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# A FOCUS ON FAMILIES

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

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Shea McClanahan, Bjorn Gelders and Betina Ramírez López

November 2019

ISBN: 978-92-2-134052-2 (print)
978-92-2-134053-9 (web pdf)

ISBN: 978-92-2-134054-6 (print)
978-92-2-134055-3 (web pdf)

Also available in Vietnamese: Gói quyền lợi ngắn hạn nhằm mục tiêu mở rộng bao phủ an sinh xã hội đa tầng tại Việt Nam. Tập trung vào gia đình, Ha Noi, 2019. ISBN: 978-92-2-134054-6 (print), 978-92-2-134055-3 (web pdf)



Printed in Viet Nam

# TABLE OF CONTENTS

## Boxs



## Figures

## Tables

# ACKNOWLEDGEMENTS

This report was produced as part of a wider effort by the International Labour Organization (ILO) in Viet Nam to build the case for expanding social protection benefits as part of a multi-tiered social security system. The report was prepared under the guidance of Betina Ramírez López of the ILO, with strategic oversight from Nuno Meiro Simoes Cunha of the ILO and technical backstopping from Doan Thuy Dung and Nguyen Hai Dat of the ILO Country Office for Viet Nam in Hanoi. It has also benefited from comments and feedback from members of the Government of Viet Nam's Social Security Department.

The lead author of this report is Shea McClanahan of Development Pathways, with social and economic analysis and simulations conducted by Bjorn Gelders (Development Pathways), while the costings analyses were undertaken by Doan-Trang Phan. Stephen Kidd (Development Pathways) provided strategic advice and oversight, and Abigail Harvey and Celia Carbajosa (Development Pathways) provided valuable back office support.

# EXECUTIVE SUMMARY

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

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

However, the current social protection reform context – including the mandate in Decision 488 to introduce a child benefit for all children up to age 36 months and in Resolutions 28 and 125 to expand social insurance through a package of short-term benefits[2] – presents a key opportunity to close these gaps and move toward developing a coherent and well-designed family support system within the emerging social security system.

## Working families and children as the next frontier for social protection coverage extension

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

Recent reforms have prioritized improving coverage of older persons in Viet Nam. However, children and people of working age (many of whom are also of childbearing age) are actually the least likely of all age groups to benefit from the existing social protection transfer system. The social assistance system provides only benefits

[1] Resolution No. 28-NQ/TW dated 23 May 2018, of the Seventh Plenum of the XII Central Committee on Social Insurance Policy Reform, 28/NQ-TW is hereafter referred to as "MPSIR". See Government of Viet Nam (2018a).

[2] Decision No. 488/QD-TTg dated 14 April 14 2017, on approval of the "Master-plan on social assistance reform and development for the period 2017–2025 with vision to 2030" is hereafter referred to as "MPSARD"; see Government of Viet Nam (2017). For Resolutions 28 and 125, see Government of Viet Nam (2018a and 2018b).

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

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

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

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

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

## Coverage extension in the context of a diverse uninsured workforce

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

However, just under a third of all uninsured workers are wage earners who, because they lack labour contracts, are in fact falsely excluded from the compulsory system. Efforts

to reach these workers through the voluntary system would be misdirected and, more importantly, ineffective, for reasons outlined below.

A further distinction must be drawn between uninsured workers who potentially have the capacity to contribute – the "technically insurable" – and those who do not. Using a technical definition of "insurability" based on existing VSS regulations, around three quarters of uninsured wage earners and around 45 per cent of non-wage earners would be able to contribute to VSS. However, more appropriate measures of insurability based on notions of affordability – especially for non-wage earners – suggest that the numbers are, in fact, significantly lower. Among those who are technically insurable, paying a contribution to the VSS would push 32 per cent of wage-earners and 19 per cent of non-wage earners into near-poverty.

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

(1) The compulsory system is not reaching the people it is designed to reach.

(2) The voluntary system is not affordable and may not be attractive enough for those it is intended to reach.

(3) There are many people who will not be able to join – even if incentives are offered – who still need protection.

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

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

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

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

However, child and family benefits are different. They present an opportunity to focus on

the large group of workers (44 per cent of all workers) that are currently experiencing the contingency – the extra cost of bringing up children. Bringing all of them in could increase social insurance coverage to 50 per cent of the working age population, while also securing adequate protection for all families.

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

(1) multi-tiered family/child benefits;

(2) multi-tiered maternity/paternity benefits (adding tax-financed and voluntary elements to the existing compulsory scheme);

(3) tax breaks for microenterprises;[3] and

(4) reformed contribution subsidies for the voluntary system.

## Bringing working families into the social security system through a family support package

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

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

**Package 1**, the most generous and ambitious, would offer a child or family benefit (component 1) to all families in Viet Nam under a multi-tiered design; a multi-tiered maternity benefit (component 2) to all mothers of newborns in Viet Nam, as well as providing a tier 2 maternity benefit to non-wage earners who join the voluntary system; tax breaks for microenterprises (component 3), to address the constraints facing employers and their uninsured wage-earning employees; and, because none of the subsidy regimes was found to have a large effect on coverage, we propose either leaving in place the existing system of subsidies that lowers the contribution rate for the voluntary system for certain non-wage earners, or eliminating the subsidy scheme and redirecting the resources toward the tier 1 benefits.

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

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

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

The maximum potential coverage gains of each package is related to the size of the potential groups that would be affected, as shown in table 0.1.

**Table 0.1: Maximum coverage potential of packages**

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

## Assessing the potential effects and costs of the components of a family package

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

Seen in another way, although 45 per cent of all workers would still be at a net loss after a contribution, more than half (56 per cent) would either be in a neutral (21 per cent) or better off (35 per cent) position than before, despite having paid a high contribution. This is thanks entirely to the compensatory effect of a child/family benefit. These results are truly striking and strongly suggest that adding a child/family benefit to the VSS benefit

structure would substantially enhance the affordability of joining social insurance for many workers.

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

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

The analysis also shows that the system of subsidies for the voluntary system is likely to be ineffective in increasing coverage significantly. This is true for the current subsidy regime under Decree 134,[4] as well as for both reform scenarios – the increased subsidy regime being considered by the National Assembly and the proposed flat rate subsidy of 25 per cent for all non-wage earners. Thus, we examined a range of flat rate subsidies to try to identify a "tipping point" at which subsidies might achieve meaningful gains. While estimates of take-up related to the subsidy are not possible, we would expect the subsidy to mitigate the impact on poverty of expanding the contributing population. We find that to contain the relative increase in the near-poverty rate to below 5 per cent, the subsidy would have to cover at least 90 per cent of the contribution.

The additional benefit components of a family support package, even when combined into the most generous package, are not prohibitively costly, as shown in table 0.2. The tier 1 benefits in package 1 would cost around 0.5 per cent of GDP in 2020 and fall to 0.33 per cent of GDP in 2030. In the beginning, the tier 2 benefits in packages 1 and 2 would cost 3.6 per cent of insurable earnings (child/family benefit) and 1.6 per cent of insurable earnings (voluntary maternity benefit) in 2020, declining to 1.5 per cent and 0.9 per cent, respectively, in 2030.

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

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

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

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[4] Government of Viet Nam, 2015.

**Table 0.2: Potential costs of a family support package, 2020 and 2030**

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

## Implications for the design of a family support package

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

Decisions about the respective financing of tax-financed and contributory tiers cannot be undertaken in isolation. For example, in the case of multi-tiered child/family benefits, financing a contributory tier 2 family benefit could be politically challenging, since employers and workers will not support additional contributions. However, a decision to use State budget resources to finance extension of the contributory tier could affect the resources available to fund equally important priorities for expanding tax-financed benefits and, more importantly, would introduce regressive elements into the financing mix that could be difficult to reverse in the future. Alternative and/or short-term arrangements may need to be considered.

Ensuring coherence between the tiers may also require consolidating administrative responsibility for lifecycle income transfers between the social insurance and social

assistance systems. If successful, the move to consolidate the payment of all old age pensions – including the social pension – under one agency, VSS, could be a model for implementing a multi-tiered child/family benefit.

The current reform context presents a unique opportunity to take a bold and coordinated approach that simultaneously addresses multiple policy objectives: incorporating working families into the social insurance system; promoting women's employment through expanded paid leave and basic protections; covering children from birth as a right through a social security system that is blind to their parents' insurance status; reforming inadequate administrative and delivery systems; and potentially overhauling the governance system to reflect a lifecycle approach to income security. Taking advantage of this opportunity can set Viet Nam on a path to developing a coherent and well-designed family support system within the emerging social security system, one that is fitting for a rapidly growing middle-income country.

# ABBREVIATIONS

| | |
|---|---|
| **ILO** | International Labour Organization |
| **GAP** | general average premium |
| **GDP** | gross domestic product |
| **MOLISA** | Ministry of Labour, Invalids and Social Affairs |
| **MPSARD** | Master Plan for Social Assistance Reform and Development |
| **MPSIR** | Master Plan for Social Insurance Reform |
| **OECD** | Organisation for Economic Co-operation and Development |
| **PAYG** | Pay As You Go rate |
| **UNICEF** | United Nations Children's Fund |
| **VHLSS** | Viet Nam Household Living Standards Survey |
| **VND** | Vietnamese dong |
| **VSS** | Viet Nam Social Security |

# 1. INTRODUCTION – AN OPENING FOR THE DEVELOPMENT OF A FAMILY BENEFITS SYSTEM IN VIET NAM

The Government of Viet Nam is taking important steps to lay the bases for expanding social protection coverage to eventually cover all citizens across the lifecycle. These intentions are captured in recent reform processes in the Master Plan on Social Insurance Reform (MPSIR)[5] and the Master Plan on Social Assistance Reform and Development (MPSARD)[6] and their corresponding action plans.[7]

Without a doubt, growing social insurance is the linchpin of the Government's strategy. The overall objective of the MPSIR is to establish social insurance as the main pillar of social security in Viet Nam, advancing "toward the goal of social insurance for all".[8] However, it also recognizes that universal coverage requires strengthening protections for those who lack the ability to pay contributions through the establishing and reinforcing a multi-tiered social security system, of which the planned expansion of the social pension for older Vietnamese is a key part.

The expansion of social insurance coverage implies the gradual incorporation of uninsured workers into the system. The MPSIR sets specific targets include increasing overall social insurance coverage to 60 per cent of the working age population by 2030, which effectively means more than doubling current coverage levels over the next decade. Furthermore, it sets a target of 5 per cent of the working age population being covered under the voluntary system by 2030. These targets are summarized in table 1.1.

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[5] As expressed in Resolution No. 28-NQ/TW dated 23 May 2018, of the Seventh Plenum of the XII Central Committee on Social Insurance Policy Reform.

[6] As expressed in Decision No. 488/QD-TTg dated 14 April 2017, on approval of the "Master-plan on social assistance reform and development for the period 2017–2025 with vision to 2030", hereafter referred to as "MPSARD".

[7] See MOLISA (2018).

[8] See Objective 2.1, "Overall objective", in Resolution 28.

**Table 1.1: Key targets of Resolution No. 28-NQ-TW of 23 May 2018 (MPSIR)**

| Target definition | Coverage to 2021 | Coverage to 2025 | Coverage to 2030 |
|---|---|---|---|
| Percentage of working age population participating in social insurance schemes | 35 | 45 | 60 |
| Percentage of working age population in unemployment insurance scheme | 28 | 35 | 45 |
| Percentage of persons above normal retirement age entitled to a pension, monthly insurance benefits and social allowances | 45 | 55 | 65 |
| Percentage of working age population participating in the voluntary system | 1 | 2.5 | 5 |

Although the plans in the MPSIR and MPSARD were largely undertaken separately with little coordination, there are nevertheless overlapping elements in each that offer great potential for introducing innovative solutions to meet the ambitious targets set out in each respective agenda. The broad objectives for the MPSARD are summarized in table 1.2.

**Table 1.2: Key objectives under Decision 488/QD-TTg of 14 April 2017 (MPSARD)**

| Type of benefit | Eligibility/coverage |
|---|---|
| **Social pension** | Age of eligibility gradually reduced to 75 (70 for ethnic minorities); inclusion of social insurance pensioners with low pensions. |
| **Disability benefits** | Gradually increase coverage to 100% of disabled persons of working age and their caregivers (1.8% of persons of working age). |
| **Carers' benefits** | Those unable to work due to their care responsibilities for persons with disabilities. |
| **Child benefits (including disability)** | A child benefit for children up to 36 months. A child benefit for all children in special circumstances (as legally defined), regardless of age. |
| **Benefit for persons with HIV/AIDS** | Persons with HIV/AIDS living in poor families initially and gradually expanded to include those in near-poor families. |

Currently, Viet Nam's social protection benefits for families and children are fragmented, unequal and incomplete. The social assistance system offers only narrowly defined benefits for certain categories of families and children in need. At the same time, the social insurance system provides an unequal and incomplete selection of family-oriented benefits – one that includes cash maternity/paternity

benefits under the compulsory system but not under the voluntary system, and which lacks child or family benefits in either system. Not only do these systems fail to accommodate key lifecycle risks associated with family life, but they leave out millions of vulnerable families and children, particularly those in the "missing middle".

However, the current social protection reform context presents an opportunity to close these gaps and move toward developing a coherent and well-designed family support system within the emerging social security system. The MPSARD goal of introducing a child benefit for all children under 36 months by 2025 stands out as a complement to the MPSIR goal of "researching and designing short-term social insurance packages with contributions, level of benefits and modes of payment suitable to informal workers" as well as the intention – present in both reform processes – to construct an integrated "multi-pillar" or "multi-tiered"[9] social security system.

Indeed, the Government of Viet Nam has already endorsed a multi-tiered approach to old age pensions through its proposal to expand pension coverage by narrowing the age eligibility gap for Viet Nam Social Security (VSS) and social pensions, among other reforms. In this way, MPSARD's intent to introduce child benefits, together with MPSIR's search for an attractive and feasible short-term benefits packages, pave the way to consider a package of multi-tiered family support that covers not only risks associated with childhood, but also risks facing persons of working age, who may lose income due to sickness and maternity, and who face the extra costs of bringing up children. Multi-tiered lifecycle benefits both guarantee coverage for key populations that currently lack the capacity to contribute, while, at the same time, preserving and strengthening the incentives to join social insurance through the VSS.

Within this framework, as captured in Resolution 125, the Government has articulated an ambitious intention to "develop a pilot flexible voluntary short-term social insurance package"[10] and implement it by 2020. The idea for a short term package stems partly from a recognition of the inequality between the compulsory and voluntary systems in this area.[11] Currently, self-employed workers insured under the voluntary system in Viet Nam have no protection when they lose income because of maternity or paternity. Therefore, the current reform context also presents an opportunity to equalize the voluntary and compulsory benefits packages through the addition of these core lifecycle short-term social security benefits as part of a family package.

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[9] The difference in terminology – between "multi-pillared" and "multi-tiered" – is important, because "multi-pillared" could imply a system that reaches different groups through a variety of separate and independent schemes (pillars), whereas "multi-tiered" implies a fully integrated and multi-layered system whereby all persons can access a "floor", or minimum level of protection, while higher level (tiered) benefits can be offered once basic security is assured. The ILO refers to this type of extension as a "staircase" approach to coverage extension.

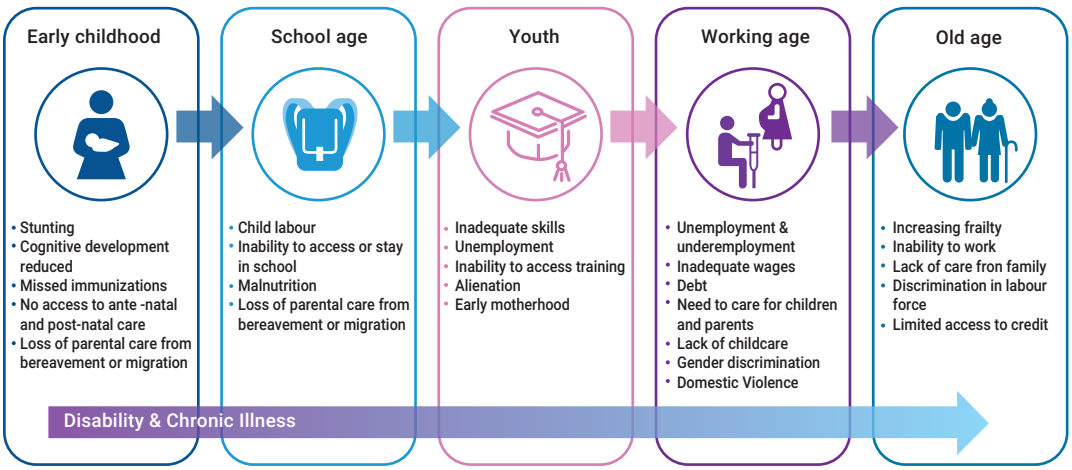
[10] Government of Viet Nam, 2018b.

[11] Government of Viet Nam, 2018b.

# 2. POLICY SOLUTIONS FOR WORKING FAMILIES

Recent reform initiatives in Viet Nam have focused on extending old age pensions to ensure that everyone in Viet Nam can expect to have adequate, regular income security in old age. Plans for progressively lowering of the age of eligibility for the social pension are crucial components of a lifecycle social protection system. Core social protection transfers to address common lifecycle risks (see figure 2.1) – which by design include all citizens and therefore have broad coverage – are also best situated to achieve other important objectives.

**Figure 2.1: Lifecycle risks commonly addressed by social protection**




The current reform context presents a unique opportunity to close some of the gaps in social protection for people at other key stages of the lifecycle, including working age and childhood, especially as it relates to contingencies at the nexus of family life. Short-term lifecycle benefits like cash maternity/paternity benefits could offer important leverage for extending coverage to uninsured workers. Similarly, child and

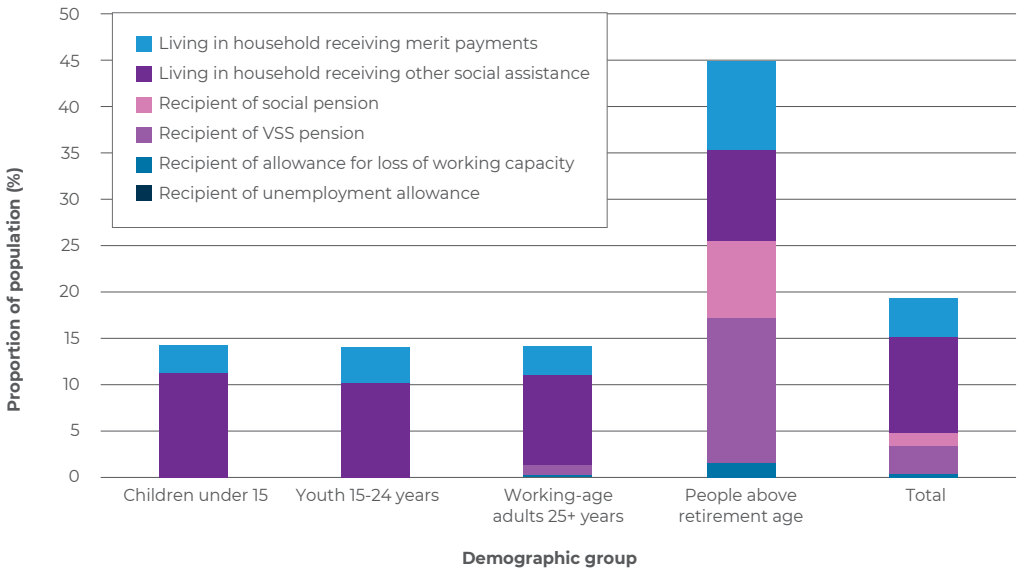
family benefits, though not short term if paid for all children, can help compensate working families who are struggling to afford social insurance contributions.[12]

This chapter describes how children and families are, by and large, not benefiting from the existing social security system in Viet Nam and outlines the broader social, economic and gender equality case for investing in children and families.

