



POLICY BRIEF – VOL. 2/2019

BÀN SỐ 2

ORIENTATION FOR DEVELOPING MULTI-TIER PENSION INSURANCE IN VIETNAM

Developing multi-tier pension insurance to diversify pension schemes, meet the needs of employees and increase pension level for the elderly, contribute to ensure sustainable social protection has become a global trend. Social insurance policies, regular social assistance policies and life insurance policies in Vietnam all have pension schemes. On the other hand, the living standards of Vietnamese people are being improved rapidly; Science and technology are being applied strongly to the modernization of social insurance system. These are important bases for the successful implementation of the Party and State's undertakings on the development of multi-tier pension insurance in Vietnam.

1. The goal of developing multi-tier pension insurance and some typical models

The term of multi-tier pension insurance (PI) appeared for the first time in 1919 in a research of Baldwin¹. Since then, although many organizations and scholars have studied on multi-tier PI, there is no research project to develop the concept or explanation in detail how multi-tier PI is. However, these researches all have similarities when discussing about multi-tier insurance, which is a set of many PI schemes, in which, each scheme has its independent purpose and function but also has linkage each other and they work together to meet the diversified needs of people and thereby contribute significantly to expand the coverage level in breadth (increasing the proportion of workers involved and the elderly receiving pension schemes) and depth (increasing the pension level of beneficiaries, thereby to improve the quality of live for the elderly) of the PI. In addition, the development of multi-tier PI also contributes to motivate workers to work actively, improve labour productivity since their retirement

schemes is better guaranteed; at the same time, it contributes to reduce the burden of the State budget allocated to implement social pension scheme.

By now, international organizations have proposed many different multi-tier PI models, typically the following models:

(a) Multi-tier PI model of the World Bank including 5 tiers²:

Tier 0: for non-contributors, ensuring a minimum level of protection aiming at poverty reduction for the elderly, guaranteed by the State budget;

Tier 1: for mandatory participants with different contribution levels depending on income, operating under the pay as you go (PAYG) mechanism;

Tier 2: for mandatory participants with different contribution levels depending on income, operating under a mechanism of notional individual account;

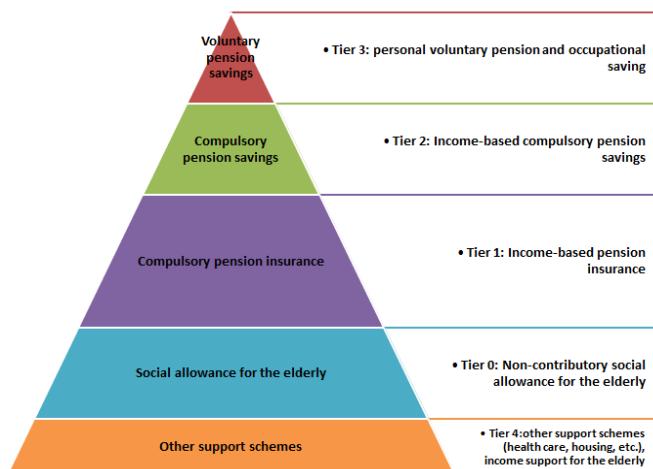
Tier 3: for voluntary contributions in many forms but in general, it is flexible and on demand. The third tier supplements for the "compulsory" rigidity in the design of the first and second tiers;

¹ Baldwin, F.S. (1919) Old age pension Schemes: A Criticism and a Program, Quarterly Journal of Economics

² Peijie Wang, Miao Zhang, Rory Shand, Kerry E. Howell (2014), Retirement, pension system and Models of Pension Systems, The WorldBank.

Tier 4: support for financial or non-financial assistance for the elderly (health care, housing).

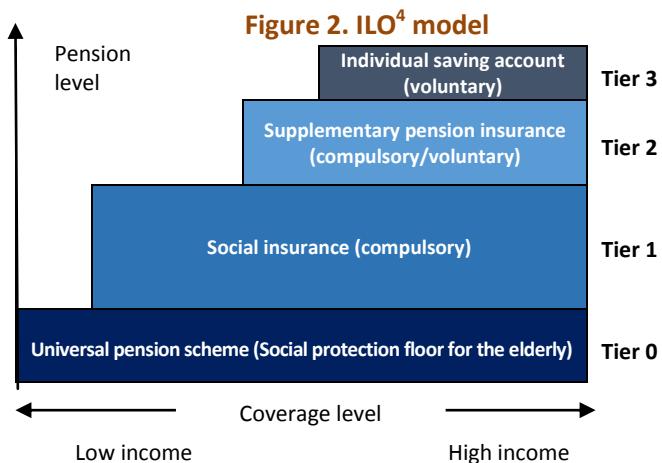
Figure 1. World Bank model



(b) Multi-tier PI model of the International Labour Organization (ILO)

According to the ILO, multi-tier PI must ensure 5 goals: (1) fight against poverty at old age; (2) expand coverage level for all people; (3) ensure to fully or partially compensate income for those who are at risk; (4) adjust the benefit level according to the inflation rate and to a certain extent, improving people's living standards; (5) create environment to develop supplementary voluntary pension schemes. The PI system of the ILO consists of 4 tiers³:

Tier 0: is the floor, aims to reduce poverty, guaranteed by the State budget to support people without income;



Tier 1: operate under the PAYG mechanism with defined benefit. It is compulsory for all workers to participate; publicly manage, the pension level is about 40-50% of the reported average income level as a basis for years of contribution;

Tier 2: is the tier that can be designed to participate voluntarily or compulsorily, operates on a defined contribution mechanism; has regulated the ceiling level of contribution and managed by private agency;

Tier 3: is for voluntary participants; operates on the principle of individual saving account; not limited the ceiling level of contribution; managed by private agency.

