The Vietnamese Pension System and Aging Population

Van T. T. Dinh, Thuc H. T. Pham, Tiep M. Bui, and Tu N. Ho

Abstract Vietnam is considered one of the countries with the fastest aging rates in the world, reducing the available time to prepare for the aging population recently. The increasing number of older people in Vietnam sets a dependency burden, posing many challenges for the social security and pension system. The pension system in Vietnam includes two types: compulsory pension and voluntary pension. In the compulsory pension system, public pension funds are managed by the government and sponsored by payroll taxes on employers and employees. However, only 23.5–30% of the elderly had pensions and welfare from the state budget and social insurance fund. The development of voluntary pension funds in Vietnam has been in effect since 2013, and voluntary pension programs are currently implemented under the government's regulations through voluntary pension insurance products (annuities) provided by life insurance companies, investment funds or other financial institutions. To date, Vietnam's population has approximately 10% participating in life insurance, in which pension insurance packages account for a small proportion. The pension system in Vietnam shows some weaknesses that need to be improved to address the aging population in the near future. First, women are more likely to lack adequate older age protection. Second, a large proportion of informal employees do not have access to public social insurance benefits. Third, voluntary pension programs have not been shown to be effective and developed. Fourth, the small contributed public pension fund is inadequate with the growing number of beneficiaries. Finally, the current tax-funded pension schemes have provided only a small number of elderly individuals with low benefits insufficient to ensure a decent living in old age. The

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H. Lee et al. (eds.), *International Comparison of Pension Systems*,
Contributions to Management Science,
https://doi.org/10.1007/978-981-19-6446-6_12

government needs to launch solutions to support women employees, to encourage employees working in informal economic sectors to participate in social insurance and unemployment insurance, to change the current tax-funded schemes to increase the amount of public insurance funds and at the same time to support voluntary pension market development to share the burden of the public fund.

Keywords Pension · Aging population · Vietnam · Retirement · Insurance company · Voluntary pension

1 Economic Growth and Population Age Structure in Vietnam

1.1 Population-Economic Growth Relationship

Recent empirical studies on population-economic relations have shown the important influence of changes in population age structure on economic growth.

The age structure of the population or the population structure by age is the proportion of the population in each age group compared to the total population. The population is the subject of all socioeconomic development processes. At different ages, people have different economic behaviors, so changing the age structure of the population will have a great impact on the resource allocation process, growth, development and political and social stability in any country. Therefore, when there is a protective change, the proportion of the population at each age in the total population will have changes in production, consumption and thus economic growth. In a country with young people and a high proportion of children, the state will need more resources to spend on education, health and nurturing. Meanwhile, in a country with a large proportion of working-age people, the government has the opportunity to promote economic growth thanks to its abundant human resources, high savings and investment, and a strong financial system. Moreover, if a country has a higher proportion of older people, it will have to spend more on health care and increase consumption, and social security issues should be adequately addressed.

Changes in the age structure of the population alter the proportion of the population groups. With the new quantitative approach, in their studies, demographers offer views on first and second demographic returns (Mason et al., 2008). The first demographic income appears when the growth rate of the productive population is higher than that of the consumer population, thereby increasing per capita income and promoting economic growth. The second demographic dividend is the benefits that can be obtained because the forecasts of an aging population increase the incentives to save and accumulate capital in the economy, thereby increasing the numbers of millionaires. The proportion of high-income people promotes the consumption of the outputs of the production process and increases the capital resources for production. Therefore, a country coping with an aging population should have appropriate policies. In that case, the increase in savings (from young workers or income transfers) and preparation sustainability for the financial retirement system can lead to a healthy, affluent aging population and a prosperous society.

1.2 Changes in Population Structures in Vietnam

Vietnam's population has continuously increased through historical periods, even though there is a difference in the population growth rate, birth rate and death rate in each period. The population data also partly reflect the historical context, the standard of living of the people and the state's concern with population and development issues.

According to the 2019 Population and Housing Census, the total population of Vietnam was 96,208,984, of which the male population was 47,881,061, accounting for 49.8%, and the female population was 48,327,923, accounting for 50.2%.

The 2017 population change survey of the General Statistics Office (GSO), officially announced in June 2019, showed that the rate of the elderly 60+ is 12.7%, equivalent to 12.22 million people over 60 years old. The percentage of elderly individuals over 65 years old was 8.3%, equal to 7.99 million people. Vietnam is the third most populous country in Southeast Asia (after Indonesia and the Philippines) and 15th in the world. In just 10 years (2009–2019), the population of Vietnam increased by 10.4 million people. The average population growth rate in the 2009–2019 period was 1.14% per year, slightly lower than that in the 1999–2009 period (1.18% per year), but the rate of the elderly population increased rapidly (GSO, 2019).

The population pyramids of 2014 and 2049 show that along with the decline in the child population, there is an increase in the elderly population. When the golden

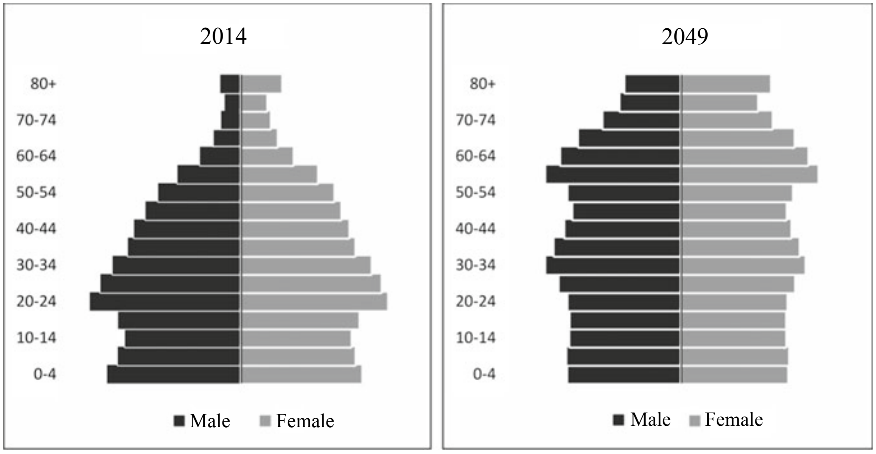


Fig. 1 Forecast population Pyramid of Vietnam, 2014–2049. *Source* GSO and UNFPA (2016a, 2016b)

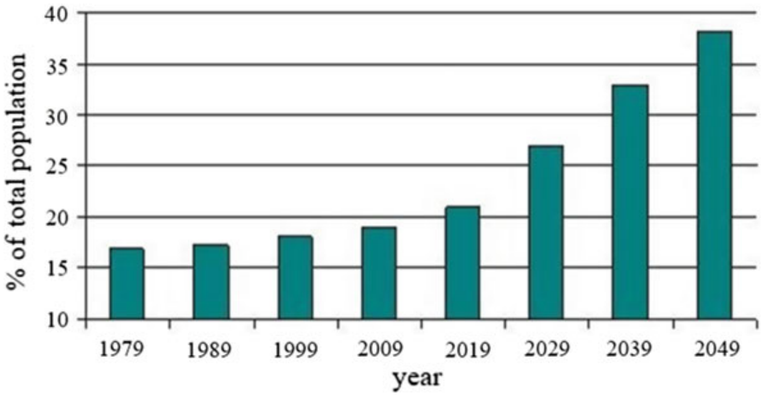


Fig. 2 Proportion of the Elderly Population in Vietnam, 1979–2049. *Source* GSO and UNFPA (2016a, 2016b)

population opportunity ends, the Vietnamese population is then only characteristic of an aging population with a series of human resource challenges for growth or social security issues, including financing for retirement, which is a serious problem (GSO & UNFPA, 2016a, 2016b).

The increase in the elderly population is recognized as a success of humanity in improving the quality of life and prolonging the human life span. However, the fact is that the elderly population is facing weaker health and declining income sources or is no longer able to work to generate income as age increases. This means an increase in health spending, insurance spending or an increasing need for social security for the elderly once Vietnam enters a period of rapid aging (Fig. 2).

The aging index, which is calculated as the number of people aged 60 and over per 100 children under the age of 15, had increased from 16.6 in 1979 to 35.5 in 2009. It is forecasted that the index will grow faster in the next few decades and will go up to approximately 100 in 2035, and by 2049 this will be 141, which means 141 elderly for every 100 children (GSO, 2016).

In many recent studies, if the aging population is prepared with appropriate policies and a strong pension financial system, aging does not mean a burden. Nevertheless, it can be exploited from the second demographic income from this transition. "Second demographic returns" are the benefits that can be obtained because projections of an aging population increase the incentives for saving and capital accumulation in the economy. The increasing proportion of high-income earners promotes the consumption of the outputs of the manufacturing process and increases the capital resources for production. Vietnam is coping with the aging population forecast now. In that case, savings will increase (from the time when young workers accumulate wealth to prepare for old age or from income transfers), and ongoing preparations for the financial retirement system can lead to a healthy, affluent aging population and a prosperous society.