## 2.1 Treatment of families with children in Viet Nam's social security system

Recent reforms have prioritized improving coverage of older persons in Viet Nam. However, children and people of working age (many of whom are also of childbearing age) are actually the least likely of all age groups to benefit from the existing social protection transfer system, as shown in figure 2.2.

**Figure 2.2: Access to social transfers across age groups in Viet Nam, 2016**




Source: Analysis of Viet Nam Household Living Standards Survey (VHLSS) 2016.

In part because coverage of this population is relatively low, attention is now turning to the working age population and children, but this shift is also driven – as evident in the MPSIR – by a recognition that appealing to this population is key to meeting social insurance expansion targets to cover persons of working age. Likewise, the MPSARD's mandate to institute a child benefit for all children up to age 36 months recognizes the inherent value children bring to societies and the need to invest in their futures.

[12] See McClanahan and Gelders (2019).

### 2.1.1 Families and children in Viet Nam's social assistance system

The low coverage for children, young people and people of working age partly reflects the way that Viet Nam's social assistance system is organized, where social assistance benefits targets very specific and narrowly defined groups. A number of transfers (described in table 2.1) are aimed at vulnerable children, but these are more appropriately thought of as child-focused benefits rather than conventional child benefits.[13] Whereas conventional child benefits are paid to all children of a certain age group simply because they are children, Viet Nam's child-focused benefits are paid to children who are deemed particularly vulnerable for reasons other than childhood, such as orphanhood or disability. As a result, although there are benefits aimed at families and children in need, the population actually in receipt of transfer is small.

**Table 2.1: Existing child- and family-focused social assistance benefits in Viet Nam**

| Eligibility criteria | Monthly benefit amounts[1] (VND) |
|---|---|
| **Orphan benefit:** Paid to a child younger than age 16 (age 22 if a full-time student) who has been abandoned or if both parents are deceased, if one parent is deceased and the other is missing or imprisoned, or if both parents are imprisoned. | 405,000–1,350,000 |
| **Poor single parent benefit:** Paid to a single and needy main care provider of a child younger than age 16 (age 22 if a full-time student). | 270,000–540,000 |
| **Child disability benefit:** Paid for a child assessed with at least a 61% disability. | 540,000–1,350,000 |

1 Benefit amounts are expressed in nominal terms, but are, in effect, multiples of a basic social allowance of VND270,000 as set out in Decree 136/2013, which outlines the applicable multipliers for each category of social assistance beneficiary. If a beneficiary meets more than one criteria, the amounts may be aggregated, and these cases are summarized in the description of the benefit amounts.

Social assistance and other tax-financed benefits for youths and people of working age are similarly narrow and include transfers for persons with disabilities and for persons living with HIV/AIDS. Although benefits for persons with disabilities are in theory benefit tested, meaning they are paid to all disabled persons who are not in receipt of a contributory pension, effective coverage levels are very low and indeed are barely visible in figure 2.2, except for persons above retirement age. In addition, the Ministry of Education pays educational stipends, although these are not generally considered to be social protection by most international definitions.

### 2.1.2 Families and children in Viet Nam's social insurance system

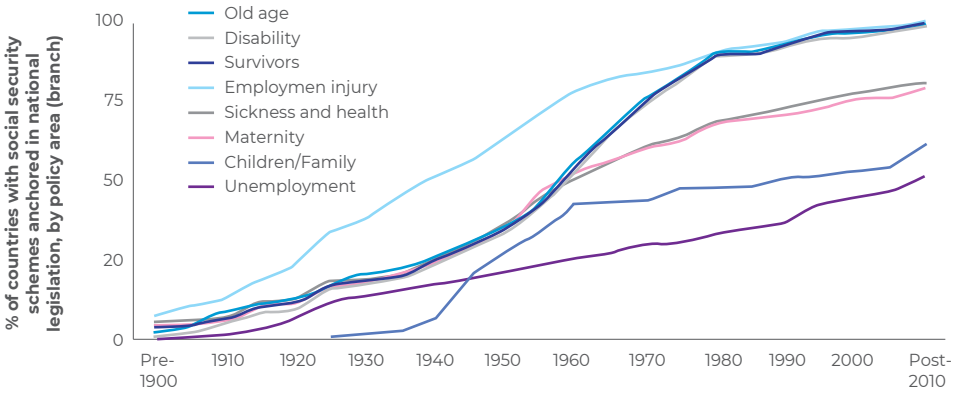
Viet Nam's social insurance system has undergone significant change in recent decades, gradually incorporating new legally defined covered groups and adding to the contingencies covered. The International Labour Organization (ILO) Social

[13] For further discussion of the purpose of conventional child benefits compared with Viet Nam's child focused benefits, see James and McClanahan (2019).

Security (Minimum Standards) Convention, 1952 (No. 102), which spells out the minimum standards for social security under nine contingencies – including cash benefits for old age, disability, survivors, employment-related injury, sickness, maternity, family/children, and unemployment, as well as provisions for medical care – is widely accepted as the key global reference for understanding and measuring social security branches and their respective provisions.[14]

Historically, for a variety of reasons, countries embarking on building their social security systems have followed similar paths in introducing new contingencies, starting with employment injury, then adding old age pension systems (which were generally linked to disability and survivors' pensions) and then gradually adding benefits focused on people of working age and families, including cash sickness and maternity benefits, family benefits and unemployment. Figure 2.3 depicts this global tendency, showing the historical evolution of social security around the world based on the first year when a statutory provision for each contingency or "branch" of Convention No. 102 was introduced.

**Figure 2.3: Evolution of social security legislation around the world, by branch**




Source: Reproduced from ILO World Social Protection Report, 2017–19, Figure 1.2. Original source: ISSA/SSA (multiple years), Social Security Programs Throughout the World.

Viet Nam's compulsory social insurance system has largely followed this model, legislating for old age and survivor pensions, employment-related injuries and cash sickness and maternity benefits under the 1995 Decree on Social Insurance,[15] and establishing unemployment insurance in 2006 and health insurance around the same time. In contrast, the contingencies covered under the voluntary system started out very limited and have stayed that way. Self-employed workers in Viet Nam are covered for old age and survivors' benefits but have no protection when they experience income loss due to employment-related injury, common illness or disability, maternity/paternity or unemployment. Table 2.2 compares the coverage of the compulsory and voluntary systems in terms of the basic contingencies covered under each system.

[14] ILO Social Security (Minimum Standards) Convention, 1952 (No. 102) is available at https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_INSTRUMENT_ID:312247.

[15] Government of Viet Nam, 1995.

**Table 2.2: Contingencies covered under ILO Convention No. 102 and year of introduction[1]**

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

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

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

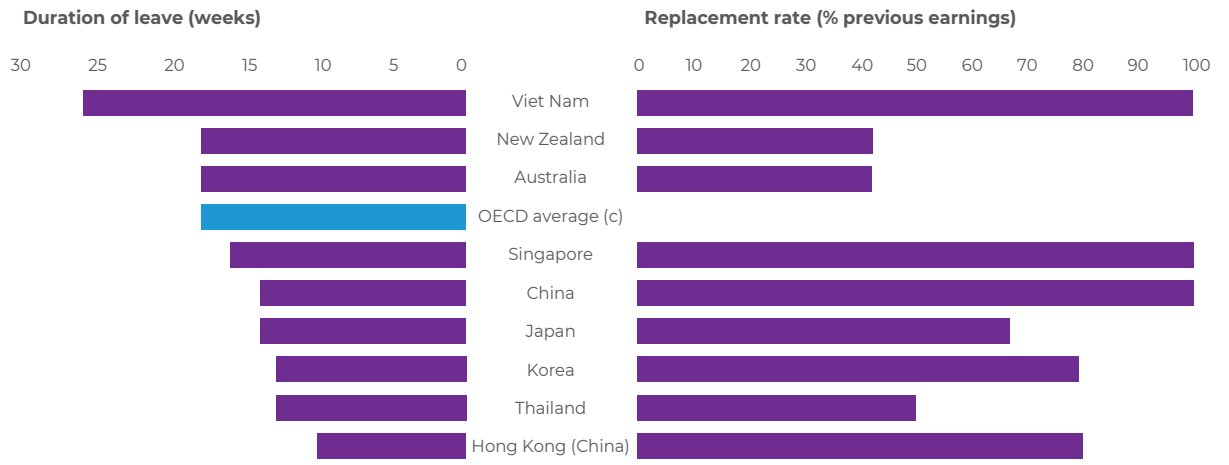
3 Paternity benefits were added in 2014.

4 Law No. 71/2006/QH11 of June 29.

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

In general, the legal benefits provided under Viet Nam's contributory system are quite generous. For example, Viet Nam's maternity and paternity benefits regime under the compulsory system is among the region's most generous, both in terms of duration and replacement rate, as shown in Figure 2.4. With 26 weeks of leave paid at 100 per cent of the insured person's previous earnings, it also exceeds the ILO's minimum standards (14 weeks at two-thirds of previous earnings) set out in the Maternity Protection Convention, 2000 (No. 183) and the recommended duration of 18 weeks prescribed in Maternity Protection Recommendation, 2000 (No. 191). Extending these same legal protections to persons with voluntary coverage would close an existing gap and move toward more equal entitlements in both systems.

**Figure 2.4: Generosity of paid maternity leave schemes in select countries in Asia and the Pacific, compared with OECD average**




Source: Reproduced from OECD (2017), Family Database in Asia-Pacific, Chart PF2.1.A.

Notably, the only Convention No. 102 contingency missing from the compulsory system in Viet Nam is family and child benefits, which are also not present in the voluntary system. Including these benefits would not only improve the experience of social insurance membership for existing members but would make the system much more appealing to the millions of parents and caregivers in Viet Nam who are currently alone in bearing the cost of bringing up children.

# 3. CLARIFYING THE COVERAGE EXTENSION STRATEGY FOR SOCIAL INSURANCE

The coverage extension strategy outlined in Resolution 28 and further defined in Resolution 125 is not only very ambitious; it is also quite prescriptive in recommending specific mechanisms for achieving the targets it lays out (e.g. via "a flexible voluntary short-term social insurance package"). However, a lack of clarity about the nature of the uninsured workforce has led to confusion about the appropriate target populations for the voluntary system, and where the voluntary system fits in the overall approach to extension. This chapter seeks to shed light on the misconceptions and to re-focus the Government's coverage extension strategy in line with the intent of the Social Insurance Law of 2014.[16]

## 3.1 Legal and effective coverage

On the surface, Viet Nam appears to provide 100 per cent legal coverage between the compulsory and voluntary systems. According to Article 2 of the Social Insurance Law of 2014,[17] the compulsory system covers all workers with a labour contracts of at least one month, while the voluntary system covers all workers older than age 15 "and not defined in Clause 1" – in other words, everyone else.

Likewise, labour and enterprise law require all employees to have a contract, and all businesses to participate in social insurance, so that, in theory, everyone working in a dependent employment relationship should be covered. According to Decree No. 198 – CP of 31 December 1994, Article 1a: "State-owned enterprises, private enterprises, shareholding companies, limited liability companies, co-operatives (having employees who are not members of the co-operative), individuals and families employing labour" must enter into contracts.[18] And the Enterprise Law of 2005 requires all firms, regardless of size, to participate in compulsory social insurance.[19]

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16 Government of Viet Nam, 2014.

17 Ibid.

18 Government of Viet Nam, 1994)

19 Government of Viet Nam (2005).

Despite the apparently solid legal coverage, Viet Nam's effective coverage rates are relatively low. Analysis of the Viet Nam Household Living Standards Survey (VHLSS) 2016 suggests that only around 19 per cent of the total workforce was contributing to VSS, as shown in figure 3.1, although more recent administrative data suggests that coverage could be as high as 30 per cent of the total workforce.[20]

**Figure 3.1: Social insurance status of workers aged 15+, by gender, 2016**


Source: Reproduced from OECD (2017), Family Database in Asia-Pacific, Chart PF2.1.A.

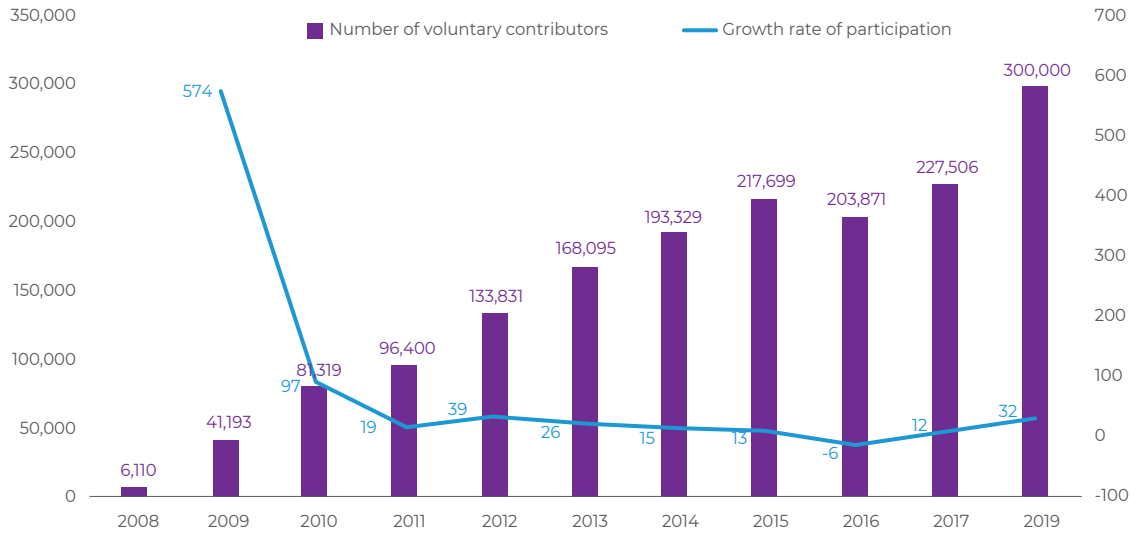
Despite high hopes, coverage in the voluntary system has not taken off since it was established. As shown in figure 3.2, only around 300,000 people were participating in the voluntary system in 2018, representing around 1.3 per cent of the total uninsured workforce and 0.54 per cent of the total workforce.[21] By the first half of 2019, membership had grown to 350,000 people. It is extremely unlikely that the current growth rate of participation for the voluntary system, which has remained relatively flat since 2011, will produce meaningful coverage gains, and certainly not of the scale needed to make up for the gaps in compulsory social insurance coverage. Even the Resolution 28 target of 5 per cent would appear out of reach, as it would require increasing voluntary membership by nearly 10 times each year until 2030.[22]

[20] In January 2019, the VSS was reporting that coverage was 30.4 per cent of the total workforce (VSS, 2019). See also ILO and GSO (2016) and ILO (2017).

[21] Based on 2016 estimates of the size of the informal economy.

[22] Authors' calculations based on the reported VSS voluntary membership and the size of the total workforce of around 55 million people (VHLSS 2016).

**Figure 3.2: Voluntary social insurance membership, 2008–18**




Source: VSS administrative data.

At least part of the reason for the low coverage rates in the compulsory system is the minimum earnings thresholds under VSS regulations (Decision 595/2017), which set the regional minimum wage as the lower earnings limit for most private sector wage earners.[23] These regulations appear to follow from VSS's strict interpretation of social insurance participation in terms of the labour code, which prohibits issuing contracts for salaries below the legal minimum wage.[24] The regional minimum wages are quite high, ranging from more than four times the rural poverty line (VND700,000 a month) in Region IV to almost six times the rural poverty line in Region I, and indeed are double the "medium income" of Ministry of Labour, Invalids and Social Affairs (MOLISA) – the highest threshold set under Decision 59/2015 – as shown in table 3.1. On the other hand, the minimum threshold for non-wage earners to participate in the voluntary system, set at the rural poverty line (VND700,000/month), is much lower.[25]

**Table 3.1: Regional minimum wages and MOLISA poverty line**

| Region | Monthly minimum wage, 2019 (VND/month) |
|---|---|
| I[1] | 4 180 000 |
| II[2] | 3 710 000 |
| III[3] | 3 250 000 |
| IV[4] | 2 920 000 |

[23] The minimum earnings threshold for public sector workers is the basic salary, or VND1,390,000 a month.

[24] This interpretation also appears to effectively exclude part-time workers, since the minimum wage is not officially able to be pro-rated for less than full-time work.

[25] It is not entirely clear to what extent these thresholds are applied in practice. VSS administrative data from 2015 reported almost 100,000 VSS members with earnings below the minimum thresholds established by the regulations.

| MOLISA Poverty line | Poverty line, 2016–20 (VND/month) |
|---|---|
| Poverty | |
| Rural | 700 000 |
| Urban | 900 000 |
| Near-poverty | |
| Rural | 1 000 000 |
| Urban | 1 300 000 |
| Medium income | |
| Rural | 1 500 000 |
| Urban | 1 950 000 |

1 Urban Hanoi and Ho Chi Minh City.
2 Rural Hanoi and Ho Chi Minh City, along with urban Can Tho, Da Nang and Hai Phong.
3 Provincial cities and the districts of Bac Ninh, Bac Giang, Hai Duong and Vinh Phuc provinces.
4 Remaining localities.

This discrepancy effectively implies a big inequality between the two systems, whereby those joining the voluntary system are asked to pay much higher contributions on a much lower insurable earnings basis, potentially leaving them much worse off after joining than their wage earning counterparts insured under the compulsory system. At the same time, the voluntary system offers fewer benefits to insured members.[26]

## 3.2 Addressing misconceptions about the intent-of the Law on Social Insurance

There is a common misconception that the voluntary system in Viet Nam is, and should be, open to all workers who are not covered under the compulsory system; that is, that the voluntary system was intended as a way of closing the coverage gaps in the compulsory system. However, a more accurate interpretation of the Social Insurance Law of 2014 can be deduced from the prescribed contribution rates, which strongly suggest that the law's intent is for all wage earners (dependent employees) to participate in the compulsory system, and non-wage earners (self-employed persons) to participate in the voluntary system. Table 3.2 shows the contribution rates for the voluntary system and for employees and employers under the compulsory system.

[26] See also Section 3.1, which describes in more detail the contingencies covered under the respective social insurance systems.