(c) 4-pillar model of the Geneva Association⁵

Pillar 1: it is compulsory for workers to participate; operates under the PAYG model with the pension level prescribed by the State;

Pillar 2: supplementary occupational PI;

Pillar 3: individual saving schemes including personal pension, savings and life insurance;

Pillar 4: is formed from income that is generated in the period of prolonging working time of those who have enjoyed pension.

Despite of being designed differently, multi-tier PI models in the world have following common points: (1) they all have one tier for the elderly without income to combat the poverty (large coverage, depending on the State budget), so called social pension; (2) tier for compulsory participants (may be divided into 2 sub-tiers: PAYG or NDC mechanism, managed by the state); (3) voluntary contribution tier, including voluntary PI, supplementary voluntary PI and commercial insurance.

Up to now, there are more than 80 countries implementing multi-tier PI (with 2 or more pension schemes). Depending on specific conditions, each country designs its appropriate PI model, but all aim to achieve the objective of all people will have at least one source of income from PI system when reached the retirement age.

2. Current pension insurance schemes in Vietnam

Comparing with multi-tier PI models in the world, Vietnam also has policies with quite similar pension schemes, specifically as follows:

- Regular social assistance policy: this policy has a monthly cash transfer for people aged 80 and over, and people aged 60 and older in poor households without pension and social insurance allowance⁶ (similar to the social pension scheme), guaranteed by the State budget. Currently, Vietnam has more than 1.7 million elderly enjoying this scheme, equalling to 12% of the number of people after retirement age. The standard allowance is 270,000 dong/person/month, equalling to 38.6% of the poverty line in rural areas, 30% of the poverty line in urban areas and 19.4% of basic wage.

- Compulsory and voluntary social insurance (SI) policies: these two policies all have pension scheme and based on contribution. Currently, the coverage rate is still low. By the end of 2018, there are 14.724 million participants, accounting for about 26.5% of the

³ Gillion (2000), Social Security Pension-Development and Reform.

⁴ ILO, Social Protection for All Issue Brief , The ILO Multi-Pillar pension model: Building equitable and sustainable pension systems.

⁵ Geneva Association (2012), Conference Celebrating the 25th Anniversary of the Four Pillars Programme, the Life and Pensions Newsletter

⁶ Decree no. 136/2013/ND-CP of the Government regulating social assistance policies for social protection beneficiaries

labour force, in which, only 270 thousand participants contribute to voluntary SI (despite of 10 years deployment). The SI fund currently pays for more than 2 million pensioners and monthly SI allowance recipients; the State budget pays for more than 800 thousand people who retired before 1995.

- Supplementary voluntary pension scheme: as prescribed in 2014 Social Insurance Law, the supplementary voluntary pension fund is formed from voluntary contributions of employees and employers in the form of individual pension account. In fact, this scheme has not been officially implemented.

- Voluntary pension of life insurance: Vietnam currently has 19 companies providing more than 350 life insurance products that many of them are related to pension insurance. The life insurance market in Vietnam is still young but develops rapidly. By the end of 2017, about 8% of Vietnam's population participated in life insurance. The government sets target of 11% of the population participating in life insurance in 2020 and 15% in 2025⁷.

3. Potential to develop and propose multi-tier pension insurance in Vietnam

Vietnam has many advantages for developing multi-tier PI, which are:

- The Party and the State advocates the development of multi-tier social protection (SP) system and multi-tier SI system. The Resolution no.28-NQ/TW on SI policies reform defines: "developing a flexible, diversified, multi-tier, modern and international social insurance system".
- The current SI and social assistance policies are although still single and scattered, there are different pension schemes which are the foundation for the development of multi-tier PI.
- The SP system in general and SI in particular are being strongly modernized, especially in terms of the application of IT to management and object development, administrative procedure reform.
- Living standards of people have been improved, the middle class is growing so the implementation of diversified pension products are appropriate, meeting the diversified participation needs of people.
- Vietnam's financial market is still young but growing quickly. Enterprises and employees have many opportunities to choose investment fund management companies to participate in supplementary voluntary PI.

However, **the development of multi-tier PI is also facing a number of difficulties and challenges**, specifically:

- Rapid population ageing while the proportion of workers in the agricultural and informal sectors is still high, low productivity, so a number of workers do not have the financial capacity to participate.

- In the digital age, automation is increasingly applied to the production, and the competition for jobs is increasingly fierce, so the flexibility of the labour market is increasing, affecting the ability to participate in PI in a continuous way of a part of workers.

