions across low- and middle-income countries offering high or universal pension coverage**



Source: Various country case studies and various government resources in Development Pathways' database on pension effectiveness (forthcoming).

<sup>9</sup> Kidd et al., 2016. At the time of the survey, the value of the pension was VND180,000 per month.

## Proposals for an effective social pension

Viet Nam recognizes the challenges faced by older people and is seeking to build a more comprehensive pension system. As Resolution 28 stipulates, this will require developing a strengthened social pension as the foundation of a multi-tiered pension system, thereby ensuring that every citizen is guaranteed a minimum income in old age.

## Impacts of the social pension options on the well-being of older persons

The social pension scheme would help empower women since around 65 per cent of recipients would be female. Similarly, it would go a long way towards addressing the poverty and exclusion of many of Viet Nam’s more marginalized older people, as it would benefit 80 per cent of ethnic minority older

**Table 1**

**Roadmap for meeting Resolution 28 coverage targets through social pension expansion**

Target	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Eligibility age	78	76	75	74	73	72	71	70	69	68
Percentage of population above retirement age	28	30	32	33	35	39	43	49	54	61

Source: ILO, 2019.

The effectiveness of the pension system depends on coverage and the value of the pension transfer. Higher coverage and a higher transfer value require a higher budget, but also provide greater impacts. This briefing paper examines the effectiveness of a social pension for everyone aged 67 and over who does not access a VSS pension. Table 1 indicates a roadmap for reducing the age of eligibility to 67 years by the end of 2030, which would be consistent with the aims of Resolution 28.

This paper examines two options for the social pension: one offering VND350,000 per month and another at VND700,000 (both in 2018 equivalent values). The VND350,000 option is still below the value of many other social pensions worldwide, and is equivalent to only 7.2 per cent of GDP per capita, as figure 4 illustrates. In contrast, VND700,000 per month is more or less in line with the average social pension offered by countries with inclusive pension systems.

people compared to 68 per cent of the majority ethnic group.<sup>10</sup>

The social pension – in particular the higher rate pension – would significantly reduce poverty in old age. At VND700,000 per month, the social pension would reduce poverty among recipients and their households by 59 per cent – from 20.2 to 8.3 per cent (figure 5).<sup>11</sup> The social pension would also be important for ethnic minorities: the old age poverty rate would fall from 48.2 to 32.8 per cent with the VND700,000 per month social pension. Impacts would be much lower with a pension of VND350,000 per month.

Since the majority of older persons live on low incomes, it is important to focus not only on the poorest individuals – a relatively small proportion of the population – but also on how social pensions would improve the living standards of older people across the

<sup>10</sup> Among recipients, 11 per cent would be from ethnic minorities and 89 per cent from the majority population.  
<sup>11</sup> The analysis compares the impacts of the social pension to a situation in which there is no social pension.

wealth distribution. The purchasing power of households with social pensioners would increase (figure 6). At VND700,000 per month, the pension would have a significant pro-poor effect on the bottom 10 per cent, increasing incomes by 63 per cent, and also benefit middle-income households, raising their household purchasing power by 7–15 per cent. The VND350,000 per month pension would have only half the impact.

A meaningful social pension would generate a range of other benefits. It would enable older people to continue contributing to society, thereby enhancing their self-worth and maintaining their position within their households and communities. Evidence from China and Mexico indicates that old age pensions can enhance the health of older people, including reducing the rate at which cognitive functions deteriorate.<sup>12</sup>

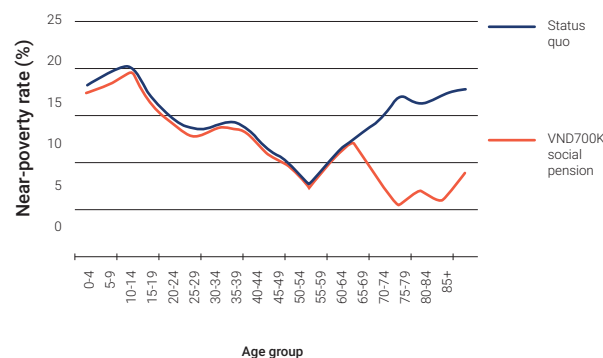
Social pensions also contribute to national

economic growth in a range of ways. For example, older people often use their pensions to support their grandchildren, thereby improving their health and education and creating a more productive future workforce. Households with pensioners often use the pension to invest in economic activities. Younger household members, in particular women, are more likely to enter the labour force. Moreover, spending from pensions can stimulate demand and consumption, generating markets for entrepreneurs.<sup>13</sup>

Further, since universal old age pensions are popular with citizens, policymakers who introduce them can reap political rewards, especially in a country like Viet Nam with a rapidly ageing population. By 2040, people over age 50 – all of whom will regard access to a pension as a high priority – will comprise 47 per cent of the population over the age of 18.