**Table 3.2: Current VSS contribution rates (%)**

| Contingency | Compulsory system | | Voluntary system |
|---|---|---|---|
| | Employees | Employers | |
| Old age and survivors | 8.0 | 14 | 22 |
| Sickness and maternity | N/A | 3 | N/A |
| Unemployment insurance | 1.0 | 1 | N/A |
| Employment injury | N/A | 0.5 | N/A |
| Health insurance | 1.5 | 3 | 4.5 |
| Total[1] | 10.5 | 21.5 | 26.5 |

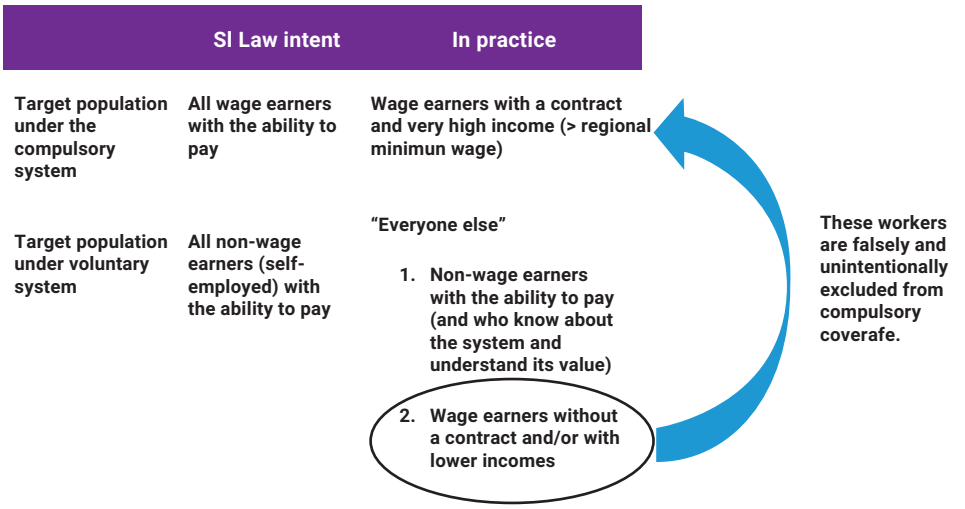
N/A = not applicable.

1 The contribution rates are not strictly agreeable, since health insurance contributions are levied on a different insurable base. They are aggregated here for the purpose of illustration.

Most social insurance systems around the world require contributions levied on a self-employed person's declared income to be much higher – often double – the contributions paid by a dependent worker. This is to make up for the employer's share of the contribution and ensure an adequate replacement rate. In Viet Nam, the situation is very similar, where the voluntary system requires a contribution of 22 per cent of insurable earnings for old age and survivors' insurance, which is approaching three times the rate of 8 per cent required of employees under the compulsory system. The situation is similar for health insurance, where the voluntary system requires a contribution of 4.5 per cent of insurable earnings, while employees pay 1.5 per cent in the compulsory system. These differential rates are a strong indication that the voluntary system was intended to cover self-employed (non-wage earning) workers, while the compulsory system was designed for employees (wage earners).

In effect, this mismatch between the law's intent and what is happening in practice, is depicted in figure 3.3. This misconception about the intent of the voluntary system has created an intractable situation for a large number of uninsured wage earners, who are falsely and unintentionally excluded from the compulsory system because they illegally lack contracts or because their incomes are too low.

### Figure 3.3: High risk of false exclusion of wage earners without a contract




Therefore, before devising solutions to extend coverage, it is vital to understand the nature of the uninsured population the system is trying to reach.

# 4. PROFILE OF THE UNINSURED IN VIET NAM

The challenges facing the uninsured workforce are well documented and pose significant barriers to their incorporation into the social insurance system.[27] In general, people working informally are much more likely to have low incomes and lower levels of education, be self-employed, and work in non-standard employment, including in part-time and temporary work. They often face irregular (very short or excessively long) hours, where they are more likely to be exposed to work-related health and safety risks. All of these factors pose challenges for incorporating informal economy workers into the social insurance system, where participation depends not only on being registered but on regularly paying contributions and meeting minimum qualifying periods.

However, previous research has underscored the importance of understanding the nature of the informality and of being uninsured in Viet Nam, since different solutions may be required for reaching different workers according their circumstances.[28] If policy-makers treat uninsured workers as a monolithic group – and specifically, if they conflate the challenges facing uninsured non-wage earning with those facing wage earners – the proposed solutions are not likely to be effective for many uninsured workers.

## 4.1 Composition of the uninsured workforce

The uninsured workforce is highly diverse, but certain key characteristics are crucial to orienting and sharpening the Government's social insurance extension strategy. Due to data constraints, previous research on the informal economy has focused on the non-agricultural sectors. This body of research has suggested that more than half of all non-agricultural workers in the informal economy are wage earners, while only around one third are own account workers and just over 11 per cent are classified as contributing family workers.[29] Even among formally registered enterprises, the ILO

[27] See ILO (2018).

[28] See McClanahan and Gelders (2018).

[29] See ILO and GSO, 2016); see also ILO (2017).

estimates that almost 50 per cent of employees (more than 5 million people) in Viet Nam are working informally.[30]

The VHLSS 2016 household survey allows us to take a closer look at the uninsured workforce as a whole. Table 4.1 shows the basic composition of the workforce based on household surveys, according to the key target populations for coverage expansion under the compulsory and voluntary systems. The table indicates that wage earners make up 43 per cent of all workers, compared with 57 per cent who are non-wage earners. More than half of all wage earners are uninsured, representing a quarter of all workers. Furthermore, nearly all wage earners, whether or not they are insured, work full time, while the proportion of non-wage earners working full time is somewhat lower.

**Table 4.1: Basic composition of the uninsured workforce, according to the key target populations for coverage expansion under the voluntary and compulsory systems**

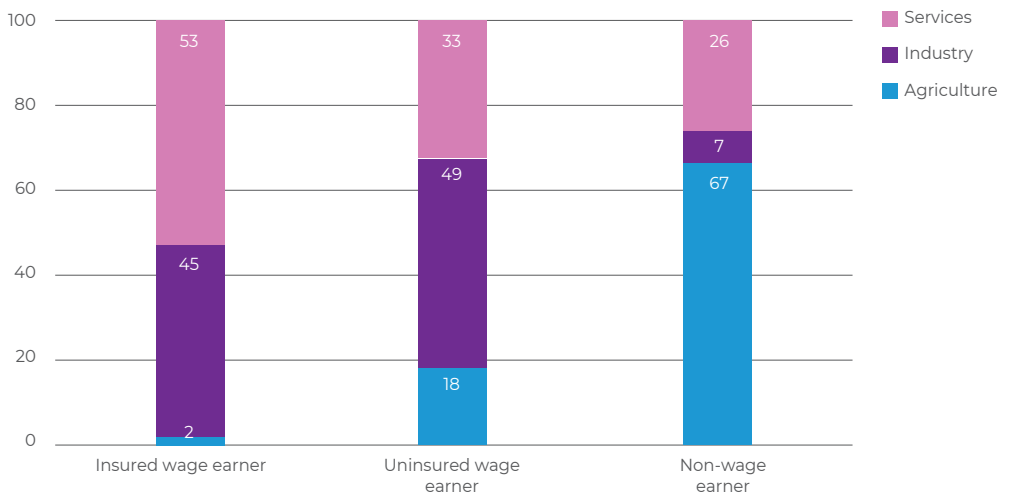
| Type of worker | Full-time | | Part-time (main job <15 days) | | Total | |
|---|---|---|---|---|---|---|
| | Number of workers | % of all workers | Number of workers | % of all workers | Number of workers | % of all workers |
| Insured wage earners | 10 331 300 | 19 | 140 700 | <1 | 10 471 900 | 19 |
| Uninsured wage earners | 11 663 000 | 21 | 1 329 000 | 2 | 12 992 100 | 24 |
| Non-wage earners | 26 017 400 | 47 | 5 710 700 | 10 | 31 728 100 | 57 |
| All workers (total) | 48 011 600 | 87 | 7 180 400 | 13 | 55 192 100 | 100 |

Source: Analysis of VHLSS 2016.

There are also important differences among these three key groups in the areas of the economy in which they work, where they live, their gender make-up and the size of their families. The distribution of workers by broad sector of the economy – services, industry and agriculture – is shown in figure 4.1. Not surprisingly, non-wage workers are disproportionately concentrated in agriculture, and around a third work in industry and services. On the other hand, insured wage earners are split relatively evenly between industry (45 per cent) and services (53 per cent), while nearly half of uninsured wage earners are also concentrated in industry (49 per cent), with a third in services and 18 per cent in agriculture.

[30] See ILO (2017).

**Figure 4.1: Percentage distribution of workers, by broad economic sector (%)**




Source: Analysis of VHLSS 2016

A more detailed look reveals big differences in the areas of the economy where these different types of workers are concentrated. Table 4.2 shows that the largest shares of uninsured wage earners can be found in construction (27 per cent) and manufacturing (23 per cent), followed by agriculture. Notably, compared with insured wage earners, a much higher proportion of uninsured wage earners work in agriculture (2 per cent of insured wage earners versus 18 per cent if uninsured). In contrast, non-agricultural non-wage earners (self-employed) are primarily working in wholesale and retail trade (15 per cent) followed by manufacturing and other industrial activities (7 per cent).

**Table 4.2: Percentage distribution of workers, by detailed economic sector**

| Economic sector | Insured wage workers | Uninsured wage workers | Non-wage workers |
|---|---|---|---|
| Agriculture, forestry and fishing | 2 | 18 | 67 |
| Manufacturing and other industrial activities | 42 | 23 | 7 |
| Construction | 3 | 27 | 1 |
| Wholesale and retail trade | 7 | 11 | 15 |
| Transportation and storage | 3 | 4 | 2 |
| Accommodation and food service activities | 2 | 5 | 5 |
| Public administration and defence | 13 | 3 | 0 |
| Education, human health and social work | 19 | 3 | 0 |
| Other activities | 9 | 8 | 3 |
| **Total** | **100** | **100** | **100** |

Source: Analysis of VHLSS 2016.

In addition, there are significant and revealing differences in the institutional sector of employment for these different categories of workers, as shown in figure 4.2. A large majority (44 per cent) of insured wage earners work in the public sector, followed by 34 per cent in the domestic private sector and 21 per cent in foreign enterprises. Nearly half (47 per cent) of uninsured wage earners, on the other hand, work in production and business households, with the remainder split between agriculture (24 per cent) and the domestic private sector (21 per cent), with small proportions working for the State or foreign firms.

**Figure 4.2: Distribution of workers, by institutional sector (%)**


Source: Analysis of VHLSS 2016

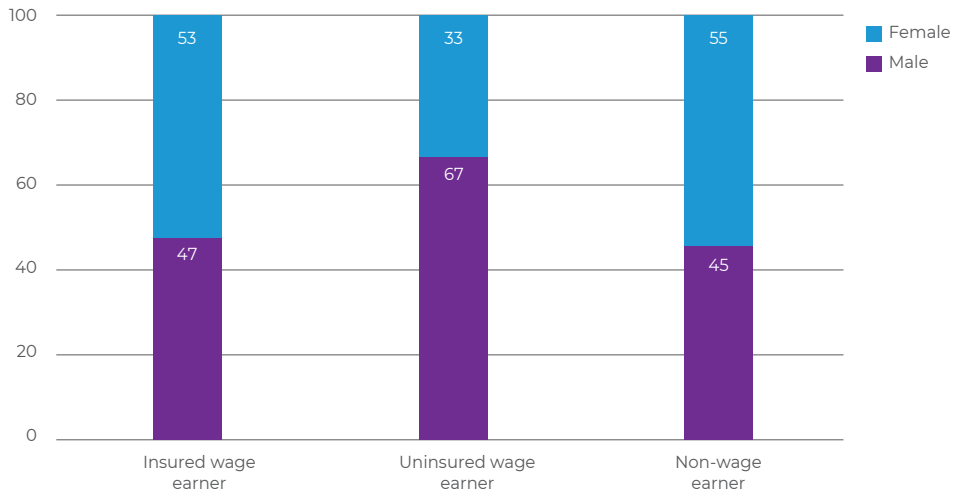
Not surprisingly, insured workers are more likely than uninsured workers to live in urban areas, as shown in figure 4.3. However, nearly a third of uninsured wage workers and around one in five uninsured non-wage earners live in urban areas.

**Figure 4.3: Distribution of workers, by location (%)**


Source: Analysis of VHLSS 2016

Gender can be an important determinant of social security coverage since women tend to be disproportionately represented in jobs and sectors that are hardest to reach. As shown in figure 4.4, both insured workers and uninsured non-wage earners are slightly more likely to be female, but strikingly, a full two-thirds of uninsured wage earners are male, which could be driven by the heavy share of construction workers among this category of worker.

**Figure 4.4: Distribution of workers, by sex (%)**




Source: Analysis of VHLSS 2016

## 4.2 Estimating latent capacity to contribute

Because of the tendency to treat the uninsured workforce as a monolithic group, there is often an assumption that all uninsured workers are unable to make social security contributions. Indeed, many have concluded that underlying labour market trends are fundamentally incompatible with social insurance.[31] As the World Bank sweepingly (and dismissively) notes in its World Development Report: "…this contributory approach is not a good fit for developing countries, where formal and stable employment are not common. Indeed, because eligibility is based on making mandatory contributions, this form of social insurance excludes informal workers, who account for more than two-thirds of the workforce in developing countries…."[32]

In many ways, the UN-wide Social Protection Floors initiative came about precisely in response to this perceived inflexibility or "ill-suitedness" of traditional employment-based social protection systems to adapt to the persistent challenges of poverty, social exclusion and labour market informality. The ILO's Social Protection Floors Recommendation, 2012 (No. 202) calls for basic social protection guarantees while allowing for a plurality of policy approaches to achieve universal coverage. Indeed, recent decades have witnessed an apparent growing global policy openness to (and even preference for) expanding tax-financed or non-contributory social protection schemes as better suited to reaching groups with low or no contributory capacity.

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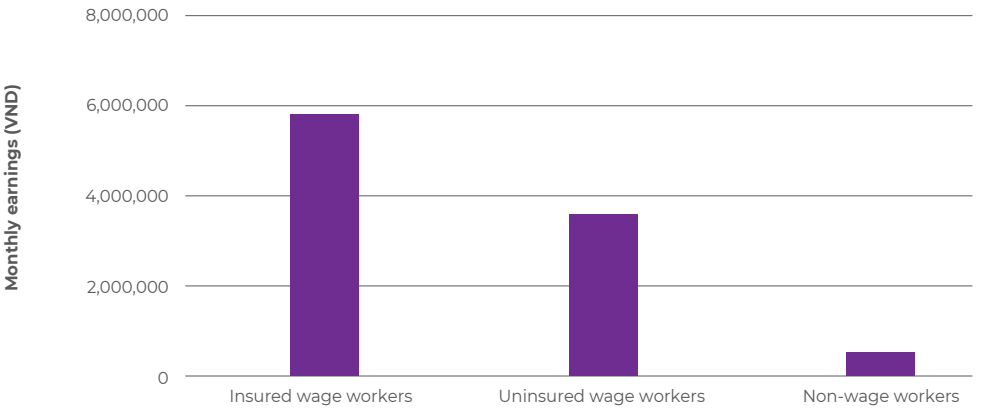
[31] And especially "defined benefit" systems.

[32] See World Bank (2019).

However, especially in rapidly growing economies, and specifically in countries that are prioritizing social insurance affiliation, like Viet Nam, it is important to dig deeper to understand what the actual latent contributory capacity of the uninsured workforce is. The results of our analysis suggest that there is certainly great potential to achieve important gains in social insurance coverage in Viet Nam. However, because the earnings thresholds for entering the compulsory and voluntary systems are so different, there is still a need for a more consistent definition of who is insurable and on what basis.

As shown in figure 4.5 and figure 4.6, insured wage earners are much more likely to have higher incomes than either of the uninsured groups of workers.

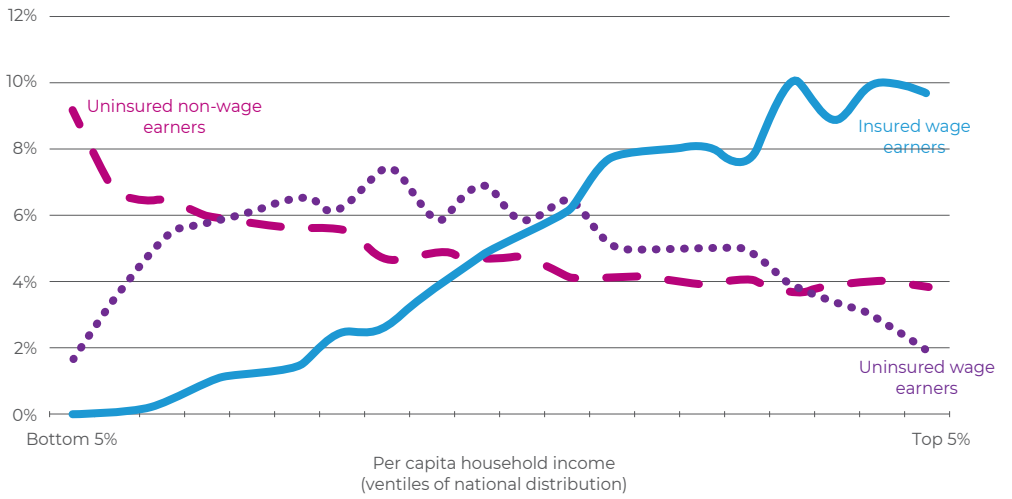
**Figure 4.5: Median monthly earnings, by type of worker, 2016**




Note: In the VHLSS 2016, information on non-wage income is collected at the household level only. In this report, we estimate the earnings of individual non-wage workers by dividing the total net household non-wage income by the number of non-wage workers in the household.

Source: Analysis of VHLSS 2016

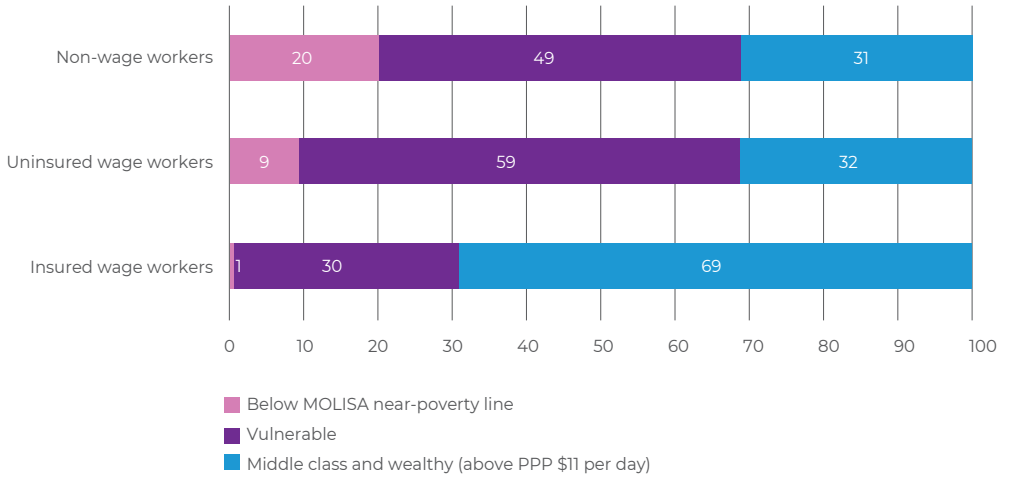
**Figure 4.6: Percentage distribution of workers across the national income distribution, by type of worker**




Source: Analysis of VHLSS 2016

It follows that uninsured workers are much more likely than insured workers to be classified as poor, or to be vulnerable, and vice versa. Almost 70 per cent of uninsured workers – both wage earners and non-wage earners – are living on less than US$11 (VND86,000) per day and would be considered vulnerable by some international measures, as shown in figure 4.7.[33] Of all three types of workers, non-wage earners are most likely to be poor, with one in five earning below the MOLISA poverty line, suggesting that there is a limit to the extent to which this group can be incorporated into social insurance.