- The State budget is limited, affecting the creation of economic leverages to attract and encourage workers and enterprises to participate.

- The communication efficiency is not high; employees lack information about SI, so it is difficult to expand the coverage and development of SI.

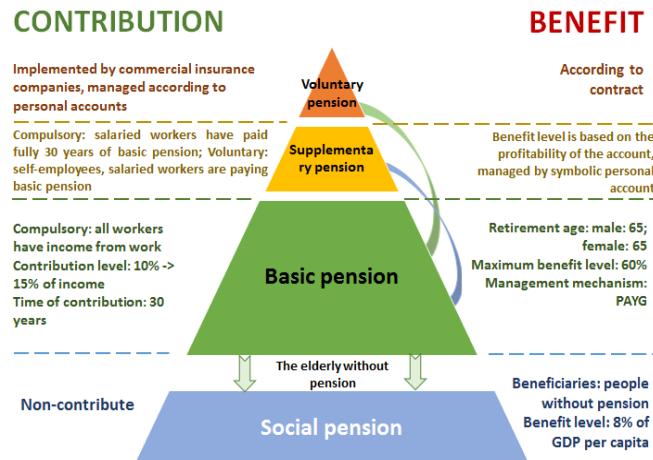
Inheriting the multi-tier PI models in the world and considering the ability to implement in Vietnam, we propose a multi-tier PI model with the roadmap to increase retirement age as follows:

Regarding the roadmap to increase retirement age: the retirement age is adjusted to increase from 2021, women's retirement age increases faster than men from 55 to 60, and men from 60 to 62 by 2028; the retirement age of both man and women will be 65 in 2040 (most developed countries with an aged population currently regulate retirement age at 65 for both men and women, meanwhile, Vietnam is forecasted to be a developed countries with aged population before 2040).

Vietnam's multi-tier PI model includes 4 tiers as follows:

Tier 1: Social pension scheme for the elderly without pension, implementing the goal of combating poverty, is paid by the State budget. To achieve this goal, it is necessary to have a roadmap to reduce the age for enjoying social pension scheme in accordance with the roadmap to increase the retirement age in the context of rapid population ageing. Thus, it is possible to gradually reduce the age of enjoying social pension scheme from 80 years old as current to 70 years old since 2030 and 65 years old since 2040. With this roadmap, the proportion of the elderly receiving social pension is expected to reach 32% in 2030 and 40% in 2040.

Figure 3. Multi-tier PI model in Vietnam



⁷ Decision no. 242/QĐ-TTg dated 28/02/2019 of the Prime Minister

Tier 2: The basic pension scheme that is compulsory for all workers who have jobs to generate income; follows the PAYG mechanism.

Tier 3: The supplementary PI scheme to encourage all employees to participate (compulsory for employees have

paid 30 years of basic pension). The accumulated amount of money is in individual account; funds are managed by private financial agencies that authorized by the State.

Tier 4: Voluntary pension schme implemented by commercial insurance enterprises.

4. Policy implications



a. Renovate propaganda and dissemination of policies and laws on SI in general and multi-tier PI in particular

Develop communication strategy and plan on multi-tier PI: develop a team of professional communicators; renew the propaganda form on the basis of selecting communication companies to participate in propaganda works; coordinate with commercial insurance enterprises in propagating and consulting on multi-tier PI.



b. Continue to improve the legal system of SI and related laws

- Adjust to increase retirement age according to the roadmap; at the same time, expand the beneficiaries of social pension scheme according to the roadmap; adjust the social pension allowance level to ensure the goal of fighting poverty for the elderly without pension;
- Strengthen policies to encourage low-income employees to participate in basic PI (support for insurance premiums and/or support a part of benefit level);
- Revise regulations on contribution level and the formula for calculating pension; ensuring the principles of fairness, equality, sharing and sustainability;
- Issue policy to encourage enterprises and employees to participate in supplementary PI for employees by reducing enterprise income tax and personal income tax;
- Continue to improve sanctions for handling violations of SI, especially for act of evasion, owning and profiteering social insurance.



c. Improve the effectiveness and efficiency of State management in implementing pension schemes

- Amend and supplement the functions and tasks of SI agency to be compatible with the transition to multi-tier PI model (social pension, basic pension, supplementary pension).
- Increase investment effiency in PI funds, expand to high profitability fields (with a schedule to partially invest the idle money of the fund through investment trust in domestic and international markets to ensure safety and sustainability);
- Strictly perform the State management functions and apparatus management functions to implement SI policies, especially in the localities;
- Build a database on SI, a set of criteria for assessing the performance of tasks and quality of services delivery of SI agencies;
- Develop a set of indicators to monitor and assess the implementation of multi-tier PI.;
- Continue to modernize SI management, invest in developing IT and advanced management methods in implementing SI, developing personal account system.



CONTACT INFORMATION:

Institute of Labour Science and Social Affairs, No. 2 Dinh Le street, Hoan Kiem, Hanoi
Phone: +84-24-38246176 / Email: vkhld@ilssa.org.vn / Website: www. ilssa.org.vn