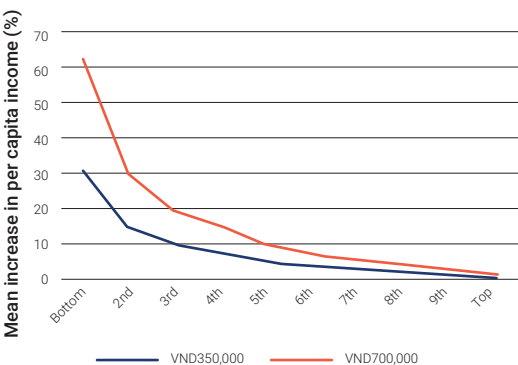
**Figure 5**

**Impacts of social pension across different age groups for VND700,000 per month to everyone aged 67 and above not in receipt of a VSS pension**



**Figure 6**

**Increase in household purchasing power among pensioners with VND700,000 and VND350,000 per month social pensions**



<sup>12</sup> Huang and Zhang, 2016; Aguila et al., 2011; Galiani et al., 2014.

<sup>13</sup> See Kidd and Tran (2017) for a further description of how pensions contribute to economic growth.

# Level of investment required for social pensions

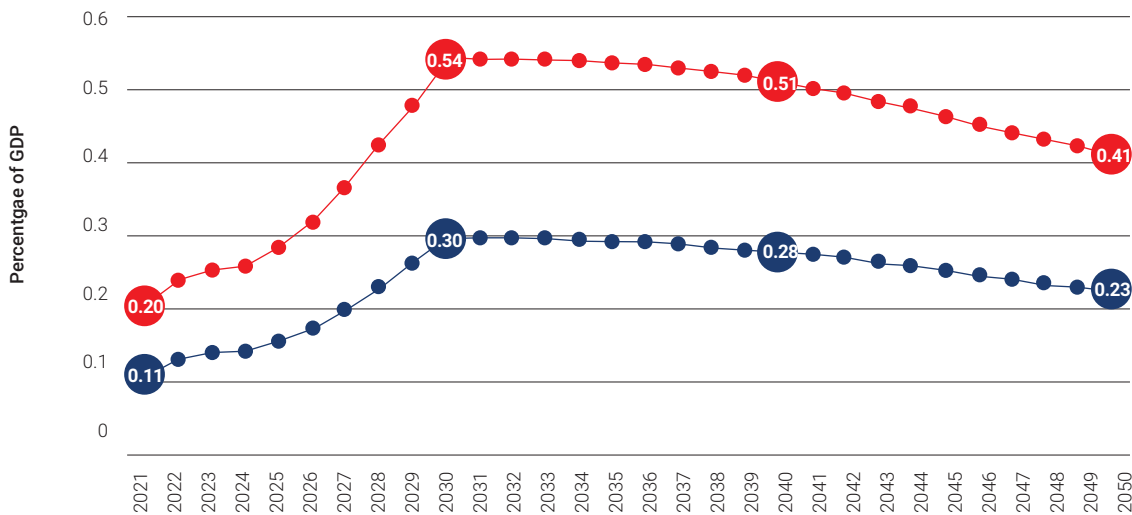
The level of investment required to ensure universal old age coverage is well within Viet Nam’s financial resources, in particular if coverage for everyone aged 67 and over is only reached in 2030 (with the age of eligibility for the social pension decreasing gradually between 2019 and 2030). Figure 7 shows the likely cost of the two social pension options up to 2050. The cost as a percentage of GDP will reached its maximum in 2030: the VND350,000 per month option would cost only 0.3 per cent of GDP, while the VND700,000 per month option would cost 0.54 per cent of GDP. Despite an ageing population, the cost of the social pension can be easily managed and, if it were indexed to inflation, the overall cost

would fall over time. This is because the rate of economic growth is predicted to be higher than the growth in the older population while, over time, an increasing proportion of people will receive a social insurance pension.