The motivation to save for retirement from a young age also helps the current workforce to work more actively, contributing to the financial retirement system more. This has a positive impact on economic growth both now and in the future.

If the experience and skills of the elderly are effectively exploited, they can make a positive economic contribution. Healthy older workers with extensive work experience can support a young workforce for higher productivity. In addition, they are also an important connection factor in the family when market mechanisms and industrial lifestyles are rapidly eroding the family structure.

The increasing number of older people in Vietnam sets a dependency burden, posing many challenges for the social security system and the financial retirement system. The rapid increase in the proportion of the elderly means fewer taxpayers and more people needing state subsidies. Declining government revenues, along with rising costs of pensions and health care, put the social security net under pressure.

The aging rate of Vietnam's population is taking place faster than in many countries with better socioeconomic conditions, and the preparation time to deal with aging issues in Vietnam is very short. While it took France 115 years to move to an aging population, Sweden took 85 years, America 35 years, and Vietnam will take only 20 years. Two impacting factors are life expectancy at birth, which has increased approximately 1.5 times faster than the increase in life expectancy globally, and the fertility rate, which has dropped sharply. The average life expectancy in Vietnam is 73.6 years, of which the life expectancy for men is 71.0 years and for women is 76.3 years. From 1989 to the present, the average life expectancy in Vietnam has continuously increased, from 65.2 years in 1989 to 73.6 years in 2019 (GSO, 2019).

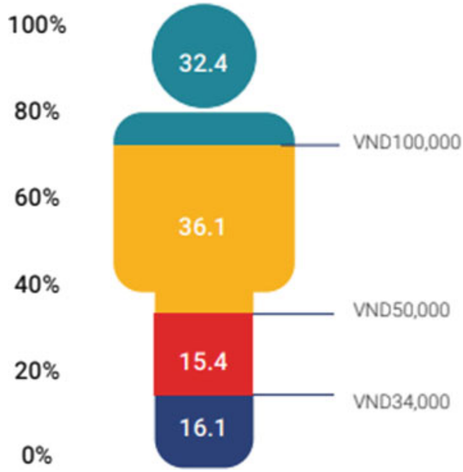
1.3 Living Costs and Pensions for the Elderly

Currently, the majority of older people live in low-income households. In 2016, almost 68% of older people were living in households where the per capita income was less than 100,000 Vietnamese dong or US$4.50 per day, while 31.5% were living on less than 50,000 dong (US$2.25), as Fig. 3 shows. Specific categories of older people are more likely to live in low-income households: for example, 81% of older people in rural areas and 88% of older members of ethnic minorities were living on less than 100,000 dong per day (Kidd et al., 2019).

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% of women and 35% of men aged 65–69 no longer participate in the labor force, rising to 91% of women and 85% of men aged 80 and above. This is largely the result of increasing disability in old age: approximately 30% of those aged 65 have a disability, respectively rising to 70% of 80-year-old individuals (Kidd et al., 2019).

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

Fig. 3 Proportion of older people living under different per capita daily incomes. *Source* Kidd et al. (2019)



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% of older women and 3% of older men live alone in Vietnam (Hai, 2019). A pension can help older people retain their autonomy for much longer, ensuring that they continue as givers to society rather than takers.

1.4 The Improvement of Per Capita Income and Proportion of Trained Workers

Since the reform and opening market over 30 years, Vietnam's per capita income has increased from the lowest level in the world to a low-middle-income country with a GDP per capita of US$3,521 in 2020. The poverty rate dropped sharply from more than 70% to less than 6% (US$ 3.2/day at purchasing power parity). Thanks to high economic growth, people's per capita income will continue to improve, and Vietnam's per capita income is forecasted to be over US$10,000 by 2030. In addition, the growing middle class in Vietnam currently accounts for 13% of the population and will grow to 26% by 2026.[1] The proportion of trained workers increased from 10.3% in 2000 to 22.8% in 2019 as Vietnam's education system had improved. The increase in per capita income along with a higher educational level will develop the social insurance scheme, unemployment insurance and social security funds.

[1] https://www.worldbank.org/vi/country/vietnam/overview.

2 Frame of Pension System in Vietnam

2.1 First Step of the Vietnamese Pension System

The pension system is a part of the Vietnamese social insurance system, which has been in operation since 1962. Before 1995, the pension system was a predefined entitlement system with only public sector employees participating, and many authorities managed it under the government's oversight. In that system, the pension rate was determined based on the number of years of contribution and base income (usually the salary at the time of retirement). The benefit was paid out from the social insurance fund, which was formed from employers' contributions (part of the salary fund) and government subsidies. Insurance funds were managed and sponsored by the government and are part of the state budget. For nearly 30 years, especially during the fierce war years, this system had made a significant contribution to stabilizing the income and living standards of the system participants. However, the complexity and difficulties arising from financial and administrative management, coupled with the rapid growth of the private sector, prompted the government to reform the system. Pay-as-you-go (PAYG) retirees had a predetermined benefit rate in 1995 and established Vietnam Social Security (VSI) at the same time to administer the system under government patronage.

2.2 The Vietnamese Pension System at the Current Time

Currently, the pension system in Vietnam includes two types: compulsory pension and voluntary pension. The Social Insurance Fund was formed based on the contributions of the participants. The current pension system has a strong commitment from the political system, developed in a relatively stable legal framework. However, the social insurance participation in the informal sector is still low; by the beginning of 2019, the number of people receiving the state pension (participating in social insurance) was only approximately 2.15 million, with an average retirement of 3.9 million/month (GSO, 2019). The rate of pension entitlement is at the maximum and long, while the life expectancy of pensioners is on the rise nowadays. Therefore, to ensure sustainable old-age income, the international trend is to use social pensions to achieve universal pension and social security in economies (Fig. 4).

Around the world, the traditional pension system under the mechanism of real revenues, real spending PAYG, is gradually being transferred to a funded pension system (fully/partially) from voluntary contributions by individuals participating in private retirement programs. This campaign pension system has enabled pension funds to voluntarily accumulate assets to invest in the financial markets (Luu, 2014). Even though the development of pension funds in Vietnam has been in effect since 2013, it is still in its early stages (Fig. 5).

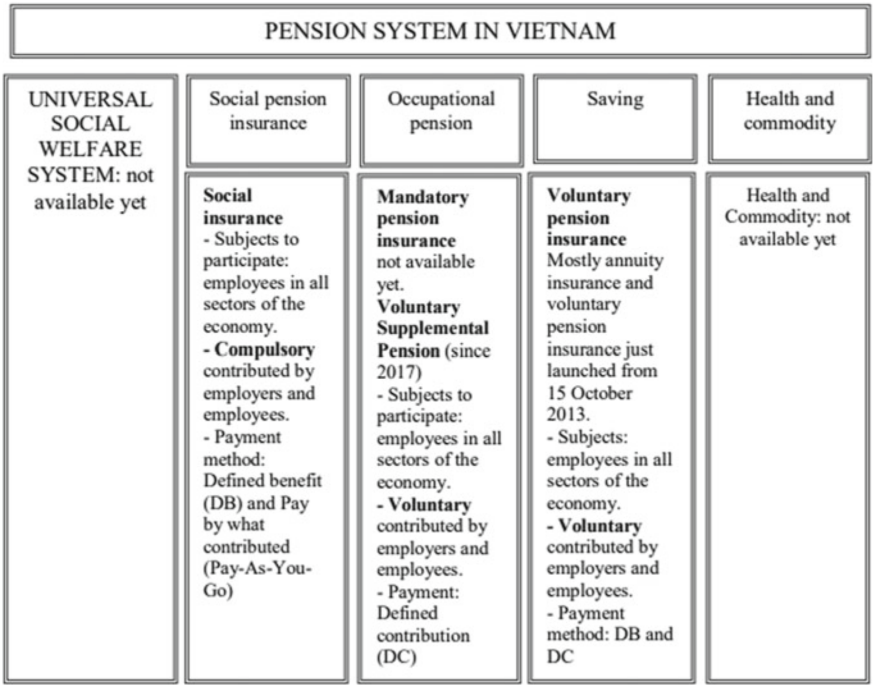


Fig. 4 Pension system in Vietnam. *Source* Luu (2014)