**Figure 4.7: Percentage distribution of workers, by poverty status**




Source: Analysis of VHLSS 2016

## 4.3 Defining insurability

Understanding the latent capacity of uninsured workers to contribute to social insurance – and the resulting estimation of the size of the potentially insurable population – requires making judgements about the adequacy of minimum earnings and the availability and definition of disposable income. The official view on these concepts is generally embedded in regulations governing participation. Therefore, VSS regulations governing membership offer a useful theoretical starting point for assessing the size of the potentially insurable population in Viet Nam.

However, it is also useful to think about disposable income in relation to other national benchmarks, such as the poverty line. In the sections that follow, we distinguish between "technically insurable" workers, who are those that would theoretically be insurable based on VSS regulations, and those who would be insurable based on alternative notions of affordability, such as the poverty line.

In the discussions that follow, a worker is considered **"technically insurable"** under the VSS if the worker's earnings are above the following thresholds as set out in Decision 595/2017:

33

- the regional minimum wage for wage earners who would potentially join the compulsory system; or
- the rural poverty line (VND700,000 per month) for non-wage earners who would potentially join the voluntary system.

**Insurability based on affordability**, on the other hand, is less clear cut. We refer to the MOLISA poverty and near-poverty lines to highlight the fact that many workers, even if they are "technically insurable" are not insurable in reality, if becoming insured would force them and their families into poverty or significantly compromise their standard of living.

### 4.3.1 "Technical insurability" according to VSS regulations

Analysis of VHLSS 2016 shows that, overall, around 62 per cent of all workers are technically insurable according to VSS regulations as established by Decision 595/2017. This includes around three quarters of uninsured wage earners would be considered "technically insurable", as shown in table 4.3.

**Table 4.3: Distribution of wage earners, according to Decision 595/2017 earnings threshold for social insurance membership**

| Earning category | Gross earnings below regional minimum wage | | Gross earnings above regional minimum wage | |
|---|---|---|---|---|
| | Number of workers | % of total workers in the earning category | Number of workers | % of total workers in the earning category |
| Insured wage earners | 212 000 | 2 | 10 261 000 | 98 |
| Uninsured wage earners | 3 391 000 | 26 | 9 601 000 | 74 |
| All wage earners | 3 602 000 | 15 | 19 862 000 | 85 |

Source: Analysis of VHLSS 2016

Non-wage earners generally have lower earnings, but the threshold for membership is also lower, so that some 45 per cent of non-wage workers are technically insurable, as shown in table 4.4.

**Table 4.4: Distribution of non-wage earners, according to Decision 59/2015 rural poverty line threshold for calculating contributions**

| Earnings | Number of non-wage workers | Percentage of non-wage workers |
|---|---|---|
| Below rural poverty line[1] | 17 560 000 | 55 |
| Above rural poverty line | 14 168 000 | 45 |
| Total | 31 728 000 | 100 |

The data presented in this table should not be conflated with poverty rates presented elsewhere in this report. This is because an individual's official poverty status is assessed at the household level, by pooling income from all sources from all household members and dividing it by household size to arrive at a per capita income. Households (and their members) are classified as poor if their per capita income is below VND700,000 (in rural areas). Table 4.4 compares individual worker's estimated non-wage earnings against MOLISA's rural poverty line but does not yet adjust those earnings for household size or take into account other income (e.g. other household members who may be working, including in the formal sector, and subsidies, and transfers). For instance, 37 per cent of non-wage earners are co-residing with at least one wage earner. Households of non-wage workers derive a significant share of income from other sources, too. Roughly, for an average non-wage worker, about a third of total household income is derived from non-wage income.

Source: Analysis of VHLSS 2016.

This means that, in effect, the voluntary system is technically open to a large number of workers who would normally be considered vulnerable, and even poor. Indeed, for the voluntary system, the threshold for calculating contributions is not a determinant of eligibility, but rather forms the lower bound for the reference for insurable earnings. In theory, anyone – even someone with income below the rural poverty line – could participate.

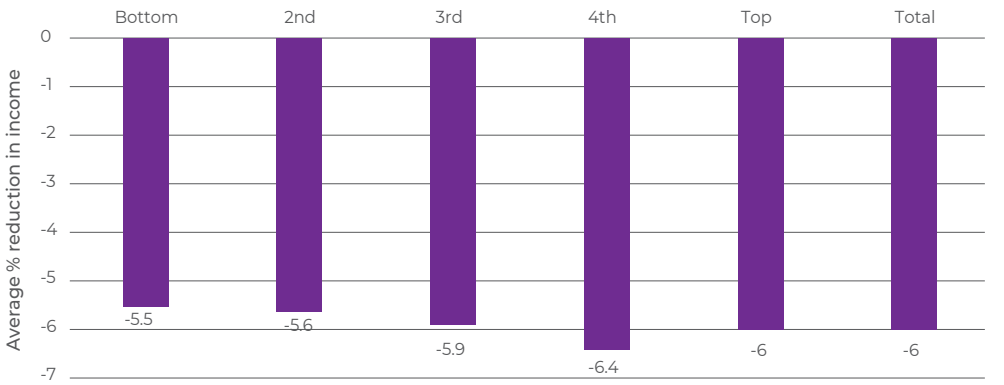
### 4.3.2 Insurability based on affordability – the high cost of social insurance

This discrepancy between the earnings thresholds in the compulsory and voluntary systems highlights the inherent challenges associated with defining "insurability". Workers' technical insurability is based only on an estimation of a worker's individual income or earnings and fails to account for the factors affecting decision-making at the household level, including, notably, the high cost of joining social insurance and the likely impact on household welfare. In Viet Nam, joining the VSS comes with a high up-front cost, since the benefits that derive from the system are not received until much later (in the case of old age) or are uncertain (in the case of disability, unemployment, sickness or maternity).

Previous research has shown that the contribution levels in Viet Nam are relatively high (see table 3.2),[34] and as such, impose a significant burden on contributing workers and their families. In VSS member households, a 10.5 per cent contribution would reduce average household per capita income by 5.5 per cent to 6.4 per cent, according to the simulation shown in figure 4.8.

[34] See McClanahan and Gelders (2019).

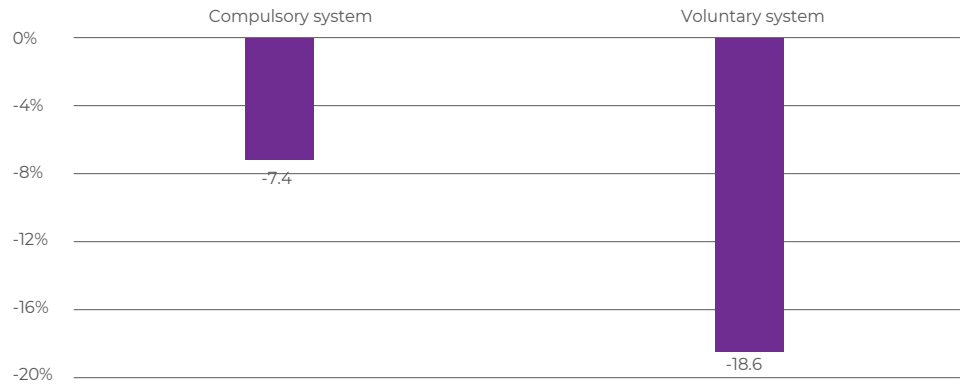
**Figure 4.8: Simulated average reduction in household per capita income of current VSS members, by income quintile (10.5% contribution)**




Source: Analysis of VHLSS 2016

For workers who are currently uninsured, simulations suggest that the level of welfare of a large number of workers and their households would fall significantly as a result of joining social insurance. Figure 4.9 shows the average reduction in per capita household income that would likely occur if "technically insurable" workers began contributing to the VSS. Because of the high contribution rates in the voluntary system, households where workers joined the voluntary system would see their per capita income decline by almost 19 per cent, while households of wage earners who could technically join the compulsory system would see their per capita income decline by 7.4 per cent.

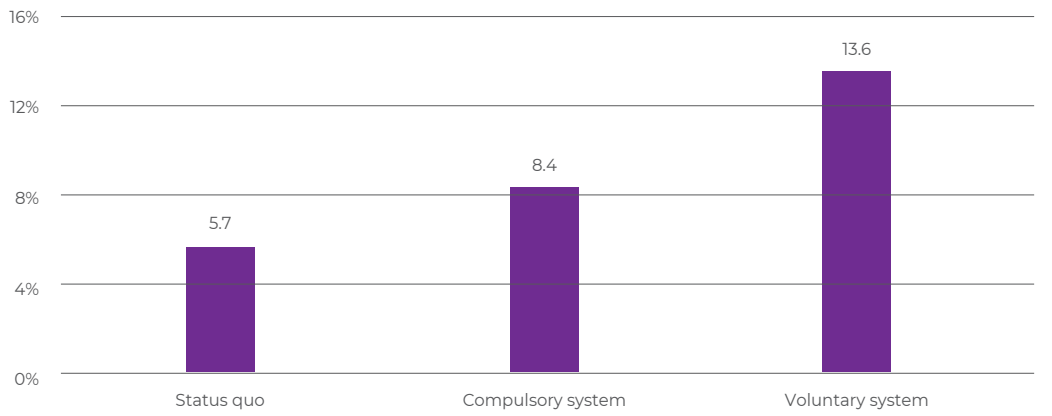
**Figure 4.9: Simulated average reduction in household per capita income for currently uninsured workers, as a result of joining VSS (10.5% and 26.5% contributions, respectively).**




Source: Analysis of VHLSS 2016

Moreover, many households would fall into poverty if they started to contribute. Figure 4.10 shows the expected increase in poverty based on MOLISA's near-poverty threshold that would result if all "technically insurable" workers began to contribute to the VSS.

**Figure 4.10: Simulated near poverty headcount, before and after a contribution (10.5% and 26.5% contributions, respectively)**




Source: Analysis of VHLSS 2016

The welfare loss associated with a contribution, as demonstrated in the above analysis, has implications for understanding the actual size of the latent population with the capacity to contribute. In fact, after paying a contribution, the number of workers who remain above the technical threshold declines, especially for non-wage earners, as shown in table 4.5.

**Table 4.5: Percentage of workers classified as "technically insurable" calculated on pre-contribution earnings and hypothetical earnings after contributing to VSS**

| | Percentage of workers with the capacity to contribute, based on estimated pre-contribution earning | Percentage of workers with the capacity to contribute, based on estimated earnings after VSS contribution |
|---|---|---|
| Insured wage | 98 | 97 |
| Uninsured wage | 74 | 69 |
| Non-wage | 45 | 36 |
| Total | 62 | 55 |

Note: Wage workers in the private sector are classified as insurable if their earnings are higher than the regional private sector minimum wages. For those in the public sector, wages are compared against the national public sector minimum wage. Non-wage earners are classified as insurable if their estimated monthly earnings are higher than the rural poverty line of VND700,000.

Source: Analysis of VHLSS 2016.

However, even these figures overestimate "affordability", especially for non-wage earners whose theoretical insurability is based on the poverty line. Even if affordability is relative, it would be difficult to argue that a contribution that forced a family into poverty or even near-poverty would be affordable. Table 4.6 shows that the poverty rate among uninsured wage earners would rise from 2 per cent to 4 per cent (a 53 per cent increase)

and near poverty would rise from 9 per cent to 12 per cent (a 32 per cent increase). For non-wage earners, the poverty rate would jump from 10 to 13 per cent (a 31 per cent increase) and the near-poverty rate from 10 to 24 per cent (a 19 per cent increase). It is also worth noting that the vast majority would still be considered "vulnerable" as relative to the international threshold for the middle class of PPP $11 per day.[35]

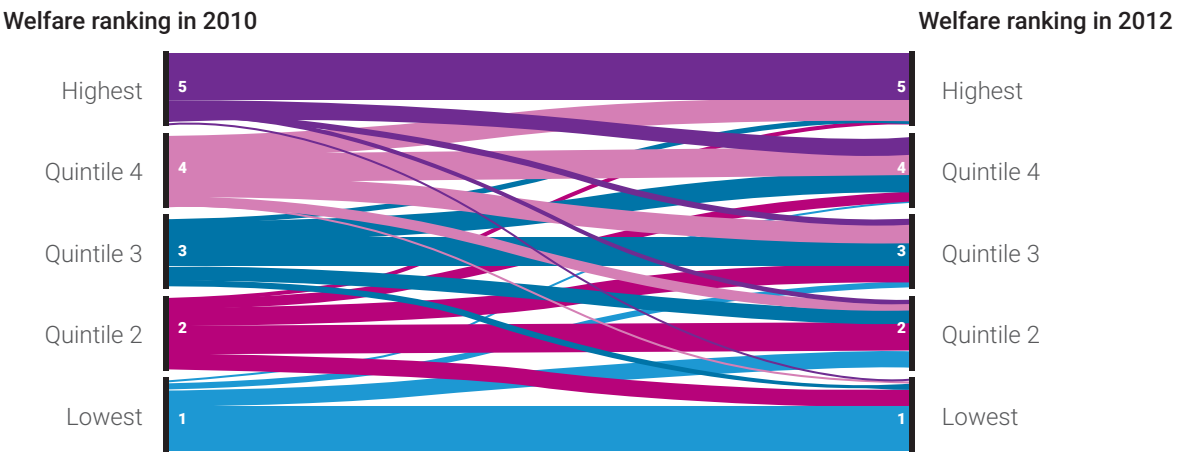
**Table 4.6: Percentage of uninsured wage and non-wage earners living below various poverty lines, before and after a hypothetical VSS contribution**

| Type of uninsured earner | Below MOLISA poverty line | | Below MOLISA near-poverty line | | Below PPP $11 per day | |
|---|---|---|---|---|---|---|
| | Earners (%) | % change in poverty rate | Earners (%) | % change in poverty rate | Earners (%) | % change in poverty rate |
| **Wage earners** | | | | | | |
| Status quo | 2 | N/A | 9 | N/A | 68 | N/A |
| After insurance contribution | 4 | 53 | 12 | 32 | 73 | 7 |
| **Non-wage earners** | | | | | | |
| Status quo | 10 | N/A | 20 | N/A | 69 | N/A |
| After insurance contribution | 13 | 31 | 24 | 19 | 72 | 6 |

N/A = not applicable.

Furthermore, while these averages give an overall sense of the likely size of the population in Viet Nam with a latent capacity to contribute to social insurance, it is important to recall that incomes are highly volatile in Viet Nam, where households move up and down the income distribution often over a very short period, as shown in figure 4.11. Therefore, policy-makers must exercise caution in drawing sweeping conclusions about the exact size of the insurable population at any given point in time.

**Figure 4.11: Income and poverty dynamics in Viet Nam, 2010–12**




Source: Analysis of household surveys.

[35] The threshold of US$11 (in 2011 PPP terms) is used in various comparative publications as a benchmark to define the global middle class. See, for example, Kharas (2017).

## 4.4 Implications for coverage extension

The relatively high number of uninsured wage earners has two main implications for designing appropriate solutions to extend social insurance coverage in Viet Nam. First, for many of these workers, being uninsured is rarely a choice; therefore, treating these workers in the same way as the self-employed, including applying a very high contribution rate, is not only inconsistent with the law's intent, but is likely to be ineffective. Furthermore, while there appears to be ample room for expanding VSS membership through compliance enforcement, simply enforcing compliance among workers and employers, without providing some attendant compensation for the welfare losses associated with joining the system, will likely have the unintended effect of pushing many workers into, or at risk of, poverty, and could be unaffordable for some small businesses.

Secondly, since wage earners make up a significant share of the uninsured workforce, there are "natural" limits to the extent to which the voluntary system can be leveraged to meet the MPSIR extension targets, and this is true regardless of the package of additional benefits put in place. Therefore, the package of support must be designed – within a broader policy framework – that strikes a delicate balance between (1) maximizing the gains to the social insurance system through a combination of measures aimed at reducing the cost of joining and making the "offer" more attractive and (2) compliance enforcement (within VSS and with labour law more broadly); all while still offering adequate protection for those outside the contributory system. In essence, relying too much on the voluntary system to do the "heavy lifting" of social insurance coverage extension will be ineffective.

Finally, there is, and will likely continue to be, a significant proportion of the population that are "uninsurable" and yet still deserves adequate social protection across the lifecycle. Therefore, it is essential that policy-makers continue to strengthen the tier 1 benefits to ensure basic income protection for all citizens.

In sum, rather than defining the problem as strictly related to – and solvable through – the voluntary system, the problem is in fact three-pronged:

(1) The compulsory system is not meeting the people it is designed to meet.

(2) The voluntary system is definitely not affordable and may not be attractive enough.

(3) There are many people who will not be able to join – even if incentives are offered – who still need protection.

Following from the preceding analysis, the components of a benefit package to contribute to growing the insured population must address the different types of constraints facing the following subgroups of the informal economy:

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

In addition to the above three subgroups, the challenges and constraints facing a fourth subgroup – employers – must also be addressed if uninsured wage earners are to be able to access the contributory system. This is in recognition of the fact that the status of dependent employees is rarely their own choice and instead depends on their employers. In some cases, ensuring that a firm and/or its employees is registered is a matter of simple compliance enforcement, but particularly in the case of microenterprises with very few employees, affordability of contributions may be a key constraint preventing formalization and/or social insurance registration.

## 4.5 Working families caring for children in Viet Nam

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

However, child and family benefits are different. They present an opportunity to focus on the large group of workers that are currently experiencing the contingency – the extra cost of bringing up children.

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

Just under half (around 44 per cent) of all workers in Viet Nam are parents or caregivers with dependent children, many of them uninsured. The size of the current uninsured parent population is significant, as shown in table 4.7, and reaching them with appropriate social protection tools and coverage is essential.

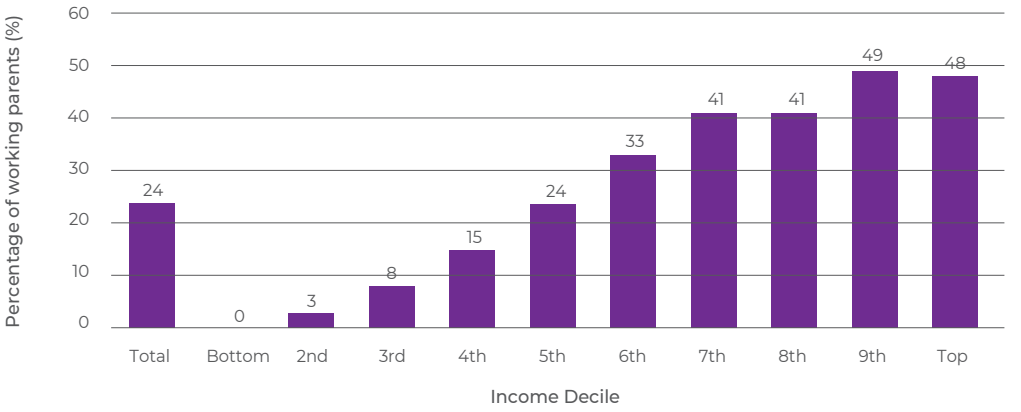
**Table 4.7: Percentage of workers who are parents, by type of worker and age of the child, 2016**

| Type of worker | Age of the child | | | |
|---|---|---|---|---|
| | Under 1 year | 0–3 years | 0–6 years | 0–15 years |
| Insured wage earners | 7 | 26 | 37 | 57 |
| Uninsured wage earners | 3 | 14 | 23 | 44 |
| Non-wage earners | 3 | 13 | 21 | 41 |
| Total | 4 | 16 | 25 | 44 |

Source: Analysis of VHLSS 2016.