The level of investment required for the social pension is limited when compared to other low and middle-income countries offering high coverage social pensions. Indeed, the cost of the VND700,000 per month social pension would be well below the 1.3 per cent of GDP that Nepal currently invests in its universal pension and below a range of countries in Africa with much younger populations (figure 8).

**Figure 7**

Level of investment required for the social pension options

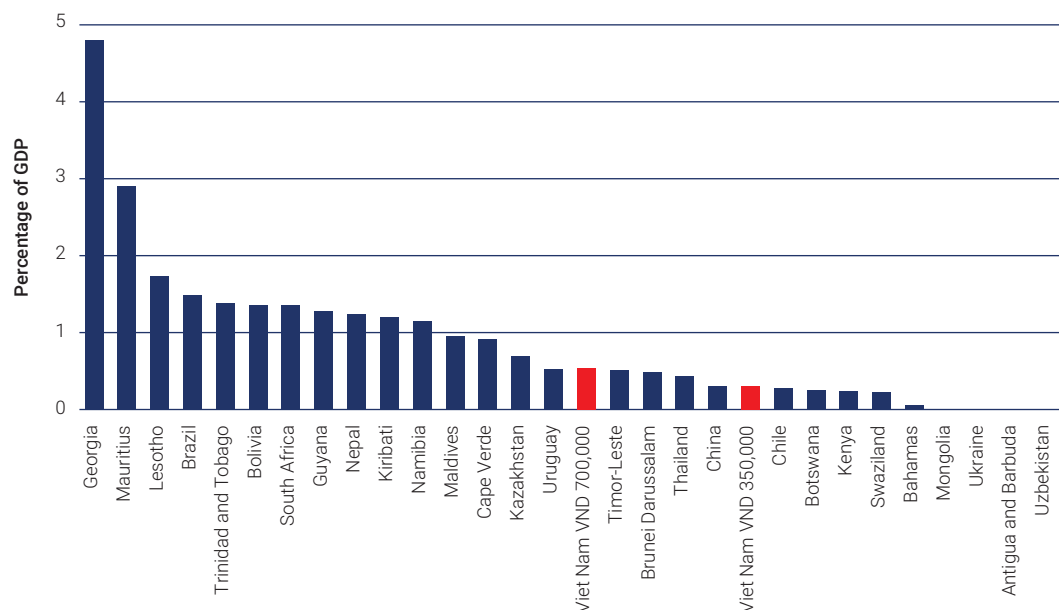


*Note: Different assumptions are used to index transfer values to inflation, leading to a discrepancy in the cost projections. Whereas the transfer value of VND350,000 is indexed to inflation from 2018, the transfer value of VND700,000 is indexed to inflation from 2020, as it refers to the poverty line with a value set by regulatory standards to 2020.*



**Figure 8**

**Costs of inclusive social pensions in low- and middle-income countries compared to the costs of the two social pension options for Viet Nam in 2030**



*Note: The costs of the pensions in other low and middle-income countries are the most recent figures available for all countries known to provide social pensions with coverage of at least 70 per cent of older persons aged 65 and above. However, data is not available for Kyrgyzstan, St. Vincent and the Grenadines and Tajikistan.*

*Sources: United Nations Economic Commission for Latin America and the Caribbean, n.d.; HelpAge, 2018; Kidd and Damerai, 2016; Kidd et al., 2019; Kidd et al., forthcoming; Government of the Kingdom of Lesotho, n.d.; South Africa Social Security Agency, 2017.*

## Conclusion

As market economies expand, a comprehensive pension system becomes a social, economic and political necessity for all nations. By establishing universal pension coverage for everyone aged 67 and above, Viet Nam could transform the lives of its citizens once they reach old age, ensuring that everyone lives their final years in dignity. The national economy would also benefit, not least by the Government injecting cash which will circulate and offer greater opportunities to entrepreneurs. And, of course, universal pension coverage will strengthen the social contract between the Government and

citizens, generating greater social cohesion as citizens realize that the Government cares for even the most vulnerable.

A pension for every citizen would ensure that the right to social security for all, as stipulated in the Constitution, becomes reality. It would recognize that all citizens have contributed to society throughout their working lives, paying taxes, generating economic growth and raising the nation's children. A social pension is, therefore, a contributory pension and one that all citizens deserve. It is the least that Viet Nam can provide to its people.

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