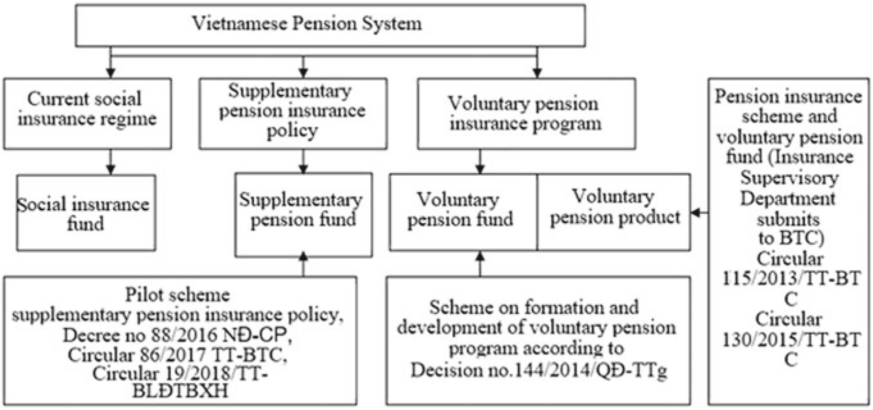


Fig. 5 Regulatory structure of the Vietnamese pension system. *Source* MOF (2013) (Circular 115/2013/TT-BTC)

Accordingly, voluntary pension programs in Vietnam are currently implemented under the government's regulations through voluntary pension insurance products (annuities) provided by life insurance companies, sercurities companies and banks.

3 Frame of the Public Pension System in Vietnam

According to the Law on Social Insurance 2014, generally speaking, employees in the public sector are required to have a specific number of years of social insurance payments for each field, industry group and the rate of pension entitlement to receive social pension. The maximum pension entitlement rate of the employee is 75% of the average monthly salary paid for social insurance, corresponding to the retirement age of 55 for women and 60 for men, except for some specific cases in a profession or field. The employee's working age and retirement age may be lower or higher, as specified in the Law on Social Insurance (National Assembly, 2014). The employee's basic pension is calculated as follows:

$$\begin{aligned}\textbf{Pension} &= \textbf{Rate of pension entitlement}\\ &\quad\times \textbf{level of average monthly salary paid for social insurance}\end{aligned}$$

where:

- For male employees: 45% of the average monthly salary paid for social insurance, corresponding to 18 years of social insurance payment, then 2% more of each additional year.
- For female employees, 45% of the average monthly salary paid social insurance corresponding to 15 years of social insurance payment, then 2% more of each additional year.
- In case the employee retires before the required age, the monthly pension of the employee eligible for retirement before the age is calculated as the full retirement age; then, for each year of retirement before the required age, there is a 2% reduction. If the retirement age has an odd time to the entire six months, the reduction will be 1%, and from over six months, the percentage rate will not be reduced.

4 Public Pension Benefits in Vietnam

4.1 Law on the Elderly and Social Protection Policy for the Elderly

On 23 November 2009, the National Assembly promulgated the Law on the Elderly, effective 1 July 2010. This Law provides for the rights and obligations of older people;

responsibilities of the family, the State and society in caring for and promoting the role of the elderly; and the Vietnam Association of the Elderly.

According to the provisions of the Law on the Elderly 2009, the elderly are Vietnamese citizens from 60 years of age or older. Article 17 of the Law on the Elderly 2009 provides for the beneficiaries of social protection policies. Under Article 18 of the Law on the Elderly, the elderly are entitled to s*ocial protection policies, monthly social benefits and funeral expenses* (National Assembly, 2009).

Social Insurance Age

- **Required Age for Pension**
  Age 60 (men) or age 55 (women) with at least 20 years of contributions (at least 15 years of contributions for women civil servants living in communes, wards, or townships).

  Age 55 (men; age 50 for coal miners) or age 50 (women) with at least 20 years of contributions, including at least 15 years of employment in coal mining or other hazardous or arduous working conditions, or in certain geographic regions. At any age with at least 20 years of contributions, including 15 years in extremely hazardous or arduous working conditions, and an assessed degree of disability of at least 61%.

  Age 55 (men) or age 50 (women) with at least 20 years of contributions and an assessed reduced working capacity of at least 61%.

  Age 50 (men) or age 45 (women) with at least 20 years of contributions and an assessed reduced working capacity of at least 81%.

  At any age with at least 20 years of contributions if the insured contracted HIV/AIDS in the workplace.

  For military and police personnel, age 55 (men) or age 50 (women) with at least 20 years of contributions; age 50 (men) or age 45 (women) with at least 20 years of contributions, including at least 15 years of employment in hazardous or arduous working conditions or in certain regions; age 50 (men) or age 45 (women) with at least 20 years of contributions and an assessed reduced working capacity of at least 61%.

  Pension supplement: Paid if the insured individuals had sufficient contributions to finance at least a 75% replacement rate.
- **Old-age Grant**
  Age 60 (men) or age 55 (women) with less than 20 years of contributions and ineligible for the old-age pension (less than 15 years for women civil servants living in communes, wards, or townships). At any age with less than 15 years of contributions and an assessed degree of disability of at least 61%.

  At any age if diagnosed with certain specified diseases or for demobilized army or police personnel who are ineligible for the old-age pension. If emigrating permanently, with less than 20 years of contributions after 12 months of leave with no paid contributions during the leave period.
- **Disability Pension**
  See old-age pension (social insurance).

- **Survivor Pension**
  The deceased had at least 15 years of contributions, received or was entitled to receive an old-age pension, or was a disability pensioner with an assessed reduced working capacity of at least 61%. The benefit is paid to up to four dependent survivors.
  Eligible survivors include a widower (aged 60 or older) or a widow (aged 55 or older) with income less than the legal monthly minimum wage for civil servants (no age limit with an assessed reduced working capacity of at least 81%), children younger than age 18 (no limit with an assessed reduced working capacity of at least 81%), a father (aged 60 or older) or a mother (aged 55 or older) with an income less than the legal monthly minimum wage for civil servants; or a father-in-law (aged 60 or older) or a mother-in-law (aged 55 or older) with income less than the legal monthly minimum wage for civil servants (no limit with an assessed reduced working capacity of at least 81%).
  The legal monthly minimum wage for civil servants is 1,210,000 dong (US$ 45).
  Survivor lump-sum allowance: Paid to survivors who do not meet the eligibility requirements for a survivor pension if the deceased received or was entitled to receive an old-age or disability pension.
- **Survivor Grant**
  Paid if the deceased had less than 15 years of contributions.
- **Funeral Grant**
  Paid to the person who pays for the funeral if the deceased received the old-age or disability pension or had at least 12 months of contributions.

Social Assistance

- **Old-age Social Pension**
  Aged 60–79, needy, and living alone without family support; or aged 80 or older and not receiving any contributory pension.
- **Disability Allowance**
  Assessed with at least a 61% reduced working capacity and does not qualify for a contributory pension.
- **Caregiver's Support**
  Paid to caregivers of persons with an assessed reduced working capacity of at least 81%.
- **Funeral Grant**
  Paid to cover the cost of the funeral if the deceased was aged 60 or older, needy, and living alone without family support; aged 80 or older and not receiving any contributory pension; with an assessed reduced working capacity of at least 61% and not receiving any contributory pension; or receiving the orphan benefit, single-parent benefit, HIV allowance, or disabled child allowance.

4.2 Benefits from the State Retirement Regime

Provisions on beneficiaries of social protection policies under the Law on the Elderly 2009 include the following: (1) older people from poor households without an obligor and a right to serve or an obligor and the right to care for these people who are enjoying the monthly social allowance; (2) people aged 80 years or older who are not one of the above cases and do not have a monthly pension or social insurance allowance.

According to the social protection policy: *(1) Older adults are entitled to health insurance, a monthly social allowance and support for funeral expenses upon death; (2) Older adults from poor households who have no obligations and rights to support, have no conditions to live in the community, have aspirations and are admitted to social protection establishments are entitled to benefits: monthly nursing allowance; supply of materials for daily activities; receiving health insurance; supply of common medicine; provision of tools and means of rehabilitation assistance; burial after death (National Assembly*, 2009).

- **Monthly Social Allowance**
  The standard level of social allowance to determine the monthly social allowance, the monthly nurturing allowance for the elderly, is 180,000 dong or US$ 65 (standard coefficient 1.0).