Unfortunately, very few working parents contribute to the social insurance system. By 2016, only 24 per cent of working age parents were contributing to the VSS, as shown in figure 4.12.[36] Furthermore, most of those who do, though they are paying contributions, will only benefit from the system many years down the line when they reach retirement.[37]

**Figure 4.12: Percentage of working parents who contribute to the VSS, by household per capita income**




Source: Analysis of VHLSS 2016

In fact, analysis of VHLSS 2016 data reveals that many uninsured workers in Viet Nam have incomes that would in theory permit them to contribute to social insurance. Of those parents who are uninsured, some 56 per cent are "technically insurable." Table 4.8 shows that nearly four out of five uninsured wage-earning parents would classify as technically insurable, compared with just under half of non-wage earning parents.

**Table 4.8: Percentage distribution of uninsured working parents according to technical insurability status, by type of worker**

| Type of parent | Uninsurable | Insurable | Total |
|---|---|---|---|
| Uninsured wage earner | 22 | 78 | 100 |
| Non-wage earner | 54 | 46 | 100 |
| Total | 44 | 56 | 100 |

While all families would benefit from a coherent, multi-tiered family support system in Viet Nam, these potentially insurable working parents represent a large proportion of the uninsured population that stand to benefit from an improved social insurance family support package. Indeed, uninsured parents who are technically insurable make up around 15 per cent of the working age population: 6.4 per cent of them are uninsured

[36] Analysis of the VHLSS 2016 suggests that working age parents contribute at a rate, while low, that is higher than the overall working age population, where only 19 per cent of workers over age 15 are contributing to the VSS.

[37] Furthermore, these parents will benefit only if they have accumulated sufficient contributions to qualify for a pension.

wage earners and 8.5 per cent are uninsured non-wage earners. Therefore, bringing all of them into the social insurance system would bring overall coverage rates to around 45 per cent of the working age population. They would also, through their contributions, strengthen the system's financial sustainability.

## 4.6 Key components of a family support package – parameters for the model

The ILO and the Social Security Department of MOLISA have identified the key components of a package that could potentially address the needs and constraints of each of these groups in order to further the objectives of coverage extension within a multi-tiered system, and specifically with respect to the social insurance coverage targets expressed in Resolution 28. In table 4.9, we present four key components:

(1) multi-tiered family/child benefits;

(2) multi-tiered maternity/paternity benefits (adding tax-financed and voluntary elements to the existing compulsory scheme);

(3) tax breaks for microenterprises;[38] and

(4) reformed contribution subsidies for the voluntary system

These measures can be grouped in to supply-side measures aimed at improving the "offer" (e.g. adding benefits or making them more attractive), and demand-side measures aimed at reducing the "price" of joining social insurance (e.g. premium subsidies). However, it is important to underscore that some measures – such as a family or child benefit – accomplish both simultaneously, where an immediate benefit also functions as an effective reduction of the cost of joining for the worker, while also acting as an implicit subsidy for employers, who benefit from a workforce with higher incomes.

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

**Table 4.9: Basic components of a potential package in Viet Nam**

| Tier details | Component 1 Child/family benefitA | | Component 2 Maternity/paternity benefit | | Component 3 Tax breaks for microenterprises | | Component 4 Contribution subsidies | |
|---|---|---|---|---|---|---|---|---|
| | Eligibility | Value (VND/month per child) | Eligibility | Value (VND/month per child) | Eligibility | Value (VND/month per child) | Eligibility | Value (VND/month per child) |
| Tier 1: Tax-financed | All children aged 0–15, 0–6 or 0–3 | 140 000 | Must not be currently insured or is currently insured but has less than 6 months of contributions | 100% of the MOLISA poverty line is paid for 4 months | N/A | N/A | N/A | N/A |
| Tier 2: Contributory (compulsory) | All children aged 0–15, 0–6, or 0–3 | 350 000 | N/A (already exists) | N/A (already exists) | All microenterprises with fewer than 10 employees | Corporation tax holiday for up to 2 years | N/A | N/A |
| Tier 2: Contributory (voluntary) | All children aged 0–15, 0–6 or 0–3 | 350 000 | Must have 6 months of contributions in the last 12 months | 100% of declared earnings on which contributions are based, paid for 6 months | N/A | N/A | All insurable non-wage earners | Increase from 10% to 25% for all non-poor (workers 19%, government 7%) |

N/A = not applicable.

While each of the policy components under consideration could be implemented independently of the others, their impacts will be magnified – and their risks reduced – if they are implemented alongside other complementary components. Some of the components simply will not be effective for certain segments of the informal economy. For example, wage earners must be reached through a combination of tools that make membership more affordable and accessible not just for them, but for their employers. Therefore, a child/family benefit (component 1) must be implemented alongside support for employers (component 3), as well as ongoing efforts to enforce social insurance compliance, if the full magnitude of its impacts are to be felt.

An ideal package might consist of all four components, but these individual interventions can be combined in any number of ways, each of which present trade-offs in terms their costs and their potential to address different subgroups' constraints. The next chapter explores these trade-offs in greater depth.

# 5. POTENTIAL EFFECTS AND COSTS OF A FAMILY SUPPORT PACKAGE

In this chapter, we set out the various family support packages under consideration and examine their potential reach – in terms of their maximum coverage potential – as well as their potential effects on household welfare (for recipients and non-recipients) and the projected costs under different scenarios.

## 5.1 Packages under consideration

Based on consultation with stakeholders, the ILO and the Social Security Department of MOLISA previously defined three packages with complementary components that could be considered as the basic elements of a pilot and/or a national scheme in Viet Nam. The options, in decreasing order of generosity (and likely effectiveness), are:

(1) **Package 1** is a full multi-tiered package that combines all elements of the four solutions presented.

(2) **Package 2** contains only solutions for the contributory system.

(3) **Package 3** contains only solutions for the voluntary system.

**Package 1**, the most generous and ambitious package, would offer a child or family benefit (component 1) to all families in Viet Nam under a multi-tiered design; a multi-tiered maternity benefit (component 2) to all mothers of newborns in Viet Nam, as well as providing a tier 2 maternity benefit to non-wage earners who join the voluntary system to complement the existing provisions in the compulsory system; tax breaks for microenterprises (component 3), to address the constraints facing employers and their wage-earning employees in the informal economy; and either the existing system of subsidies that lowers the contribution rate for the voluntary system for certain non-wage earners, or eliminating the subsidy scheme and redirecting the resources toward the tier 1 benefits (component 4).

**Package 2** is a less ambitious proposal which would also contain elements of all four components but would focus on the tier 2 contributory system only. It would offer a tier 2 child/family benefit (component 1) to those potentially insurable workers in the informal economy who join the compulsory or voluntary systems, as applicable; a tier 2 maternity benefit to non-wage earners who join the voluntary system (component 2); tax breaks for microenterprises (component 3); and either the existing system of subsidies that lowers the contribution rate for the voluntary system for certain non-wage earners, or eliminating the subsidy scheme and redirecting the resources toward the tier 1 benefits.

**Package 3** is the least generous or ambitious of the three packages considered. It would focus only on encouraging participation in the voluntary system and would therefore offer a new maternity benefit for voluntarily insured persons (component 2) and contribution support through existing subsidies or eliminating the subsidy scheme and redirecting the resources toward the tier 1 benefits.

## 5.2 Potential reach of each package

Each of these packages has potential to reach different target populations, with different implications for their potential to contribute to growing the insured population. Table 5.1 shows the groups that would be affected by each potential package, including those who are currently insured, who would also benefit from a child/family benefit or maternity benefit.

**Table 5.1: Populations affected by the proposed packages**

| Package | Uninsurable earners | Uninsured non-wage earners | Uninsured wage earners | Employers of uninsured wage earners | Currently insured |
|---|---|---|---|---|---|
| Package 1:<br>Full multi-tiered package | • Tier 1 child/family<br>• Tier 1 maternity | • Tier 2 child-family<br>• Tier 2 voluntary maternity + other VSS voluntary benefits<br>• Reduced contribution | • Tier 2 child/family benefit + other VSS compulsory benefits | • Tax break if <10 employees | • Tier 2 child/family benefit |
| Package 2:<br>Tier 2 package | N/A | • Tier 2 child-family<br>• Tier 2 voluntary maternity + other VSS voluntary benefits<br>• Reduced contribution | • Tier 2 child/family benefit + other VSS compulsory benefits | • Tax break if <10 employees | • Tier 2 child/family benefit |
| Package 3:<br>Tier 2 voluntary package | N/A | • Tier 2 voluntary maternity + other VSS voluntary benefits<br>• Reduced contribution | N/A | N/A | • Tier 2 voluntary maternity<br>• Reduced contribution |

However, the maximum potential reach of the packages depends on take-up rates, which are extremely difficult to estimate. In countries with low levels of informality, it is reasonable to assume that compulsory benefits would have full take-up, but in countries like Viet Nam, we can say very little about how people would actually respond if certain benefits were implemented.[39] Therefore, table 5.2 presents the maximum coverage potential of each package, based on VHLSS estimates of the size of the technically insurable parent population.

**Table 5.2: Maximum coverage potential of each package**

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

In the next section, we explore some of the potential effects and projected costs for three of the four components proposed in the preceding section: child or family benefits; maternity benefits; and a reduced contribution for the voluntary system. With the VHLSS dataset, we are able to simulate the welfare effects of the child/family benefits and the contribution subsidies for voluntary insurance but not the maternity benefits. This is because the VHLSS does not contain markers to identify pregnant women and, for women with newborns, we do not have a counterfactual of what household income would have been if the women had not given birth to a child. An assessment of the impacts and costs of component 3 (tax breaks for microenterprises) is also outside the scope of this assignment. Due to data constraints, we are therefore able to estimate welfare effects of some of the individual components only, and not for the combined packages.

## 5.3 Component 1: Child and family benefits

### 5.3.1 Description and parameters

Families with children are focused on getting by from day to day. The majority do not have disposable income, and those who do, are not generally inclined to save for the future. A multi-tiered child or family benefit, unlike many other social insurance cash

[39] Information on the likely take-up rates is typically gleaned from targeted qualitative research or from a pilot designed to test potential recipients' responses to different benefit parameters or design options, neither of which was within the scope of this research.

[40] The potential impacts of tax breaks on employers and their decision-making around social insurance requires further research. However, it is noted that employers are likely to benefit indirectly from the addition of child and family benefits, which act as an implicit subsidy by increasing a large proportion of workers' take home pay.

benefits, is immediate for the millions of people who already have children of eligible age. And, unlike contribution or premium subsidies, which may not be visible, a multi-tiered child/family benefit instantly offsets the losses associated with a social insurance contribution in a tangible way while also guaranteeing the right to social security.[41]

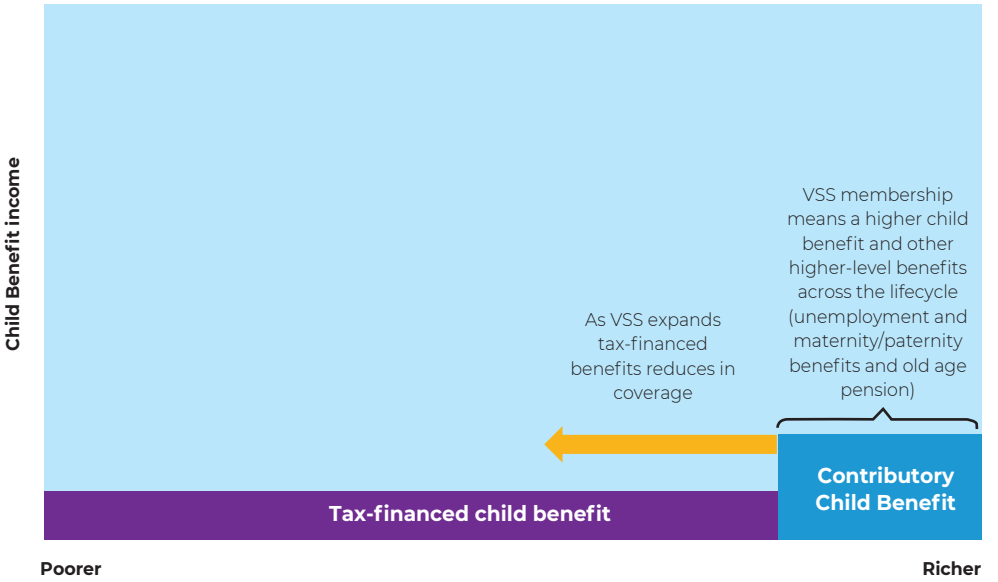
In addition, introducing a child/family benefit covering all children aged 0–15 years in the social insurance system secures a strong link with long-term benefits, specifically contributory old age pensions. Unlike other short-term benefits, which may suffer from adverse selection, covering all children ensures that workers are incorporated early in their career (when they first start to have children) and remain in the system for as long as they have children. As a result, in just one generation, many more people will meet the contribution requirements for a minimum pension (currently 20 years but will potentially be reduced), since all parents would have an incentive to remain for at least 15 years, and many of them potentially for much longer if they have multiple children.

A multi-tiered child or family benefit is also the component that offers the largest potential to encourage participation in social insurance and to extend basic social protection to all Vietnamese families. Not only would it appeal to a large number of potentially insurable workers, it would also offer needed support to those families who are already insured, while simultaneously ensuring children's right to social security by offering a minimum floor of protection for those who cannot contribute to social insurance.

Figure 5.1 depicts a multi-tiered child/family benefit system consisting of:

- **tier 1** – a benefit-tested tax-financed tier that provides minimum, but adequate support to those who are unable to afford social insurance contributions; and
- **tier 2** – a higher level benefit paid to all those who are able to contribute to either the compulsory or voluntary social insurance systems.

**Figure 5.1: A multi-tiered child/family benefit with a benefit-tested tier 1, Viet Nam**




Source: Authors.

[41] See McClanahan and Gelders (2019) for a full discussion of the arguments and evidence in support of a multi-tiered child benefit.

In a multi-tiered system, the values proposed for the two tiers must preserve the principle of contributions by ensuring that those who have contributed to the VSS are entitled to higher rate tier 2 benefits, as explained in box 1. Therefore, we suggest the following values, which ensure that there is sufficient difference between the two tiers to maintain the incentive to join social insurance. The values are based on the conclusion of parallel research into the adequacy of social protection benefits:[42]

- **tier 1** child/family benefit of VND140,000 per child per month;[43] and
- **tier 2** child/family benefit of VND350,000 per child per month.[44]

Furthermore, while best results would be achieved by covering more children, we explore the impacts of three different age eligibility scenarios for children, including an option that would cover all children aged 0–15, only children aged 0–6 and only children aged 0–3, recognizing that there are potential financing constraints to instituting a full eligibility benefit in the immediate term.[45] But, as shown in figure 5.1, under a benefit-tested design, the costs of the tax-financed tier should decline over time as VSS membership grows.

**Box 1: Ensuring coherence in the design of multi-tiered systems**

In a multi-tiered system, the desire to demonstrate real gains in terms of social insurance coverage must be balanced against the equally important goal of extending coverage to populations that lack the ability to pay. This is not simply for rights-based reasons: ensuring coherence among the two systems is also vital to preserving – over the long run – the incentive to join social insurance.

For example, if reforms proceed in an uncoordinated or haphazard way, where the contributory tier reforms are piloted without considering the impact on the tax-financed tier, or the tax-financed tier pursues parallel or subsequent reforms (such as a tax-financed family benefit that is paid at a higher rate than would be justified under a multi-tiered system), the resulting parameters could undermine the system-wide goal of extending social insurance to all.

Indeed, this is arguably precisely what happened in Argentina, where the goal of extending tax-financed child benefits outpaced and superseded goals to expand social insurance, resulting in a high-rate tax-financed child benefit that acted as a disincentive for many uninsured people to formalize. Argentina's mixed child benefits system consists of three tiers:

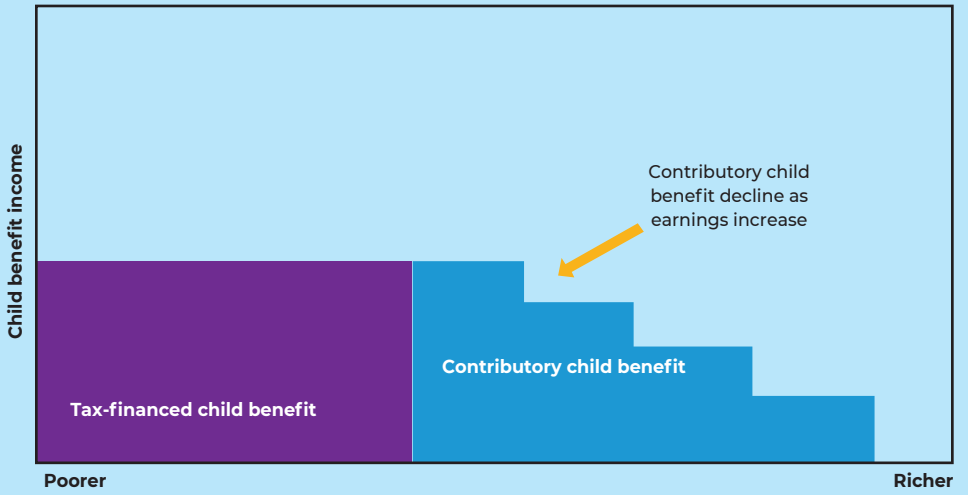
1. A tax-financed benefit known as the universal child allowance (AUH) directed at families working in the informal sector, implemented in 2006.
2. A standard contributory family allowance system (AAFF by its Spanish acronym) for wage earners and certain small own account workers (monotributistas), implemented in 1996. The AAFF is affluence-tested.
3. A tax deduction for dependent children of the highest earners delivered through the tax system.

Together, the three tiers achieve near universal coverage.1 However, the interaction of the benefit rate structures for the AUH and AAFF create potential for significant work disincentives. While the AUH is a flat rate benefit equivalent to the highest rate contributory benefit, the AAFF has earnings-related benefits paid on a progressive basis and is inversely proportional to the insured's earnings, as shown below, although higher rates are paid in certain regions. This means that Argentina's basic child benefits system, while combining contributory and tax-financed elements, is arguably not multi-tiered.

[42] See James and McClanahan (2019).

[43] James and McClanahan concluded that VND140,000 per child per month would be the absolute minimum floor for a tier 1 child benefit in Viet Nam. The benefit is derived by applying a replacement rate to cover 40 per cent of the estimated marginal cost of a child, using the rural poverty line as a benchmark. See Annex II in the full report for a detailed description of the methodology for assessing adequacy.