  The lowest monthly social allowance level for the elderly specified in Article 17 of the Law on the Elderly (2009) living in a community is managed by the People's Committees of Communes, Wards and Townships as follows:

  – The rate of 180,000 dong/person/month (coefficient 1.0) for the elderly from 60 years old to 80 years old in a poor household without a person having obligations and rights to support; or having someone with obligations and rights taking care but this person is receiving the monthly social allowance;
  – The rate of 270,000 dong/person/month (coefficient 1.5) for older adults aged 80 years and over belonging to poor households without a person having obligations and rights to serve; or someone with obligations and rights to worship but this person is receiving the monthly social allowance;
  – The rate of 180,000 dong/person/month (coefficient 1.0) for people aged 80 years or older who do not fall into the above two categories without salary, monthly social insurance allowance or monthly social allowance.
  – The rate of 360,000 dong/person/month (coefficient 2.0) for the elderly was raised in social protection establishments.
  – The rate of 360,000 dong/person/month (coefficient 2.0) for older people who are eligible to be admitted to live in social protection establishments but have people who receive care in the community.

- **Funeral Expenses Support**
  The rate of support for funeral costs upon the death of the elderly specified in Articles 18 and 19 of the Law on the Elderly is 3,000,000 dong.

- **Health Insurance Card**
  Persons aged 80 years or older who are enjoying monthly social insurance benefits or other monthly benefits but have not yet been granted a free health insurance card shall be issued with a health insurance card by the government.

4.3 The Current Vietnam Pension Entitlement

The rapid increase in per capita income along with a higher proportion of trained workers are positive factors that increase the number of people participating in the social insurance system in Vietnam for two reasons: (i) An increase in per capita income creates savings available for people to participate in social insurance for a long time; (ii) When the level of trained workers is improved, they tend to work in factories and offices, that is, in the formal economic sector, not in the underground economy.

In 2016, the number of people receiving a monthly pension was 2.3 million people (approximately 23% of the elderly population). The average benefit is 3.7 million dong/month, equivalent to approximately seven times the poverty line for the period 2010–2015 (Ministry of Labour, Invalids and Social Affairs, MOLISA, 2017).

With the social pension system (or a monthly allowance), by the end of 2016, nearly 110,000 people aged 60–79 and 1.9 million people aged 80 and over received monthly benefits. Therefore, the coverage rate of this system was also approximately 20% of the elderly population. The main goal of this system was to support the elderly to reduce difficulties and ensure income security. The minimum benefit amount was 270,000 dong/person/month, but this is low because it is only half of the general poverty line for 2010–2015 (MOLISA, 2017) (Fig. 6).

By the end of 2020, 16.1 million people were participating in the compulsory social insurance program, and approximately 1.1 million people were participating in the voluntary social insurance program. This means that only 32% of the workforce participated in the social insurance system.[2]

4.4 Taxation

Tax residents are subject to personal income tax (PIT) on their worldwide employment income, regardless of where the income is paid or earned, at progressive rates from 5% to a maximum of 35%. Nonresident taxpayers are subject to PIT at a flat rate of 20% in Vietnam.

In general, a typical monthly salary package in Vietnam will include gross salary and mandatory social security. PIT is levied on the balance after deducting mandatory

[2] https://nhandan.vn/bhxh-va-cuoc-song/gan-1-1-trieu-nguoi-tham-gia-bao-hiem-xa-hoi-tu-nguyen--629304/.

social insurance contributions. Companies conduct PIT finalization on behalf of their employees at the beginning of the year for taxable income arising from the previous year.

Tax-exempt incomes: Vietnam's tax authorities have singled out a number of incomes that are exempt from PIT. These include:

- Overseas remittances, retirement pensions, scholarships.

4.5 *Changes in the Social Insurance Law in 2021*

4.5.1 Changes in Conditions for Having Pension Benefits for Subjects of Compulsory Social Insurance

According to Article 54 of the Law on Social Insurance, the conditions for pension entitlement to compulsory social insurance participants will be adjusted for each group of subjects as follows:

Group of employees, civil servants and public employees

This group of people, if they have 20 years or more of participation in social insurance, will be entitled to pension if:

- Under normal working conditions, male employees need to be 60 years + 3 months; female employees need to be 55 years + 4 months.

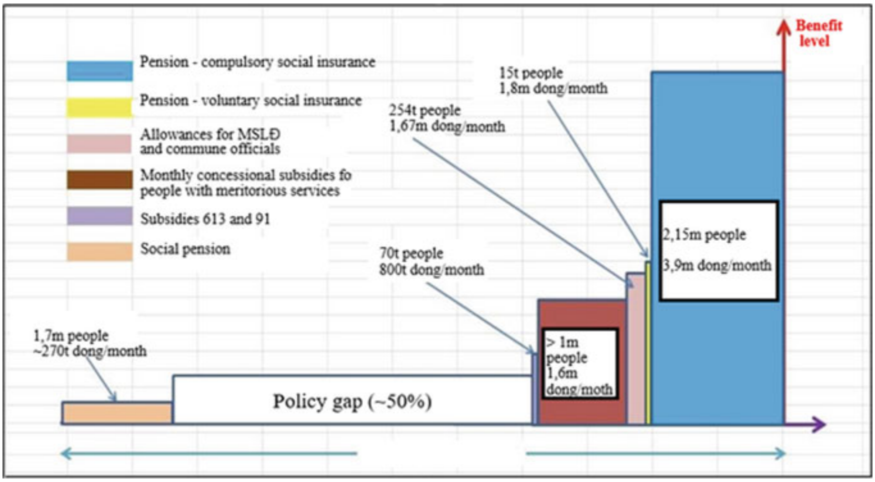


Fig. 6 Elderly population coverage of Vietnam's pension system. *Source* MOLISA (2017)

- In heavy, hazardous, dangerous or extremely heavy, hazardous or dangerous work conditions, have 15 years working in regions with extremely difficult socioeconomic conditions: Male employees need to be 55 years old + 3 months; female employees need to be 50 years for women + 4 months.
- People working in coal mining for 15 years or more: Male employees need to be 50 years + 3 months, Female employees need to be 45 years old + 4 months.
- People infected with HIV due to occupational accidents while performing assigned tasks.

Group of professional soldiers, officers and noncommissioned officers

According to regulations, if they have 20 years of social insurance payment, they will be entitled to a pension that satisfies the following conditions:

- For normal working conditions, male employees are 55 years old + 3 months, and female employees are 50 years old + 4 months, except for the subjects of Law on Officers of the People's Army of Vietnam, Law on People's Public Security, Law on Cipher, Law on Military professional personnel, defense workers and officers.
- In heavy, hazardous, dangerous or extremely heavy, hazardous or dangerous work conditions, have 15 years of working in regions with extremely difficult socioeconomic conditions: male employees are need to be 50 years old + 3 months; female employees are need to be 50 years + 4 month old.

  People working in coal mining for 15 years or more: Male employees need to be full 50 years + 3 months female employees from 45 years old + 4 months.
- People infected with HIV due to occupational risks and accidents while performing assigned tasks.

The labor group is communal cadres, civil servants and part-time workers in the commune

This group of subjects participates in social insurance; if they quit their job, they have at least 15–20 years of social insurance payment, male employees are 60 years old + 3 months, female employees are 55 years old + 4 months, they will have pension benefits.

4.5.2 Changes in Conditions for Pension Entitlement to Persons with Working Capacity Impairment

According to Article 55 of the Law on Social Insurance, the conditions for pension entitlement to the groups of subjects with decreased working capacity are as follows:

Group of employees, civil servants and public employees

The conditions for having pension benefits for employees, civil servants and public employees of decreased working capacity are having 20 years of payment of social insurance premiums and meeting the following requirements:

- For males aged 55 years + 3 months and females aged 50 years and 4 months, the decreased working capacity rate ranged from 61% to less than 81%.
- Males were 50 years old + 3 months, females were 45 years old + 4 months, and the decreased working capacity rate was 81% or more.
- Having 15 years working in extremely heavy, hazardous or dangerous jobs and having a decreased working capacity of 61% or more.

Group of professional soldiers, officers and noncommissioned officers

When they quit their jobs, these people have enough time to pay social insurance for at least 20 years and suffer a decreased working capacity of 61% or more.

4.5.3 Changes in Conditions for Pension Entitlement to Voluntary Social Insurance Participants

From 1 January 2021 onward, subjects participating in voluntary social insurance will be entitled to a pension if:

- 60 years old + 3 months old for male employees, 55 years + 4 months old for female employees
- 20 years of social insurance payment or more.

4.5.4 Changes in Pension Rates

In addition to the change in conditions, the latest Social Insurance Law made adjustments to the pension rate in 2021.

Subjects participating in compulsory social insurance

Monthly pension: Depends on the rate of monthly pension entitlement and changes as follows:

- Male employees: In 2021, male employees for 19 years of social insurance payment received 45%; then, for every additional year, 2% is added for a maximum of 75%.
- Female employees: For 15 years of social insurance payment, they enjoy 45%, then for every additional year, 2% is added for a maximum 75%.

Lump-sum allowance upon retirement

Employees whose time of participation in social insurance is higher than the number of years corresponding to the pension rate of 75%, when retiring, in addition to a pension, receive a lump-sum benefit. The one-time subsidy rate calculated according to the difference in the number of years participating in social insurance is higher than the corresponding number of years with a pension rate of 75%. Each year is calculated by 0.5 months of the average salary paid for social insurance.

Subjects participating in voluntary social insurance

Rate of enjoying monthly pension:

- For male employees: In 2021, a full 19 years of payment will merit 45%, then for every additional year 2% will be added for a maximum of 75%.
- Female employees: For every 15 years of social insurance payment, they will merit 45%, then for every additional year 2% will be added for a maximum of 75%.

Lump-sum allowance upon retirement:

The rate of entitlement to a one-time pension upon retirement is similar to that of employees participating in compulsory social insurance. Employees whose time participating in social insurance is higher than the number of years corresponding to the pension rate of 75%, when retiring, in addition to pension benefits, will receive a lump-sum allowance. The one-time subsidy rate calculated according to the difference in the number of years participating in social insurance is higher than the corresponding number of years with a pension rate of 75%. Each year is calculated by 0.5 months of the average salary paid for social insurance.

5 Voluntary Pension System in Vietnam

In addition to participating in self-employed pension insurance under the public program, employees have more options for personal retirement when participating in the retirement insurance programs of life insurance companies or other financial institutions.

Since 2013, Vietnam has seen six life insurance companies provide voluntary pension insurance under the law, namely, Prudential Vietnam, Bao Viet Life, Manulife, AIA Vietnam, Dai-ichi Vietnam, and PVI Sun Life (currently Sun Life Vietnam). Eligible life insurance companies implement retirement insurance products in the Vietnamese insurance market (Hai, 2019) (Fig. 7).

Dai-ichi Life Vietnam is a life insurance company that launched the first voluntary pension insurance on the market on 15 October 2013. Manulife, AIA Vietnam and PVI Sunlife also announced bringing voluntary retirement insurance to the market. Dai-ichi Life Vietnam and Bao Viet Life develop voluntary retirement products for groups and individuals who can join, and four life insurance companies, including Manulife, Sun Life Vietnam, and AIA Vietnam, focus on implementing a line of pension insurance products for the group of employees working in enterprises, particularly Prudential Vietnam, which develops a line of retirement insurance for individuals.

The voluntary pension insurance market in Vietnam only recognized a few voluntary pension insurance contracts when this type of insurance was introduced in October 2013. In these type of insurance policies, most of the holders are life insurances themselves buying life insurance for their employees. There are only few

N.O	Life insurance company	Pension insurance product		Year
		For business	For individuals	
1	Dai-ichi Life VN	Hưng nghiệp hưu trí	An nhàn hưu trí	2013
2	Manulife	Manulife - Điểm tựa hưu trí		2013
3	PVI Sun Life*	Hưu trí PVI Sunlife		2013
4	AIA VN	An nghiệp hưu trí		2014
5	Prudential VN		Phú - An thịnh hưu trí	2015
6	Bảo Việt Nhân thọ	Hưu trí vững nghiệp	Hưu trí An Khang	2015

Fig. 7 Main voluntary pension providers. * PVI sun life was renamed Sun Life Vietnam on November 7, 2016.
Source ISA – MOF (2017, 2018a, 2018b)

corporates buying these policies for their employees. From which the main contributors came. It is the employees of insurance enterprises, and some corporate customers agree in principle (ISA – MOF, 2017, 2018a, 2018b). In 2017, the Ministry of Finance has just issued Decision 902/QD-BTC, effective from 22 May 2017 on the publication of administrative procedures in the field of finance and banking under the jurisdiction of the ministry, which stipulates the procedure for granting the certificate of eligibility for business in voluntary pension fund management services. Life insurance, fund management in accordance with specialized laws, must meet the following conditions:

1. For life insurance enterprises, they must meet the conditions to deploy retirement insurance products in accordance with the provisions of the law on pension insurance business.
2. A fund management company must have at least five years of experience in the field of fund management; the total value of assets under management must be at least 1,000 billion dong; and it is operating in the management of an open-ended fund or a bond fun.

This has meant that only two fund management companies—Dragon Capital Fund and SSI Asset Management—have started offering pension packages to their customers recently. However, the proportion of pension products offered by these companies is still very small.

5.1 Voluntary Pension Fund Operation in Vietnam

Due to the fund's asset formation and the investment characteristics of the life insurance company, the operation of pension insurance products and voluntary pension funds in Vietnam becomes favorable in terms of asset value and asset structure allocation in line with the investment strategy and investment goals of the voluntary pension fund. Accordingly, investment in assets of the voluntary pension fund must comply with the law, take self-responsibility for investment activities, and ensure safety, efficiency, the spread of risks, liquidity, and value of investment assets commensurate with the responsibility and risk profile of the voluntary pension insurance product.

5.2 The Net Worth of the Voluntary Pension Fund

Voluntary superannuation is a fund formed from the premium source of voluntary pension insurance policies and is a part of the policy owner fund. The assets of the voluntary pension fund are not divisible but common to all insurance policies in the voluntary pension fund.

In Vietnam, life insurance companies that meet the conditions to establish and manage voluntary pension funds in Vietnam are required to contribute and maintain at least 200 billion dong from their equity captital to the Fund. Thus, assets of the voluntary pension fund operating in Vietnam include assets formed from (i) insurance premiums, (ii) contributions by life insurers in accordance with the law, and (iii) assets derived from investment returns of the above sources.

According to the current regulations, the voluntary retirement insurance premiums paid by employers to employees are the deferred payment of personal income tax and retirement insurance payments by individuals. Self-paying will be deducted before calculating taxable income with a maximum deduction rate of 1 million dong/month. This is also the fundamental difference between voluntary pension insurance and other life insurance products in Vietnam (Table 1).

Data accumulated annually from 2013 to the end of 2019 in Table 2 shows that in a short time, from 74 voluntary pension insurance policies with a total value of only 7 billion dong in 2013, the number of newly exploited contracts had increased to 45.100 contracts worth 4.568 billion dong. However, the contribution of voluntary pension insurance was still modest compared to the entire insurance market in Vietnam in the period 2013–2019; specifically, the number of new exploitation contracts of the type of voluntary pension insurance accounted for only 0.375%, insurance value accounted for only 0.132% and insurance premiums accounted for 0.94% of the whole insurance market. The above data shows that although voluntary pension insurance products appeared on the insurance market in October 2013, at the same time, legal regulations were still inadequate. From the voluntary pension insurance policy of these individual retirement accounts, there was also the significant growth in the period 2013–2019.

Table 1 Voluntary pension insurance contracts in the life insurance market of Vietnam in 2013–2019

Year	Insurance contract number		Insurance money (billion dong)		Insurance fee (billion dong)	
	Pension insurance	Insurance market	Pension insurance	Insurance market	Pension insurance	Insurance market
2013	74	1.178.437	7	31.381	0,344	7.216
2014	10.912	1.064.614	1.089	219.900	208	8.155
2015	8.121	1.293.951	844	307.922	206	12.175
2016	5.571	1.538.896	564	428.588	98	17.498
2017	8.294	1.964.262	836	579.687	120	22.552
2018	6.180	2.248.158	620	827.158	142	29.608
2019	5.948	2.716.671	608	1.054.655	204	34.453
Total	45.100	12.004.989	4.568	3.449.291	632	67.596
Proportion (%)	0,375	100	0,132	100	0,94	100

* Types of insurance on the insurance market include life insurance, term insurance, mixed insurance, periodical insurance, investment-linked insurance (including unit-linked insurance and universal life insurance), health insurance; no supplementary insurance yet

Sources ISA – MOF (2017, 2019)

Table 2 Regulations on investment in voluntary pension fund assets in Vietnam

Asset	Proportion of asset distribution
Deposits at credit institutions	Unlimited purchase, but not more than 20% of the total investment assets of the voluntary pension fund in a credit institution
Government bonds	Unlimited purchase, but not less than 40% of the voluntary pension fund's total investment assets
Guaranteed corporate bonds and municipal bonds	Purchase not more than 25% of the total investment asset value of the voluntary pension fund
Corporate shares and bonds without guarantee, capital contribution to other businesses	Purchase not more than 20% of the total investment assets value of the voluntary pension fund The investment in issued shares of an enterprise or corporate bonds must not exceed 5% of the volume of each issue and must not exceed 5% of the total investment asset value of the voluntary pension fund

Source Synthesized from Circular115/2013/TT-BTC – MOF (2013)

As of May 2018, according to data from Ministry of Finance, the total new operating fee revenues of voluntary pension insurance accounted for only 0.63% of the total new fee revenue of service insurance. In the period 2013–2018, reports on voluntary pension fund operations all recognized Sun Life Vietnam as the market leader in voluntary pension insurance. In Vietnam, both in terms of asset size and total operating revenue, the total assets of the Sun Life pension fund reached 1.411 billion dong, recorded on 31 December 2018 (ISA – MOF, 2017, 2018a, 2018b).