**Potential for labour market disincentives in a mixed child benefit system, Argentina**




Source: Author's elaboration based on administrative data.

The progressive reduction of the AAFF creates a gap that could discourage some workers from joining the formal system. Though a few evaluations found no labour market effects, Garganta et al. (2017) found that the AUH reduced the likelihood of married women entering the formal labour market by almost a quarter.

1 See Administración Nacional de la Seguridad Social (ANSES), 2018.

Finally, although a tier 2 child/family benefit would theoretically imply an additional contribution from VSS membership – potentially both for employers and employees – this analysis assumes that the new benefit would be financed using alternative sources, since stakeholder feedback on previous proposals has strongly suggested that raising the contribution rate would not be politically feasible.[46] Therefore, the contribution rates are assumed to be the same as for the existing compulsory system (10.5 per cent) and voluntary system (26.5 per cent).[47]

## 5.3.2 Potential effects

To illustrate the potential (hypothetical) effects of moving to a multi-tiered short-term benefit system immediately, we use the VHLSS dataset to simulate what might happen to household welfare if a multi-tiered child and family benefit were implemented today. Our measure of welfare is household per capita income, i.e. total net household income adjusted for household size. Specifically, we examine the welfare effects if: (1) the children of uninsured working parents with earnings above the income threshold for VSS

[44] Previously costed parameter based on 25 per cent of the public sector minimum wage (see McClanahan and Gelders, 2019). Note that this value is also close to the suggested adequate child benefit of VND330,000 based on replacing 50 per cent of the cost of a child, estimated in terms of household expenditures derived from analysis of VHLSS 2016; see James and McClanahan (2019) and Annex II.

[45] The costing analysis in the next section also explores scenarios in which coverage starts with children aged 0–3 and then gradually expands to include more children.

[46] On stakeholder feedback on previous proposals, see McClanahan and Gelders (2019). On the political feasibility of raising the contribution rate, the Government could explore cross-subsidizing the additional benefits in the compulsory system using surplus resources from other branches. For the voluntary system, other alternatives, including State subsidies, would need to be considered.

[47] These rates reflect simplified aggregations of the contribution rates for income transfers and health insurance, even though the underlying insurable reference wage for each type of benefit not the same. However, the total burden for the voluntary system is, on balance, an underestimate since we do not take into account additional contributions that would be paid with respect to the insured worker's dependants.

membership entered the VSS and received a tier 2 benefit; and (2) the children of uninsured workers with income below this threshold received a tier 1 benefit.

In our analysis, we create five groups of workers that would be affected differently by an expansion of the social insurance contribution coverage and the introduction of child and family benefits:[48]

- **Group 1**: Wage-earning parents with children up to age 3, 6 or 15 in the compulsory VSS scheme. This includes parents who are already insured and uninsured parents who are technically insurable under the compulsory system. The contribution rate is maintained at 10.5 per cent of regular wages and a child/family benefit is provided for all children up to the age of eligibility with a monthly value of VND350,000.
- **Group 2**: Non-wage earning parents with children up to age 3, 6 or 15 in the voluntary VSS scheme. We include only those who are technically insurable. The contribution rate is set at 26.5 per cent of net non-wage income and a child/family benefit is provided for all children up to the age of eligibility with a monthly value of VND350,000.
- **Group 3**: Uninsurable parents with an insured or technically insurable spouse. This covers uninsured parents who have a wage-earning spouse already contributing to the VSS or with the capacity to contribute.[49] The children of this group of uninsurable parents receive a tier 2 child/family benefit with a monthly value of VND350,000 per child that derives from the status of the insured spouse.
- **Group 4:** Working parents who are technically uninsurable under the respective compulsory and voluntary regimes. They are provided with a tier 1 child/family benefit of VND140,000 per eligible child.
- *Group 5*: Workers with no children. Depending on their labour market status and earnings, they may be technically insurable under the compulsory or voluntary system, which would require a contribution, or be classified as uninsurable.

As indicated in table 5.3, when taking into account children up to age 15, group 1 represents about 19 per cent of all workers; nearly one in ten workers (9 per cent) belongs to group 2; and group 3 and 4 – uninsurable parents – account for 17 per cent of workers.

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[48] In addition, under a multi-tiered child/family benefit that provides universal coverage, parents or caregivers who are not working (for example because they are living with a disability) would also receive a tier 1 child/family benefit, but the impacts on their welfare are not examined here as the emphasis is on workers and their families.

[49] In theory, it is technically possible to have a non-wage earning couple consisting of one "uninsurable" partner and one "technically insurable" partner. However, because of the way we estimate non-wage income in the model (see Annex I), both non-wage earning partners display the same income.

**Table 5.3: Relative size of treatment groups as a share of all workers**

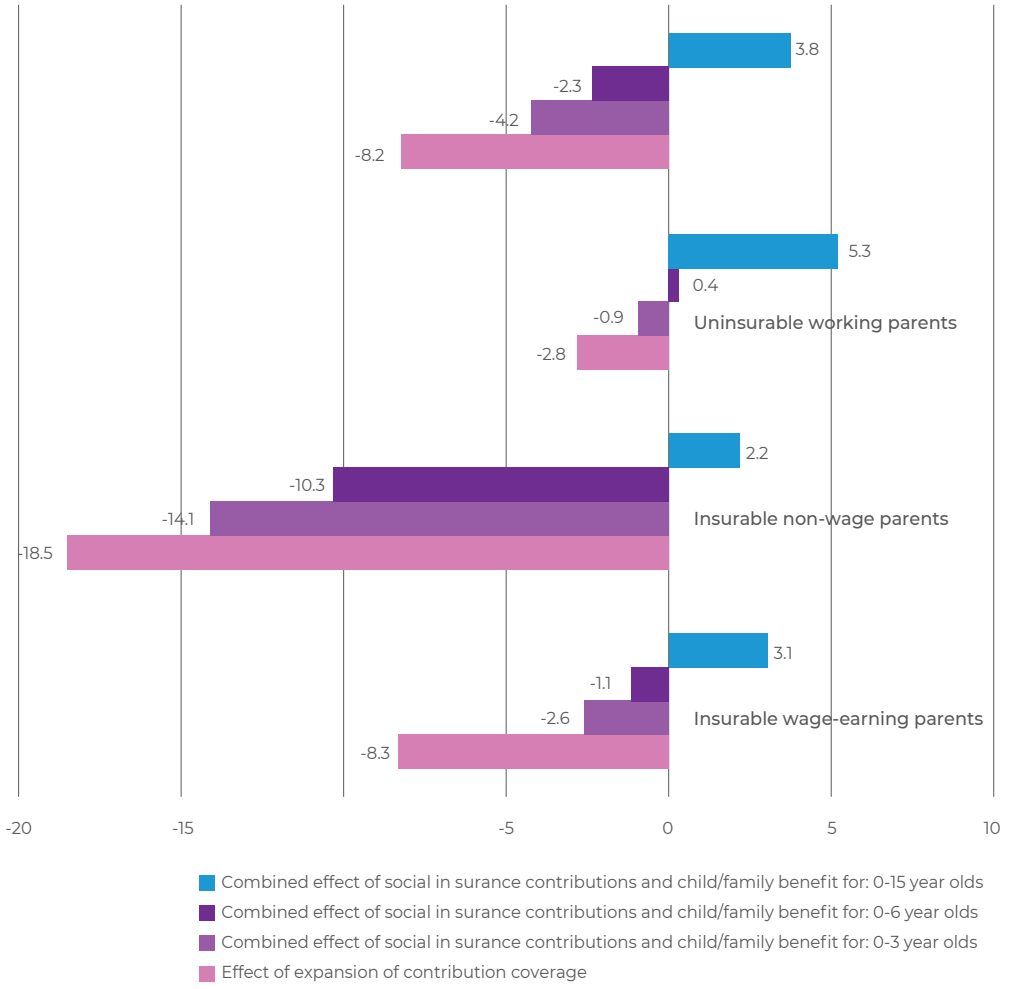
| Classification of workers | Percentage of workers |
|---|---|
| Insured and technically insurable wage earning parents with children 0–15 years | 19 |
| Technically insurable non-wage earning parents with children 0–15 years | 9 |
| Uninsurable parents with an insured or technically insurable spouse | 5 |
| Uninsurable parents earning below minimum thresholds | 12 |
| Workers who are not parents | 56 |
| Total | 100 |

Source: Analysis of VHLSS 2016.

Figure 5.2 indicates the magnitude of the welfare effects among different types of workers, parents, and other population groups. First, all insured and technically insurable workers and their family members would experience a welfare loss as a result of the reduction in take-home earnings after paying contributions. On average, the welfare loss amounts to 8.5 per cent across all workers but, as expected, it is significantly higher among non-wage earners in the voluntary system who face a contribution rate of 26.5 per cent of insurable earnings.

Next, the welfare loss from paying contributions is partially or fully offset by the extra income from child and family benefits among workers with children. Averaged across all working parents, the welfare loss of paying contributions is 8.2 per cent, but with benefits paid for all children up to 3 or 6 years of age, respectively, this loss reduces to 4.2 and 2.3 per cent. If eligibility is expanded to include children up to 15, the average welfare loss from increased social insurance coverage turns into an average welfare gain of 3.8 per cent of household income per capita.

**Figure 5.2: Simulated average effect on welfare (measured as the percentage change in per capita household income) from paying social insurance contributions and receiving child/family benefits on different population groups**



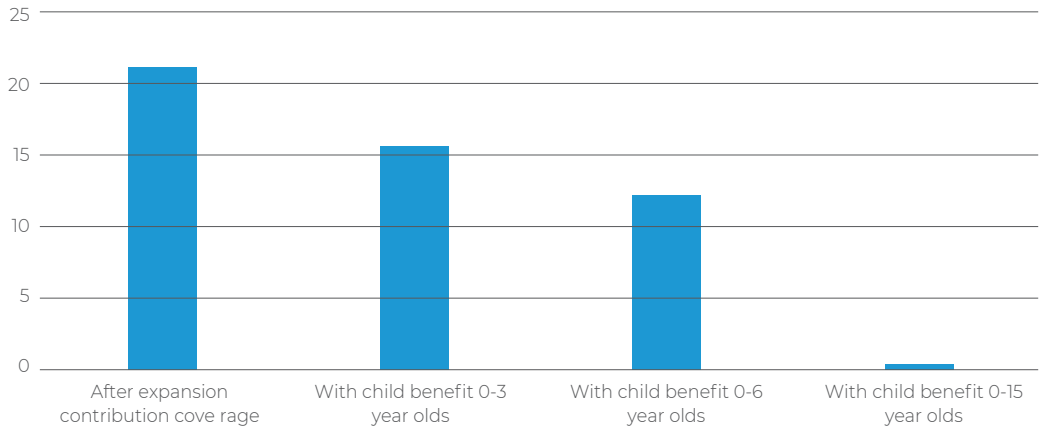

Source: Analysis of VHLSS 2016.

Figure 5.2 also shows the effects of a mass increase in the insured population, undergirded by a tax-financed child/family benefit to those parents who are unable to make contributions, on the uninsurable population. Notably, some of the uninsurable population also experience a welfare loss when all technically insurable workers are incorporated. This effect is due to complex living arrangements of families, where the welfare effects of one earner joining social insurance can "drag down" the rest of the household. However, this group also experiences the largest average welfare gains (2.2 per cent for all uninsurable workers, and 5.3 per cent for uninsurable parents) after receiving a tax-financed child/family benefit directly or living in a household that receives a tier 1 or tier 2 child/family benefit.

Another way to examine welfare effects is to estimate changes in the incidence of poverty. For example, if all insurable workers started contributing to the VSS, the share of workers living below MOLISA's near-poverty line would rise from 13.5 per cent to 16.3 per cent – representing a relative increase of 21 per cent when compared with the status

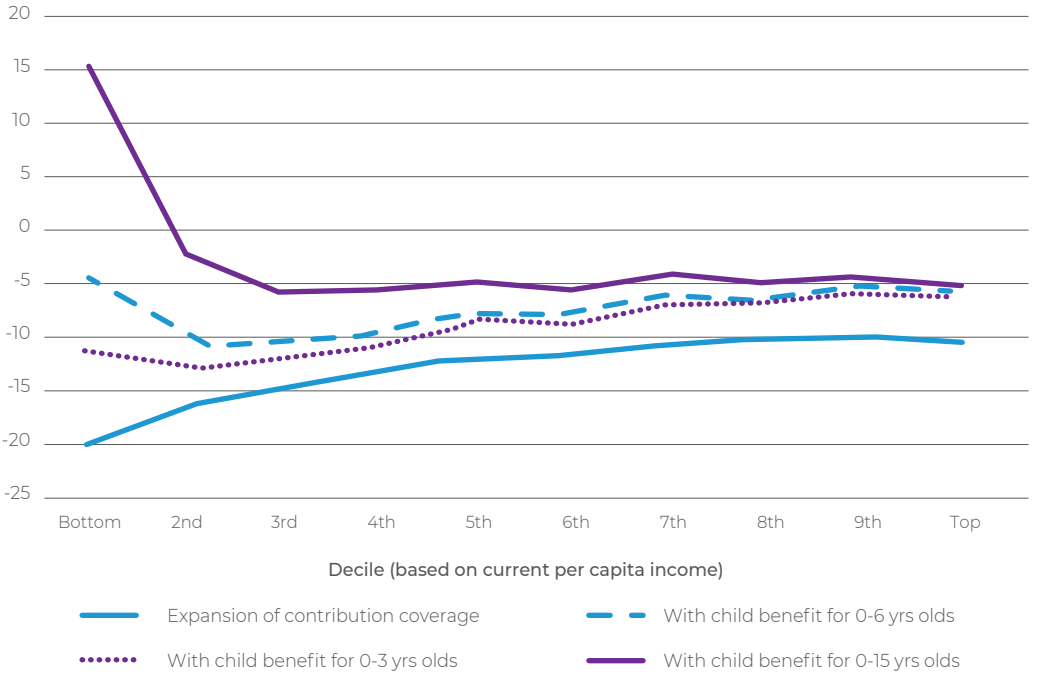
quo. As illustrated in figure 5.3, the aggregate effect on the near-poverty headcount rate among workers would be lower with a multi-tiered child/family benefit covering children 0–3 or 0–6, and if children up to age 15 were eligible, the net impact on the near-poverty rate would be negligible.

**Figure 5.3: Relative increase in the near-poverty headcount rate among the adult working population, when compared to the status quo (%)**




Source: Analysis of VHLSS 2016.

**Figure 5.4: Simulated average household income effect on insurable workers (wage and non-wage workers combined) of multi-tiered child/family benefits, by income decile (measured as the percentage change in per capita household income)**



On average, a multi-tiered child/family benefit would also benefit workers who are not parents because many non-parents live in households with children who would benefit. Figure 5.4 shows the overall impacts on all workers (wage and non-wage earners, and parents and non-parents) of a contribution as compared with the compensatory effects of a tier 2 child/family benefit for different child age eligibility categories, across income deciles. The impact is measured as the average percentage change in household per capita income. First, the impacts are greatest among the lower income deciles, which can be attributed to the effect of the flat rate child/family benefit and is true for all categories of treatment groups. Second, while the effects are of lower magnitude than for parents, the fact that non-parents, on average, also experience a compensatory effect demonstrates the broad reach of a child and family benefit.

**Table 5.4: Distribution of working population according to net welfare effect (%)**

| Net welfare effect | Child/family benefit for 0–3 year olds | Child/family benefit for 0–6 year olds | Child/family benefit for 0–15 year olds |
|---|---|---|---|
| Loser | 58 | 55 | 45 |
| Neutral | 31 | 28 | 21 |
| Winner | 11 | 17 | 35 |
| Total | 100 | 100 | 100 |

Source: Analysis of VHLSS 2016.

Table 5.4 summarizes the size of the populations that would experience a net gain versus those that would experience a net loss across the total working population. Although 45 per cent would still be at a net loss after a contribution (not surprisingly, since this is the normal effect of paying a contribution), thanks to the compensatory effect of a child/family benefit, more than half (56 per cent) would either be in a neutral (21 per cent) or better off (35 per cent) position than before, despite having paid a high contribution. These results are truly striking and strongly suggest that adding a child/family benefit to the VSS benefit structure would substantially enhance the affordability of joining social insurance for many workers.

### 5.3.3 Projected costs

Cost projections were carried out for the tax-financed and contributory tiers of a multi-tiered child/family benefit. The scenarios presented correspond to variations of the parameters for the family package model presented in the preceding analysis. Table 5.5 summarizes the parameters used for the costings.

**Table 5.5: Parameters for cost projections of a multi-tiered child/family benefit**

| Child/family benefit component | Value (VND/month per child, indexed to inflation from 2020) | Age eligibility |
|---|---|---|
| Tier 1 | 140 000 | 0–3 |
| | | 0–6 |
| | | 0–15 |
| | | 0–3, gradually rising to 15 by 2032 |
| Tier 2 | 350 000 | 0–3 |
| | | 0–6 |
| | | 0–15 |
| | | 0–3, gradually rising to 15 by 2032 |

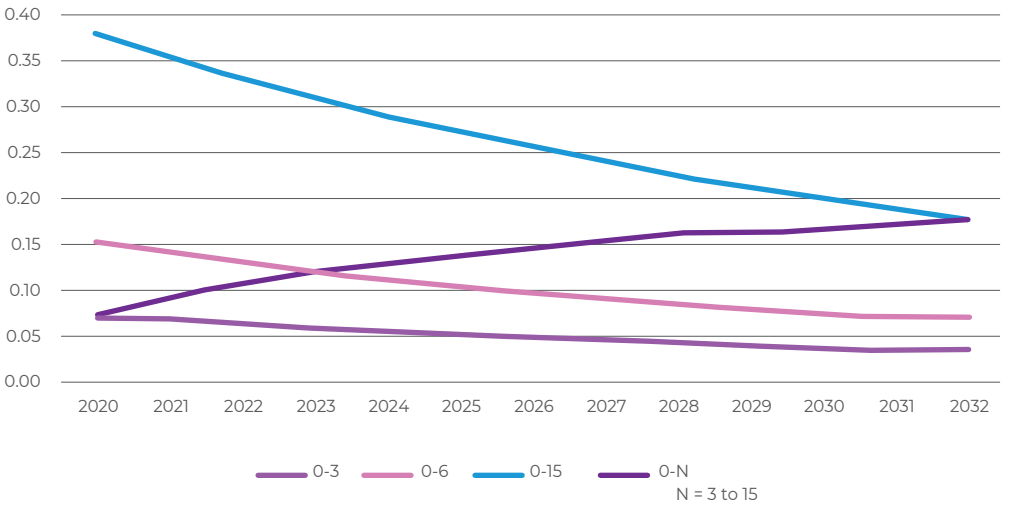
Source: Analysis of VHLSS 2016.

When the age of eligibility of the child is fixed, the costs of both tiers decline over time under all scenarios, in line with demographic projections. Costs increase under the hypothetical scenarios in which child/family benefits begin by covering children age 0–3 years, and progressively increase eligibility by 1 year each year – such that once a child was enrolled, he or she would be eligible until age 16 – eventually covering all children by 2032.

### 5.3.3.1. Tier 1 child/family benefits

Figure 5.5 shows the projected costs of a benefit-tested tax-financed child/family benefit for children whose parents are uninsured, set at VND140,000 per month per child, indexed to inflation starting in 2020. In general, the lower the age eligibility for children, the less costly the programme, while costs decline for all scenarios with a fixed age eligibility. Under the most generous scenario, which would cover all uninsured children aged 0–15 in the first year of the programme, costs would start at 0.38 per cent of GDP in 2020 but would decline rapidly to just 0.2 per cent of GDP in 2030. Covering children aged 0–3 years would cost only 0.07 per cent of GDP in 2020 and would decline to just 0.04 per cent of GDP by 2030. On the other hand, if the age of eligibility for the benefit progressively increased to cover all children by 2032 (scenario 0–N in the graph), the cost increases but would still be affordable at 0.17–0.18 per cent of GDP.

**Figure 5.5: Projected cost of a tax-financed child/family benefit, to 2030 (% GDP)**




Source: Projections based on administrative data and assumptions used for the VSS actuarial valuation.

### 5.3.3.2. Tier 2 – compulsory and voluntary child/family benefits

A tier 2 benefit paid at VND350,000 per month per child, indexed to inflation from 2020, would also be affordable under the scenarios considered. Previous research estimated that a contributory child/family benefit paid to all children aged 0–15 years at a rate of VND350,000 per month per child would initially require an additional contribution of 3.9 per cent of insurable earnings, gradually declining due to demographic projections to reach between 1.3 and 1.9 per cent of insurable earnings, depending on the assumptions used for the insurable earnings reference.

Similarly, figure 5.6 shows the projected costs of a tier 2 benefit as a percentage of insurable earnings, which represents the theoretical additional contribution rate that would be required to finance the benefit, for a per child/family benefit of equal value paid to children aged 0–3 years, aged 0–6, or aged 0–15 and gradually incorporating all children by 2032. Covering all children of insured workers would cost 3.4 per cent of insurable earnings in 2020 and decline rapidly to reach 1.5 per cent in 2030. A child/family benefit that gradually covered all children by 2032 would initially require an additional contribution of 0.7 per cent, gradually rising to stabilize around 1.3 per cent by 2025. Longer term costs would likely begin to decline as a result of demographic changes, reaching just 0.5 per cent by 2050.

The less generous scenario, in which contributory benefits are only paid to children aged 0–3 years, would cost less (0.7 per cent and falling to 0.3 per cent), but they would also have lower impact on households and social insurance coverage, as the preceding analysis has demonstrated.

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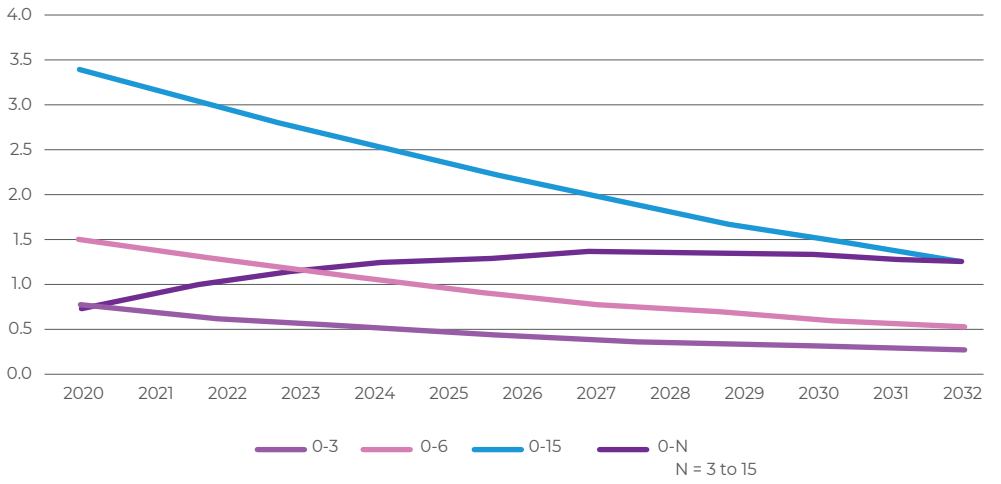
[50] See McClanahan and Gelders (2019).

[51] Note that the projected costs of the contributory component reflect the growth in coverage assumptions used in the recent actuarial valuation and do not take into account the potential additional growth that would likely result from the addition of a child/family or maternity benefit.

**Figure 5.6: Projected cost of a contributory child/family benefit, to 2030 (% insurable earnings, improved insurable earnings scenario)**



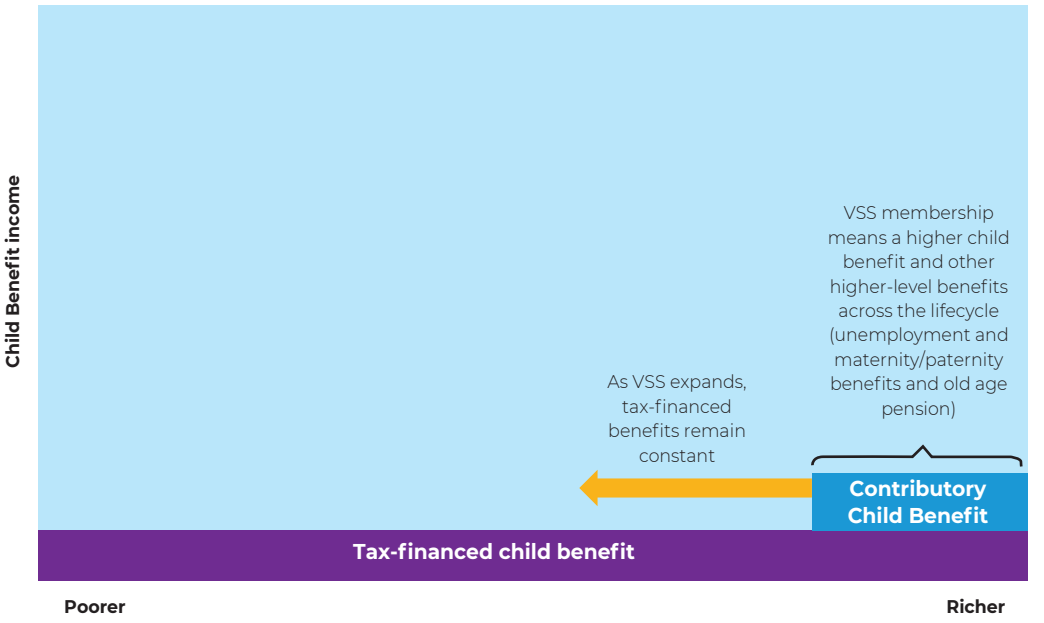

Note: The current declared level of insurable earnings is assumed to be equal to 60 per cent of total insurable earnings. Under the improved insurable earnings scenario, it is assumed to increase to 100 per cent of total insurable earnings over the period 2021–30 based on Resolution No. 27-NQ/TW. Source: Projections based on administrative data and assumptions used for the VSS actuarial valuation.

### 5.3.3.3. An alternative multi-tiered model

While the Government has strongly indicated a preference for following the benefit-tested model that the old age protection system employs, in light of the cost results above it is worth revisiting the more simple multi-tiered model explored in early research which proposed a universal tier 1 component.[52] Under this model, as shown in figure 5.7, a universal tier 1 benefit, financed from general taxation – a conventional child benefit – would be available to all children, regardless of their status vis-à-vis the labour market or social insurance, or indeed of their household's socio-economic status. A second, higher rate tier 2 benefit would be paid, in addition to the universal benefit, to those who contribute to the VSS, where the portion that exceeds the value of the universal benefit would be financed through members' contributions.

[52] See McClanahan and Gelders (2019).

**Figure 5.7 A multi-tiered child benefit with a universal tax-financed tier 1**




Source: Authors.

As mentioned earlier, the prevailing consensus among stakeholders is that raising the overall contribution rate for VSS membership is not politically feasible at the time. However, the results shown in figure 5.6 above indicate that the cost of tier 2 under the benefit-tested model would represent an additional contribution rate ranging from 0.7 per cent to 3.4 per cent of insurable earnings, for the 0–3 and 0–15 scenarios, respectively. It follows that this additional cost must be found from within existing contributions.[53] While analysing the space for cross-subsidization within existing contributions will require an updated actuarial valuation of all of VSS's current branches, it is clear that the lower the additional cost, the easier it will be to accommodate.

Within this context, a universal tier 1 presents a practical solution to lower the cost of the tier 2 component. Essentially, if a benefit of VND140,000 were financed for all children out of the State's budget, the benefit level to be financed through contributions would fall from VND350,000 to VND210,000. Table 5.6 below summarizes this proposal for the 0–15 coverage scenario.

[53] Financing all or part of tier 2 from Government revenues is not recommended by the ILO, as it would exacerbate existing inequalities in the current distribution of the public social protection budget, in favor of higher earning quintiles

**Table 5.6 Models for a potential multi-tiered child benefit branch**

| Model details | Contributory component | Tax-financed component |
|---|---|---|
| Benefit-tested system | | |
| Coverage | VSS compulsory insurance participants | Population not participating to VSS compulsory insurance |
| Benefit | VND350,000 + CPI from 2020 | VND140,000 + CPI from 2020 (Poverty line value) |
| Eligible age | 0–15 years old | 0–15 years old |
| Universal system | | |
| Coverage | VSS compulsory insurance participants | Population not participating to VSS compulsory insurance |
| Benefit | VND210,000 + CPI from 2020 | VND140,000 + CPI from 2020 (Poverty line value) |
| Eligible age | 0–15 years old | 0–15 years old |

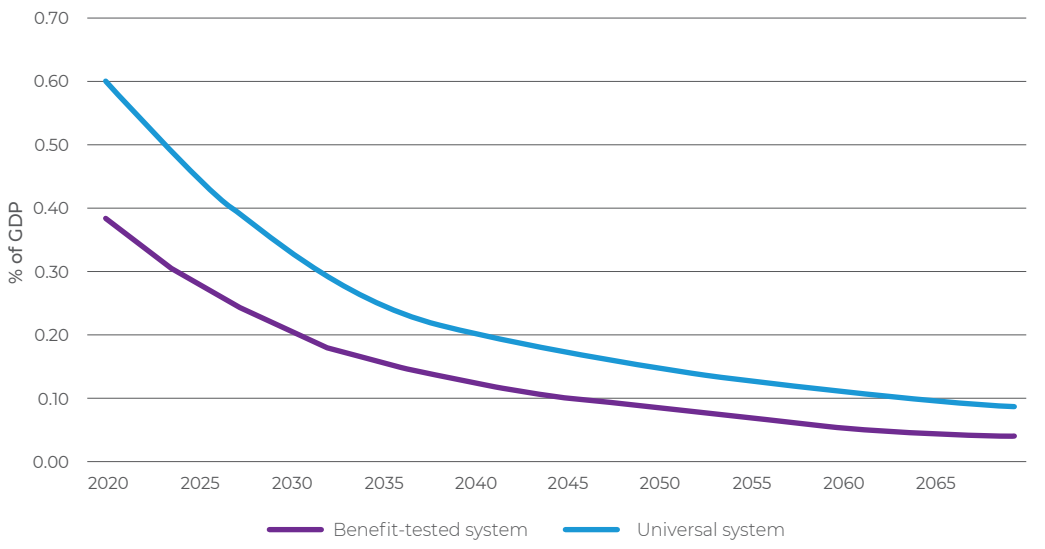
CPI = Consumer Price Index

Of course, the decrease in cost for tier 2 is translated into an increase in the cost of tier 1. The cost rate of tier 1 is presented as a percentage of GDP. Figure 5.8 shows the evolution of the cost for a universal child benefit set at a level of VND140,000 indexed to inflation from 2020 under two scenarios:

(1) a benefit-tested model, with the benefit payable to children under the age of 15 and not covered under the compulsory VSS regime (tier 2); and

(2) a universal model, with the benefit payable to all children under age 15.

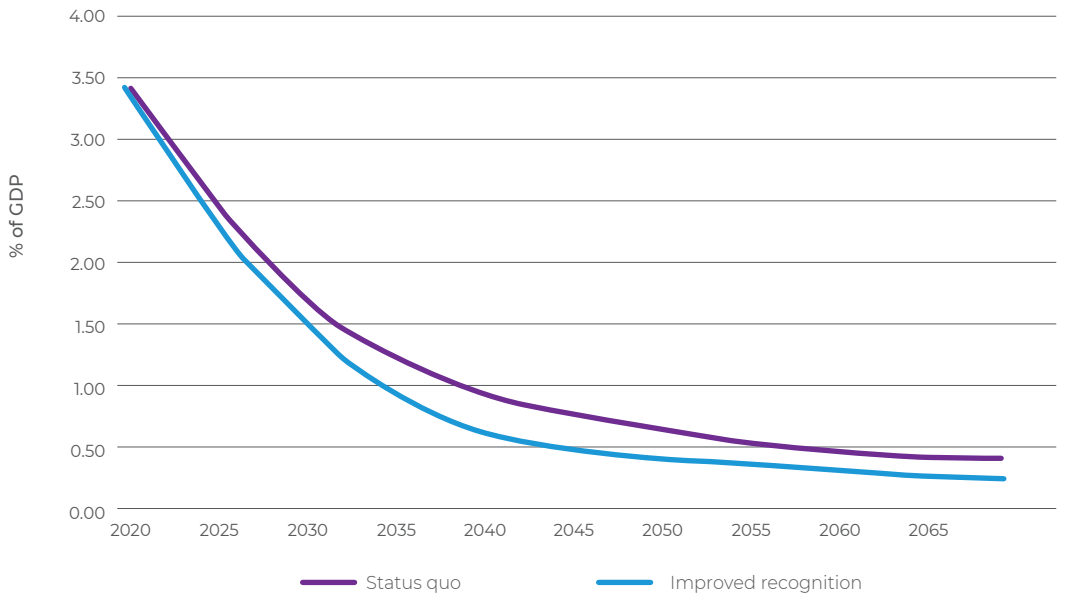
**Figure 5.8 Cost rate of tier 1 under benefit-tested and universal multi-tiered models (% of GDP)**



Compared to the benefit-tested tier 1, a universal child benefit of VND140,000 would cost 0.6 per cent of GDP in 2020. However, it is important to note how rapidly the cost decreases in both scenarios. Within just 10 years of implementation, the costs of tier 1 reduce by half. By the year 2040, even the universal option has fallen below 0.2 per cent of GDP.

The next two figures illustrate the evolution of the cost rate – the Pay As You Go rate (PAYG) – for tier 2 under the two options, namely VND350,000 under a benefit-tested model and VND210,000 under a universal model.[54] In the benefit-tested model, the PAYG decreases from 3.4 per cent in 2020 to 0.9 per cent in 2040.

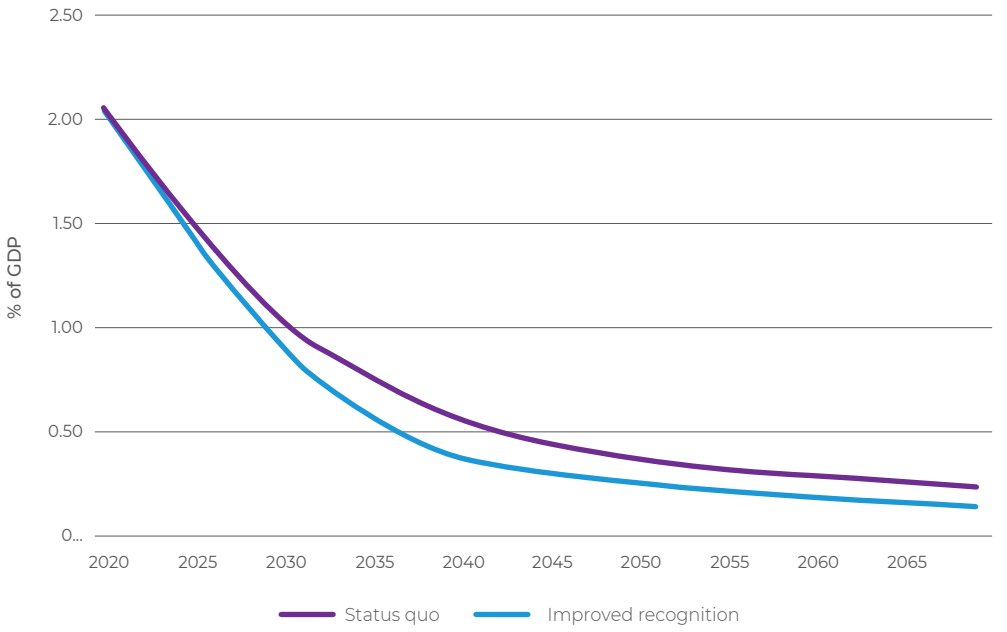
**Figure 5.9 Cost rate (% of insurable earnings) of tier 2 in a benefit-tested model (VND350,000 indexed to inflation from 2020 and payable to children under 15)**




For the universal model, the PAYG decreases from 2.0 per cent in 2020 to 0.6 per cent in 2040.

[54] Two scenarios of insurable earnings are provided, status quo and improved recognition of insurable earnings, as per the ongoing discussions of the social insurance system. Emphasis is placed on the results of the status quo scenario.

**Figure 5.10 Cost rate (% of insurable earnings) of tier 2 in a universal model (VND210,000 indexed to inflation from 2020 and payable to children under 15)**




As shown above, the cost rate expressed by PAYG decreases sharply over the first 20 years before following a much slower decreasing trend. It is important to keep this long-term evolution of cost in mind as it places the results for 2020 into context. Similarly to the situation in tier 1, in just 10 years of benefit implementation, the total cost of tier 2 will have reduced by half.

### 5.3.3.4. Setting the contribution rate for tier 2

The contribution rates presented above have been calculated via the PAYG finance system. Under this system, current contributions are estimated to meet current expenditures on benefits and administration. Child benefits are considered a short-term benefit since the liability is payable immediately after the contribution begins. In an attempt to provide inputs for setting a contribution rate for tier 2, the projection period has been expanded to consider the ongoing maturing state of the social insurance system in Vietnam.[55] There is also another cost indicator commonly used to calculate contribution rates of long-term benefits, namely the general average premium (GAP). The GAP represents the constant contribution rate that would be adequate to meet the disbursement of the scheme over a specific period.[56]

The PAYG usually follows an increasing trend in long-term branches. In such an environment, a constant contribution rate set equal to the GAP over a specific period would generate income surplus in earlier years and allow for an accumulation of

[55] We use the 2018–2150 projection period of the actuarial valuation of long-term benefits administered by the VSS because this provides a ready-made framework for the assumptions.

[56] It is calculated by the ratio of (1) the present value of projected future benefits and administrative expenses for existing and future insured persons and beneficiaries minus the value of the existing reserve at valuation date over (2) the present value of projected future insurable earnings of insured persons (existing and future insured persons).

reserves that would absorb the shortfall in the later years of the period. In the contrary, the PAYG of the potential child benefit follows a decreasing trend, as shown in the preceding subsection. A constant contribution rate established at a level lower than the PAYG rate during the earlier years would result in a deficit (contribution income lower than benefit expenditure). It is crucial to identify beforehand the source of funds to cover this deficit.