Private insurance companies mainly engage in commercial insurance products, and pension insurance accounts for a very small proportion in the insurance market. For example, in 2019, according to the Insurance Administration and Supervision Department (2020), in the life insurance field, the premium revenue of new insurance contracts was 34.453 billion dong, but the pension insurance premium was only 204 billion dong (accounting for 0.592% of total premium revenue in the whole life insurance market). Private insurance companies prioritizing expansion are investment-linked insurance and endowment insurance (accounting for 73.5% and 11.76%, respectively, of the total insurance market premium revenue in 2019).

5.3 Asset Allocation in the Portfolio Structure

According to current regulations, the assets of the voluntary pension fund are not allowed to directly invest in real estate, gold, silver, precious metals and gems; or invest in stocks of securities companies, finance companies, or finance leasing companies. However, depending on changes in financial markets and investment activities, the Ministry of Finance may adjust the portfolio and investment limit of the voluntary pension fund according to Circular 115/2013/TT-BTC.

Life insurance companies' portfolios are volatile with low returns, mainly focusing on government bonds and deposits at credit institutions and risky investments. High risks such as stocks, corporate bonds without guarantees, and capital contribution account for a small proportion of total investment assets (ISA – MOF, 2017, 2018a, 2018b) (Table 3).

At the beginning, as voluntary pension funds in Vietnam are mainly affiliated and managed by life insurance companies, the portfolio structure of voluntary pension funds is similar to the general portfolio structure. The safety of life insurance companies focuses mainly on deposits at credit institutions and government bonds in accordance with the regulations on asset allocation (Table 4).

Table 3 Asset structure of life insurance companies in Vietnam in 2014–2019

Proportion of asset value (%)	2014	2015	2016	2017	2018	2019
Government bonds	62,88	69,94	67,92	63,82	N/A	44,43
Deposits at credit institutions	25,72	18,64	20,97	24,45	–	39,84
Corporate bonds with guarantees	0,8	0,75	1,14	1,63	–	4,59
Corporate shares and bonds without guarantee	4,26	4,27	4,71	6,35	–	7,69
Capital contribution to other businesses	0,38	0,27	0,22	0,21	–	0,74
Real estate business	0,04	0,00	0,00	0,00	–	0,16
Loan	5,63	5,16	4,17	3,37	–	2,24
Investment trust	0,07	0,13	0,57	0,00	–	0,14
Others	0,22	0,83	0,47	0,16	–	0,16
Total	100	100	100	100	–	100

Sources ISA – MOF (2017, 2018a, 2018b, 2019)

Table 4 Asset structure of voluntary pension funds in Vietnam as of 31 December 2018

Asset value (billion dong)	Dai-ichi life VN	Manulife	Sun life	AIA VN	Prudential VN*	Bao Viet Nhan Tho
Money at funds	0,42	3,55			9,14	9,4
Deposits with credit institutions	42,20	37,75	410,26	41,56	85,11	153,22
Government bonds	116,46	215,86	729,81	251,57	121,75	400,28
Corporate bonds with government guarantees, and municipal bonds	42,71		177,72	35,52		
Corporate shares and bonds without guarantee						
Capital contribution to other businesses	10,00	46	30,21			
Receivables from investment interests and other assets	12,27	13,98	17,29	12,64	4,05	23,94
Total	223,68	317,21	1.411,48	341,41	219,16	586,84

* Prudential VN: Figures as at 31/12/2017
Sources ISA – MOF (2017, 2018a, 2018b)

5.4 The Revenue and Operating Costs of the Voluntary Pension Fund

Voluntary fund revenue is recognized when interest is accrued on an accrual basis on the reliably determinable economic benefits of the fund's assets. Voluntary pension funds in the market today are mainly from (i) annuity premiums and (ii) interest from investments, including investments in demand deposits, term deposits, bonds and stocks as needed.

Initial costs, hedging costs and contract administration costs are calculated and recognized in accordance with the Rules and Terms of Group Pension products approved by the Ministry of Finance in accordance with Official Letter No. 18204/BTC-QLBH dated 30/12/2013, and Rules and Terms of Voluntary Pension products approved by the Ministry of Finance in accordance with Official Letter No. 2995/BTC-QLBH dated 9/3/2015. At the same time, the term costs of the voluntary pension funds are recognized on an accrual basis, mainly comprising the following fees: (i) initial fees; (ii) risk insurance premium; (iii) insurance policy administration fees; (iv) fund management fee; (v) retirement account transfer fees; (vi) spending on professional reserves and (vii) amortization to the corresponding portion of the life insurer in the fund (ISA – MOF, 2017, 2018a, 2018b) (Table 5).

5.5 The Investment Interest Rate of the Voluntary Pension Fund

Voluntary retirement funds are professionally invested in delivering long-term efficiency with a safe and prudent investment strategy. Accordingly, the investment interest rates are publicly announced by the voluntary pension insurance funds every month, recognized at nominal value and adjusted in accordance with the fund's investment orientation under the general situation of the economy. When conducting investment activities of the fund, the actual investment interest rate may fluctuate compared to the announced investment interest rate depending on the favorable level of the market, thereby leading to interest rate accumulating in value account being increased or decreased. However, voluntary pension funds also publish specific interest rates on minimum accumulation commitments to individual retirement accounts to ensure voluntary retirement insurance benefits for policyholders.

According to Table 6, Prudential Vietnam's voluntary pension fund has the lowest interest rate paid to the policyholder. In 2018, Bao Viet Life's Voluntary Pension Fund accumulated the value of customers' accounts at the highest published interest rate for the voluntary pension product in Vietnam's life insurance market.

In general, as of 2018, voluntary pension funds in Vietnam were still in the early stage of formation and development. Domestic companies already participated in voluntary pension insurance, but the number was still limited. According to statistics, there were more than 100 groups, corporations, joint-stock companies, limited

Table 5 Revenue and expenses for voluntary pension funds in Vietnam in 2017–2018

Unit: billion dong	Dai-ichi life VN		Manulife		Sun life VN		AIA VN		Prudential VN		Bao Viet Nhan Tho	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Income	20,74	16,88	31,88	33,59	252,83	397,67	36,61	33,12	0,22	N/a	172,98	171,67
Cost	2,46	2,29	18,28	19,82	252,83	397,67	9,62	19,46	4,33	N/a	156,33	155,03
Difference	18,28	14,58	13,60	13,77	–	–	26,99	22,66	N/a	N/a	16,65	16,64

* Prudential VN: In 2017, income recorded from insurance premiums invested in the voluntary pension fund; recognition expenses from initial cost, risk insurance fee, insurance contract management fee, fund management fee

Sources ISA – MOF (2017, 2018a, 2018b)

Table 6 Return rate of voluntary pension funds in Vietnam Between 2013 and 2018

Unit: % year	Dai-ichi life VN		Manulife		Sun life VN		AIA VN		Prudential VN		Bao Viet Nhan Tho	
	(i)	(ii)	(i)	(ii)	(i)	(ii)	(i)	(ii)	(i)	(ii)	(i)	(ii)
2013	10,75	8,78	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a
2014	10,49	8,98	8,78	6,78	5,89	8	8,13	6	N/a	N/a	N/a	N/a
2015	8,55	8,06	9,06	7,06	7,32	7,51	8,12	5,5	3,55	4	5.49	5,5
2016	8,67	7,07	8,84	6,84	7,75	7,05	9,38	7,54	5,85	4	8,05	7,30
2017	8,69	7,00	8,41	6,41	7,41	6,73	9,06	7,25	6,26	4	7,51	6,75
2018	6,97	6,00	7,81	5,81	7,44	6,39	7,73	6,24	N/a	N/a	7,68	6,55

(i) Real interest in investment
(ii) Interest paid to the insurance buyers
Sources ISA – MOF (2017, 2018a, 2018b)

liability companies, and foreign enterprises participating in retirement insurance, equivalent to approximately 60,000 employees, having benefits from the programs in 2017. To be licensed to deploy voluntary pension insurance, insurers need to meet the very strict conditions of capital and solvency margins and have to build building technology infrastructure to be able to manage millions of individual accounts. Developments and statistics from the market showed that employees, participating enterprises and insurance enterprises were hesitant to join voluntary pension funds. Thereby, it showed that the concept of the voluntary pension fund is still relatively new to the market even up to the present. Indeed, the incentive and support mechanisms for the voluntary pension fund were not significant and had not created a driving force for market development (Hai, 2019).

5.6 Cumulative Opportunity for Retirement from Life Insurers in Vietnam

The life insurance industry in Vietnam has only been developing for around 20 years; however, its growth is relatively fast, and it has made mutual contributions to financial safety and well-being for Vietnamese people. To date, Vietnam's population has approximately only 10% participating in life insurance, in which pension insurance packages account for a small proportion because life insurers have still not created firm confidence for consumers.

However, with the general development of Vietnam's financial industry, insurance companies and fund management companies are constantly innovating and improving products, and the benefits of insurance packages become increasingly competitive and create more trust among the public. For a common insurance package in current insurance companies, which is a universal insurance product, the premium payment period is short (less than or equal to the working time of the employee) but insured for participants up to the age of 99 with many attractive benefits in terms of medical or health care expense coverage. Many employees have joined life insurance packages to increase financial reserves against the risks of life and for their old age. It is also a quite effective savings enabling Vietnamese people to ensure a better retirement by paying only a small amount of money annually (Giang & Phi, 2017). However, the proportion of people participating in life insurance in Vietnam is still very low in comparision with other countries in the region of approximately 80–90%. In addition, only people under 65 can participate in life insurance packages. As a result, the current elderly population and those who already have an underlying health problem cannot participate in this channel to increase financial provision for retirement.

5.7 Taxation

Circular No 115/2013/TT-BTC provided guidance on the law on personal income tax, while Decree No 65/2013/ND-CP established personal and corporate tax incentives for voluntary pension funds. The government hopes that by introducing a tax incentive regime for such products, workers will increasingly save for retirement and reduce their reliance on the state Social Insurance Fund (SIF); tax incentives are as follows:

- employee contributions up to 1 million dong ($43.38) per month are tax deductible.
- employer contributions up to 1 million dong($43.38) per employee per month are deductible as a business expense.
- pension benefits from employer contributions are subject to income tax and an initial 10% withholding tax when received at normal retirement age (60 for men, 55 for women).
- benefits from employee contributions, funeral coverage, death are exempt from tax.

5.8 Pension Fund Investments

It is assumed that the pattern of pension fund investments is similar to the life insurance market with potentially heavy emphasis on government bonds. Government bonds must comprise at least 40% of total fund investments, while investment in corporate shares and bonds is limited to 20% of total fund investments. In any event, the private sector pension market is currently very small.

As per MOF Circular No 115/2013/TT-BC, investments can be handled by insurance companies or fund managers. Cooperation between insurers offering private pension products and securities firms and fund management companies is already showing signs of development into a more integrated form of the overall financial services industry. A number of the leading life insurers (such as Prudential Vietnam

Assurance PLC and Manulife-Vietnam Ltd.) have already established asset and fund management operations capable of integrally handling the technical and consumer demands of a potentially expanding private life insurance and pensions industry.

6 Issues of the Vietnamese Pension System

6.1 Rapid Aging of the Population

According to the Allianz pension report 2020, Vietnam placed 57th out of 70 economies in a global ranking of pension system development, lagging behind most of its Southeast Asian peers. With an average score of 4.37 out of 7, Vietnam's pension system is weaker than in Indonesia (28), Singapore (30), the Philippines (37), and Thailand (52). In Southeast Asia, Vietnam only did better than Malaysia (61), and Laos (63), according to this report, which analyzed pension systems in 70 countries and territories in terms of sustainability and adequacy.

The ranking is based on three sub-indexes, including the financial and demographic starting point that reflects the baseline of specific countries in terms of demographics and public finances; sustainability that measures how pension systems react to demographic change; and adequacy that measures how pension systems provide an adequate standard of living for the elderly.

Allianz said the main issues of Vietnam's pension system is insufficient adequacy, where among the 70 economies analyzed, it ranked 60th in the sub-indexes and 32nd in terms of sustainability. According to the report, Vietnam's retirement age population is set to triple from 11.4% now to 32.7% in 2050.

Vietnam's current population is approximately 96.2 million, putting the percentage of elderly people at approximately 11.7%, according to statistics from MOLISA. As the population ages, Vietnam's social insurance fund could be in trouble in the future and might collapse by 2037 if the current retirement age remains unchanged, Vietnam Social Security (VSS) has warned.

The World Bank forecasted Vietnam's pension fund shortage by 2030 due to its aging population. The bank stated in a 2019 report that Vietnam should raise pension payments in accordance with inflation, but ensure the increased sum is lower than the minimum wage. The country should also raise its retirement age for both male and female workers to the same level step by step, the World Bank added. The number of Vietnamese over 65 will rise from 6.3 million now to 18 million by 2040, accounting for over 18% of the population and transforming Vietnam from a young society into an old one, a labor ministry report quoted the United Nations as saying (World Bank, 2017).

Table 7 API Pension Report

Weight: country	API 2020		API 2020 financial and demographic starting point		API 2020 sustainability		API 2020 adequacy	
			20%		40%		40%	
	Rank	Sum	Rank	Sum	Rank	Result	Rank	Result
Sweden	1	2.91	18	3.38	6	2.96	13	2.62
Belgium	2	2.92	46	4.26	3	2.85	8	2.31
Denmark	3	2.96	17	3.32	13	3.24	11	2.51
New Zealand	4	3.00	21	3.46	27	3.83	1	1.94
United States	5	3.04	11	3.10	14	3.29	16	2.77
Australia	6	3.13	10	3.04	16	3.34	22	2.96
Netherlands	7	3.13	39	4.00	30	3.87	2	1.95
Norway	8	3.16	16	3.28	29	3.86	10	2.39
Bulgaria	9	3.16	32	3.80	2	2.67	36	3.33
Canada	10	3.24	20	3.42	26	3.80	12	2.59
China	11	3.25	46	4.26	5	2.94	26	3.06
Czech Republic	12	3.26	42	4.16	4	2.86	34	3.22
Latvia	13	3.27	26	3.64	17	3.36	23	2.99
Ireland	14	3.31	41	4.12	9	3.14	27	3.08
Luxembourg	15	3.35	40	4.04	39	4.10	7	2.27
United Kingdom	16	3.36	24	3.58	23	3.57	25	3.03
Slovakia	17	3.36	44	4.24	11	3.18	28	3.09
Italy	18	3.39	70	6.10	10	3.17	6	2.25
Taiwan	19	3.43	60	4.96	15	3.33	15	2.77
Kazakhstan	20	3.48	7	2.94	33	3.88	37	3.36
Finland	21	3.49	34	3.84	35	4.02	17	2.79
Israel	22	3.51	8	2.98	53	4.49	18	2.80
Switzerland	23	3.52	43	4.18	63	4.67	4	2.05
Japan	24	3.52	66	5.52	38	4.10	3	1.96
Estonia	25	3.53	28	3.70	42	4.16	19	2.81
Germany	26	3.56	56	4.76	21	3.52	24	3.01
Lithuania	27	3.57	38	3.94	12	3.22	42	3.74
Indonesia	28	3.59	15	3.20	1	2.48	60	4.89
Korea	29	3.59	62	5.22	8	3.12	35	3.25
Singapore	30	3.61	53	4.60	62	4.66	5	2.08
Peru	31	3.72	15	3.20	34	3.98	41	3.71

(continued)

Table 7 (continued)

Weight: country	API 2020		API 2020 financial and demographic starting point		API 2020 sustainability		API 2020 adequacy	
			20%		40%		40%	
	Rank	Sum	Rank	Sum	Rank	Result	Rank	Result
Malta	32	3.74	52	4.58	40	4.12	21	2.93
Russia	33	3.78	25	3.62	22	3.56	49	4.09
Austria	34	3.84	65	5.50	51	4.45	10	2.39
Mexico	35	3.84	15	3.20	7	3.12	58	4.89
Egypt	36	3.88	12	3.12	20	3.48	54	4.66
Philippines	37	3.91	2	2.44	25	3.71	57	4.85
India	38	3.91	23	3.54	31	3.87	51	4.15
Hong Kong SAR	39	3.92	36	3.86	46	4.35	38	3.52
Colombia	41	3.93	30	3.72	41	4.13	43	3.84
South Africa	41	3.93	6	2.88	24	3.59	55	4.80
Turkey	42	3.95	50	4.34	19	3.40	52	4.30
Brazil	43	3.98	58	4.82	45	4.34	32	3.20
Spain	44	3.98	67	5.88	47	4.39	14	2.63
Hungary	45	4.05	54	4.68	59	4.59	31	3.19
Croatia	46	4.05	55	4.70	38	4.10	40	3.69
Slovenia	47	4.07	63	5.28	50	4.43	29	3.12
Cyprus	48	4.08	57	4.80	61	4.64	30	3.16
Portugal	49	4.12	70	6.10	49	4.40	20	2.85
Romania	50	4.12	37	3.88	48	4.40	44	3.98
France	51	4.16	59	4.84	64	4.76	34	3.22
Thailand	52	4.18	47	4.28	44	4.33	45	3.99
Chile	53	4.22	30	3.72	60	4.61	47	4.09
Poland	54	4.27	61	5.10	36	4.05	46	4.08
Kenya	55	4.33	4	2.84	43	4.25	61	5.15
Ukraine	56	4.36	51	4.56	55	4.52	49	4.09
Vietnam	57	4.37	48	4.30	32	3.87	60	4.89
Greece	58	4.43	70	6.10	52	4.47	39	3.56
Argentina	59	4.46	22	3.50	58	4.58	56	4.82
Morocco	60	4.47	34	3.84	18	3.36	67	5.88
Malaysia	61	4.52	5	2.86	70	5.72	51	4.15

(continued)

Table 7 (continued)

Weight: country	API 2020		API 2020 financial and demographic starting point		API 2020 sustainability		API 2020 adequacy	
			20%		40%		40%	
	Rank	Sum	Rank	Sum	Rank	Result	Rank	Result
Kuwait	62	4.59	35	3.84	67	4.96	53	4.59
Laos	63	4.63	3	2.62	28	3.85	69	6.41
Nigeria	64	4.63	1	1.46	57	4.58	68	6.27
Bahrain	65	4.70	27	3.68	56	4.55	62	5.37
Qatar	66	4.78	19	3.40	66	4.87	63	5.38
Saudi Arabia	67	5.03	10	3.04	68	5.32	65	5.74
Sri Lanka	68	5.18	32	3.80	69	5.61	64	5.46
United Arab Emirates	69	5.29	64	5.28	65	4.77	66	5.83
Lebanon	70	5.45	49	4.32	54	4.50	70	6.97

Source Allianz (2020)

6.2 Gaps in the Vietnamese Pension System

Women are more likely to lack adequate old-age protection. In 2016, only 12% of women aged 65 years and above received a social insurance pension, while the percentage was 26% for men. Moreover, due to an earlier retirement age, women currently have five fewer years to accumulate contributions than men. This, in addition to challenges related to unpaid or unstable working arrangements, contributes to lower pensions at retirement. In addition, women's life courses, characterized by longer periods dedicated to taking care of others, result in lower labor market participation, more part-time or irregular work, shorter contributory histories, and lower earnings. All these features affect their pension entitlements in contributory pension systems. As a result, women receive 20% lower pensions than men in Vietnam (Kidd et al., 2019). As stated earlier, women in Vietnam live longer than men, and therefore their requirement for mechanisms that guarantee old-age income security is even more important.

The extension of social security and the formalization of the informal economy are two faces of the same coin. Among the key issues associated with the low coverage of social security is the incompatibility of the current design of the VSS scheme with labor market characteristics, particularly for workers in nonstandard forms of work, and the low compliance among formal sector firms, especially among small and medium enterprises. Approximately 76.2% of total employment is informal, and many of these workers are not covered by the contributory pension scheme or the noncontributory tax-funded pension. Approximately 97.9% of informal workers do not have access to social insurance benefits.

The voluntary contributory pension scheme has been shown not to be effective in closing coverage gaps. While the voluntary social insurance scheme aims at covering workers without compulsory coverage, the scheme only reached approximately 227,000 people in 2015—equivalent to approximately 0.3% of the 53,673,000 active labor force participants between the ages of 15 and 69 (Kidd et al., 2019). Vietnam's experience, as well as other countries' experiences, illustrate the limited effectiveness of voluntary schemes for the extension of coverage, as they only reach a small number of workers.

An increase in the number of contributors in the short term is not expected to lead to an immediate increase in the number of beneficiaries under the current system. By the nature of the contributory pension scheme, time will be required before new contributors start retiring and receiving pensions. In addition, the high share of workers in nonstandard forms of employment—including short-term and irregular employment—creates an additional challenge for workers to accumulate enough contributions to qualify for a decent pension.

The current tax-funded pension schemes provide a minority of elderly individuals with low benefits. Although the social pension is legally available to all elderly above 80, a recent analysis of the 2016 Vietnam Household Living Standards Survey estimated that less than 60% of eligible recipients actually receive the benefit, with a bias existing toward men. The benefit is set at 270,000 dong ($11.60), which is equivalent to only 33.75% and 27% of the rural and urban poverty standard of 800,000 dong and 1,000,000 dong, respectively. At 5.6% GDP per capita, the benefit value is among the lowest compared with other similar middle-income countries. The low value of transfer may explain the high poverty rates among over 80-year-old individuals, even if they receive a social pension. Moreover, the value of the means-tested pension for people aged 60–70, living in poverty and with no family support is slightly higher at 405,000 dong per month but only reaches approximately 95,000 older persons (Hoang, 2018).

In addition to considerable coverage gaps, the contributory benefits provided are often low compared to the total wage and hence insufficient to ensure a decent living in old age. Rather than being associated with the pension formula, this issue stems from the common practices of underreporting wages, using base salaries rather than full salaries as the reference for insurable earnings, and the limited compliance of employers and workers.

6.3 Financial Sustainability of the Pension System

In Vietnam, the financial pressure on the system is compounded by demographic changes and several other factors. The rapid aging transition and the natural maturation of Vietnam's pension system creates a particular situation with consequences for the pension system and the cost of that system. Rising costs are a normal phenomenon shared by many aging societies around the world as their pension systems mature and their population ages. Similar to other countries, Vietnam needs to take action now to avoid potential problems.

High replacement rates and low statutory retirement ages seem to be at odds with the fast aging population. Presently, women can retire at 55 years and men at 60, whereas the life expectancy at age 60 is expected to increase from 18.9 years for men and 21.6 years for women in 2015 to 20.9 years and 25.0 years, respectively, by 2060 Kidd et al. (2019). Longer life expectancy implies that people will require pensions for a longer period of time (or will extend their working careers if their health conditions allow it). In combination with a decreasing ratio of contributors to beneficiaries, this trend may pose financial challenges to the system. This presents an important argument for the need for the establishment of equal retirement age for both women and men. The current replacement rates are too high to ensure the financial sustainability of the system. The maximum replacement rate is 75% of the reference wage after 35 years of contributions. For people with between 20 and 35 years of service, the replacement rates in Vietnam are too high compared to the "insured wage" (not necessarily to the total wage). Meanwhile, 20 years of contributions are required to qualify for minimum pensions.

A high number of lump-sum withdrawals negatively impacts the extension of social insurance coverage. People who have discontinued social insurance payments for at least one year and have not reached 20 years of contributions are entitled to receive a lump-sum payment. However, lump-sum payments do not provide adequate protection in old age. The number of insured persons opting for the social insurance lump sum is nearly 500,000 per year, which is high compared to the number of social insurance pensioners per year. In addition, lump-sum payments are concentrated among young cohorts, which impacts the level of old-age income protection even more.

The pension scheme for civil servants is exposing the pension fund of private sector workers to financial risks. Pensions for the private sector are based on lifetime earnings, while pensions for the public sector are still based on the average earnings of the last few years of insurance. As the latter reference earnings are generally higher, private sector workers partially finance the public sector's fund.

7 Conclusion

The two basic types of pensions in Vietnam are compulsory and voluntary, in which mandatory pension based on the Social Insurance Fund and voluntary assistance based on the participant's contribution can go through public or voluntary private systems. In the context of Vietnam's rapid aging population, workers entering retirement age and experience old age with longer life with higher costs, it's a challenge for the public social pension system. Social insurance policy currently has had extremely positive impacts on people's lives. The pension regime should be clearly defined for each beneficiary; especially the elderly, the poor, and the ethnic minorities who receive the benefits and exemption from health insurance premiums.

However, the rapidly aging population is also coupled with the burden on the public pension financial system. This trend has led workers to look for other voluntary pension options to accumulate more wealth for retirement. Mutual funds, investment trusts, voluntary private pension insurance, and life insurance are channels that can support the public pension system and help people to accumulate assets and preventing future risks for themselves and their family.

In the context of the COVID-19 epidemic negatively affecting the national economy, some policies can reduce the number of people entitled to one-time social insurance benefits, such as increasing unemployment insurance benefits, poverty reduction policies, social assistance for poor people, job creation policies and vocational training to improve worker skills. In addition, the percentage of laborers working in the underground economic sector accounts for a significant proportion in Vietnam. Therefore, the government needs to launch solutions to propagate and encourage these employees to participate in social insurance and unemployment insurance so that they can clearly realize the long-term benefits and ensure social security in the future.

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