As a thought exercise, the GAP of the potential child benefit has been calculated over three different time periods to estimate the level of constant contribution rate required for each period and identify the extent of deficits and surpluses that the future financing policy will have to handle:

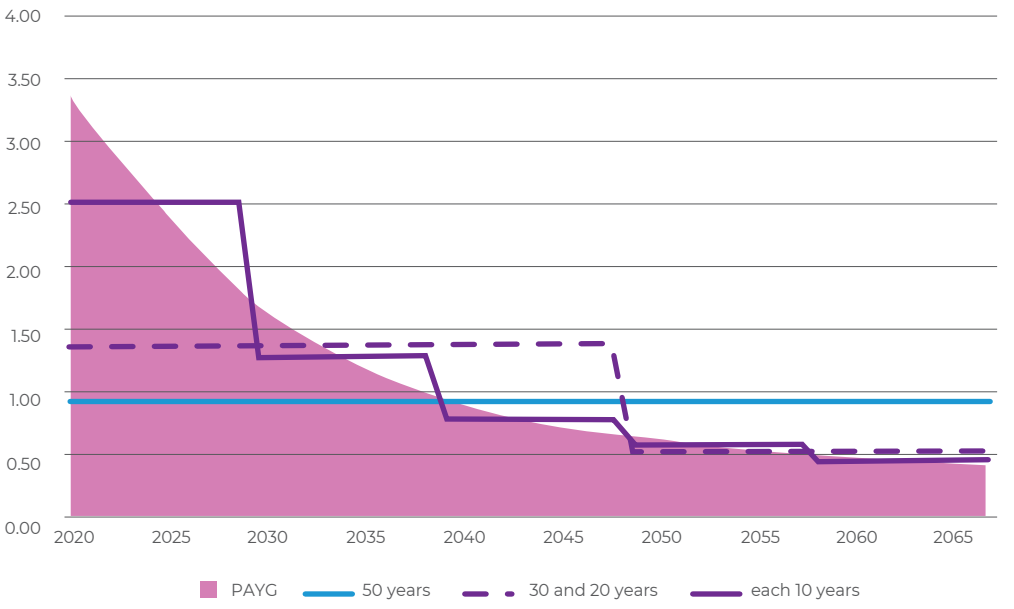
(1) a constant rate over 50 years (2020–69);

(2) a constant rate over two periods of 30 and 20 years (2020–69 and 2070–89); and

(3) a constant rate for each period of 10 years from 2020.

For illustrative purposes, the GAP is calculated for tier 2 under the benefit-tested model (VND350,000 indexed to inflation from 2020 and payable to children under the age of 15). Figure 5.11 shows the PAYG and GAP calculated under these three scenarios of constant contribution rate.

**Figure 5.11 Tier 2 – PAYG and GAP determined over different projection periods (% of insurable earnings under status quo)**

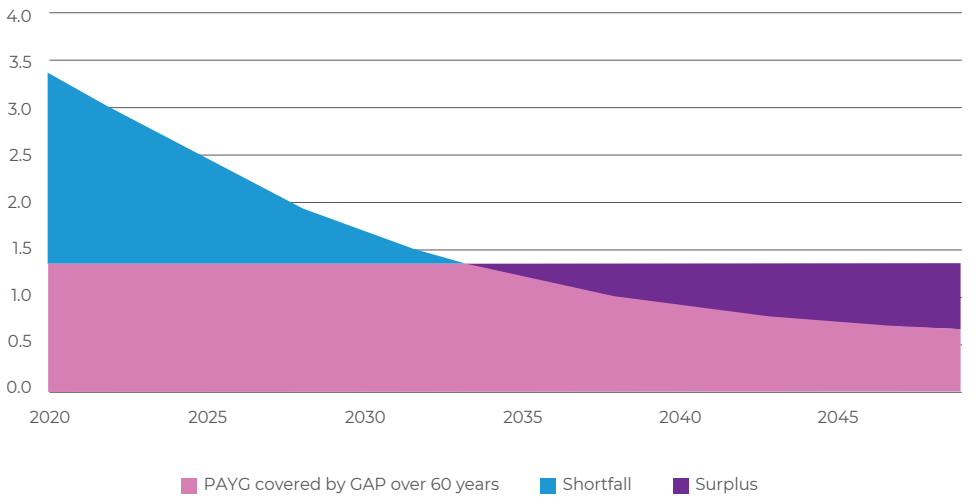



As the chart shows, given the decreasing pattern of the PAYG, the longer the period used to calculate the GAP, the lower the GAP would be. In a decreasing PAYG environment, a contribution rate set constant over a specific period would generate a deficit in earlier years (contribution income less than benefit expenditure) and excess in later years of the period. The source of funds to cover this deficit, as well as the terms and conditions to handle the deficit and surplus, would need to be established in advance.

Temptation may be strong to set the contribution rate at a constant 1.4 per cent during

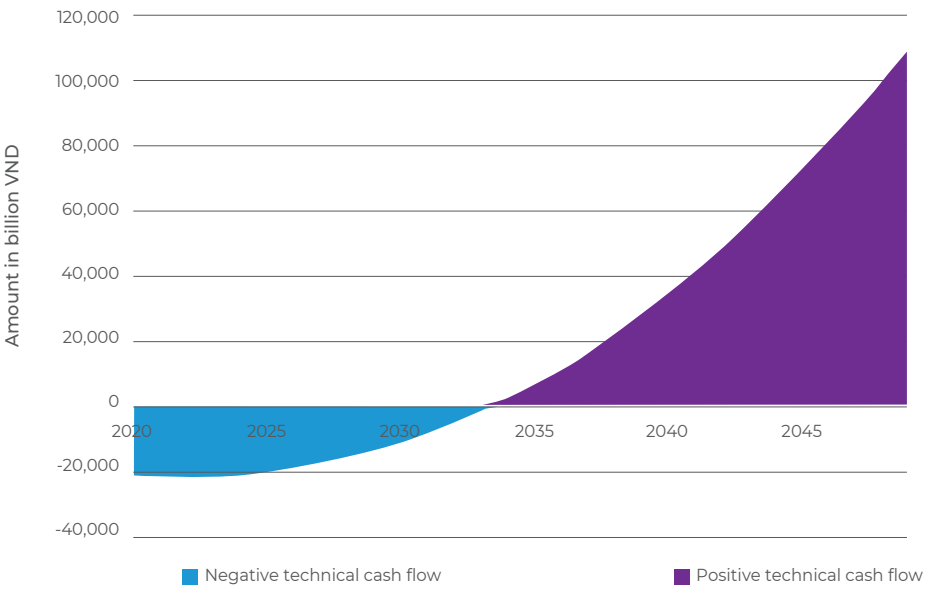
the first 30 years of the benefit.[57] The analysis below outlines the implication of this scenario. Figure 5.12 and figure 5.13 below show the surplus and deficit in terms of contribution rate and cash flow, respectively.

**Figure 5.12 Tier 2 – GAP determined over 30 years, deficit and surplus to cover PAYG (% of insurable earnings under the status quo scenario)**




Under a scenario of a constant contribution rate equal to the GAP (1.4 per cent) over 30 years, the contribution income is less than the benefit expenditure during the first 14 years: the technical cash flow equal to contribution income minus benefit expenditure is negative. The technical cash flow is positive and increasing during the last 16 years of the period.

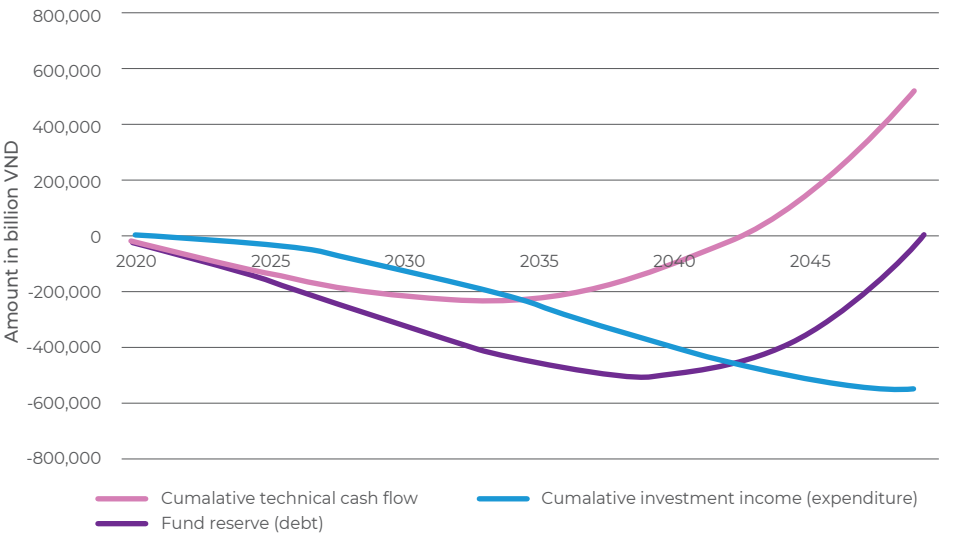
**Figure 5.13 Contribution rate equal to GAP over 30 years (based on status quo scenario) – Technical cash flow (contribution income minus benefit expenditure)**




[57] Under the improved recognition of insurable earnings scenario, the GAP for a 30 year period goes down to 1 per cent of insurable earnings.

In theory, the deficit during the first half of the period can be financed through borrowing from a source external to the child benefit fund, thus creating a debt to the contributory component of the child benefit (a negative fund). The debt is gradually paid off during the following years of the period using the positive technical cash flow (the fund reaches 0 at the end of the period). This borrowing-reimbursement mechanism implies that negative technical cash flow would generate interest expenditure while positive technical cash flow would generate investment income.

**Figure 5.14 Contribution rate equal to GAP over 30 years (based on insurable earnings with improved recognition) – fund evolution**




Advocates for setting a constant contribution rate equal to the GAP in a decreasing PAYG environment should bear in mind the following issues.

- The GAP value is determined based on a set of assumptions. It needs to be monitored as experience of the child benefit unfolds. Actuarial valuations performed at regular intervals allow for the required adjustments to be determined.
- Political will must be present to enforce the funding policy.
- The terms and conditions on how to finance the deficit through borrowing and recognition of debt must have legal force.
- Performance accounting systems and databases must exist to establish financial statements by benefit funds.

Overall, although this type of funding will seem attractive to policy-makers limited by the impossibility of raising contribution rates, its implementation represents a great challenge because it is subject to political pressure over time.

For example, when the financial situation of the fund changes from deficit to surplus and the time has come to repay the accumulated debt to the other funds, there might be strong pressure from workers and employers to increase benefit levels. Politicians of the moment may not feel bound by past commitments of repayment.

Should the implementation of the 1 per cent flat contribution rate move forward, it is crucial that all parties understand the issues and the legal documents required to ensure the mechanism is clear and precise.

### 5.3.3.5. Summary of costs

This section presents the cost estimate of a potential child benefit branch following two different multi-tiered models (benefit-tested and universal) which would provide a benefit equal to VND140,000 indexed to inflation from 2020 to all children under the age of 15, and VND350,000 to children under the age of 15 whose parents are VSS members. The cost rate of tier 2 is expressed as a percentage of insurable earnings while the cost rate of tier 1 is expressed as a percentage of GDP. Figure 5.15 and figure 5.16 show the evolution of costs across both components in each model:

- Compulsory component: VND350 000 indexed to inflation from 2020 and payable to children under age 15; cost rate in per cent of insurable earnings with improved recognition under status quo scenario
- Tax-financed component: VND140 000 indexed to inflation from 2020 and payable to children under age 15 who are not covered under contributory component; cost rate in per cent of GDP

**Figure 5.15 Cost rates under a benefit-tested model**

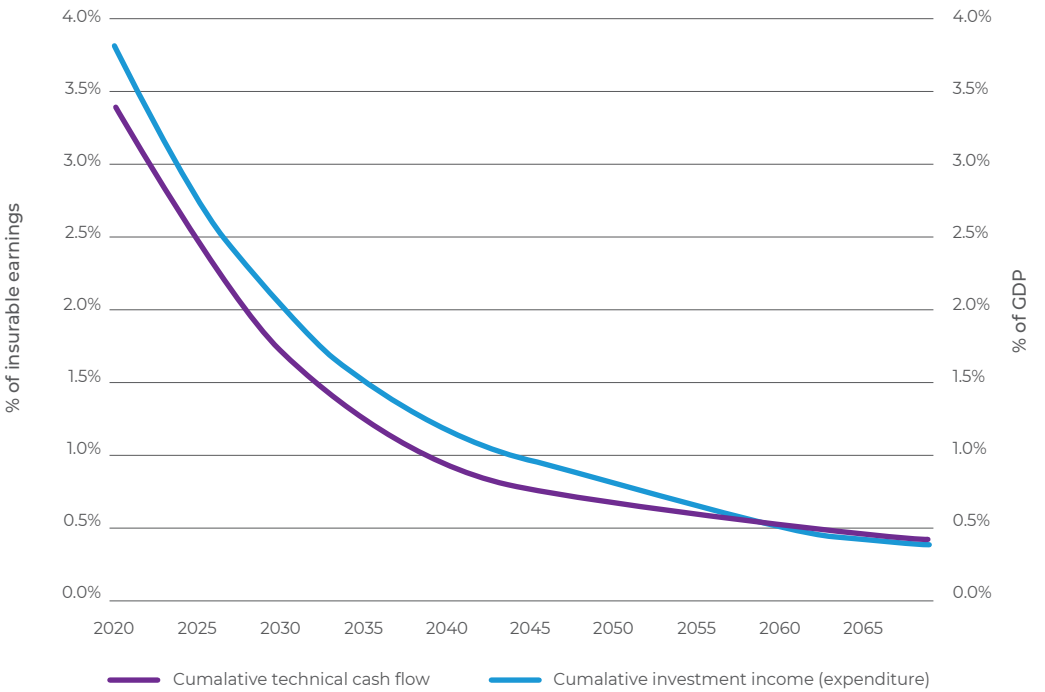
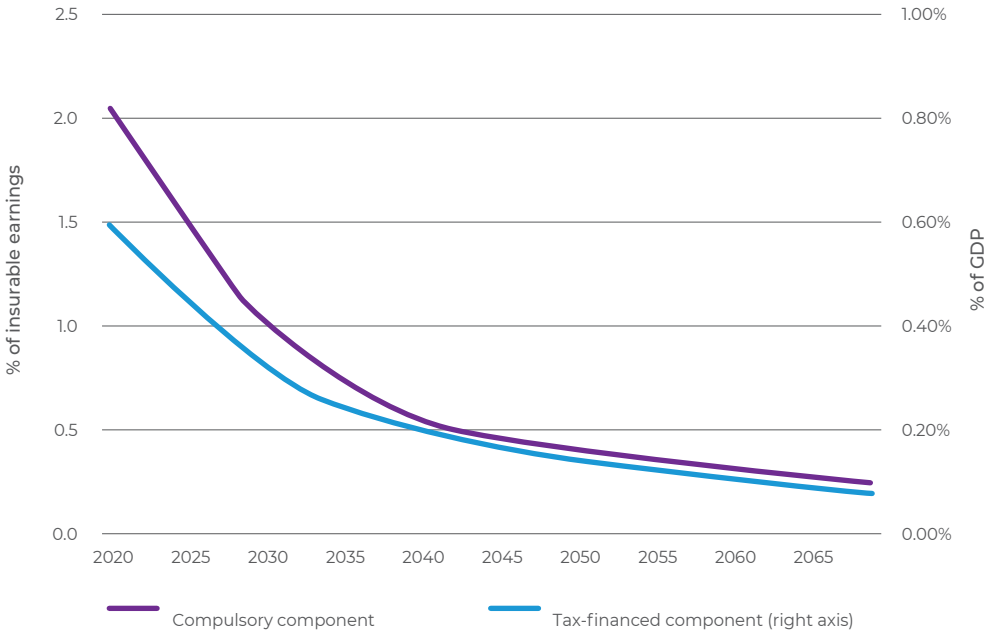


**Figure 5.16 Cost rates under a universal model**




Note: In the compulsory component, VND210,000 is indexed to inflation from 2020 and payable to children under age 15; the cost rate is in per cent of insurable earnings under the status quo scenario. In the tax-financed component, VND140,000 is indexed to inflation from 2020 and payable to all children under age 15; the cost rate is in per cent of GDP.

## 5.4 Component 2: Maternity and paternity benefits

### 5.4.1 Description and parameters

The vast majority of Vietnamese couples who are growing their families are currently going without one earner when a new baby arrives and must rely on family support systems. However, societal and economic transformations have weakened these private systems of support.

Adding a maternity and paternity benefit to the voluntary insurance system will not only help to correct the existing imbalance in entitlements between the voluntary and compulsory systems, it also has the potential to make the system more attractive to young self-employed couples who are considering having a child. However, previous analysis suggests that, on its own, adding a maternity/paternity benefit to the voluntary scheme is unlikely to be sufficient to overcome the obstacles currently facing uninsured non-wage earners. Most young families, and especially those working as non-wage earners, are not in a position to pay close to 30 per cent of their earnings to join a voluntary scheme, though certainly some will.

To account for the millions of young working couples who would not be able to afford a voluntary (or compulsory) social insurance contribution, we explore the potential for a multi-tiered maternity benefit that ensures the right to income protection during maternity for all, while preserving the incentive to join social insurance by offering a higher-value tier 2 benefit, as follows:

- **Tier 1 maternity benefit** – VND700,000 per month is paid for four months from childbirth or adoption.
- **Tier 2 voluntary maternity benefit** – 100 per cent of the insured woman's previous declared insurable earnings is paid for 6 months from childbirth or adoption.[60]

As with the proposed child/family benefit, the analysis assumes that any additional contribution that would be required to finance a tier 2 voluntary maternity benefit would not be financed from an overall increase in the total contribution rate, but rather sourced from alternative financing arrangements.[61] Nevertheless, the projected costs as a percentage of insurable earnings are given in Section 5.4.3.2.

## 5.4.2 Potential effects

Because the proposed maternity benefits are intended to replace lost earnings due to childbirth or adoption, the impacts of a maternity benefit on recipient families are likely to be significant.[62] However, if implemented as a stand-alone policy, the overall impacts of a maternity benefit on the system are likely to be relatively small, reflecting the small size of the population of parents of newborns.

Analysis of the VHLSS 2016 indicates that, overall, around 970,000 female workers had given birth in the year preceding the survey, representing just under 4 per cent of adult female workers. Of those non-wage earners who would be eligible for the voluntary system, the proportion is even smaller; just 3 per cent had newborns in the last year, as shown in table 5.7.

**Table 5.7: Proportion of workers with newborns (2016)**

| Type of worker | Percentage with child under age 1 |
|---|---|
| Insured wage earners | 7 |
| Uninsured wage earners | 3 |
| Non-wage earners | 3 |
| Total | 4 |

Source: Analysis of VHLSS 2016.

The proportion of workers with newborns rises to around 10 per cent among female workers in their twenties (figure 5.17). Likewise, just over 1 million male workers had a newborn in the last year, with a similar age-pattern, suggesting that a maternity or paternity benefit might appeal to a broader group within this age category, but the absolute numbers are still quite small.

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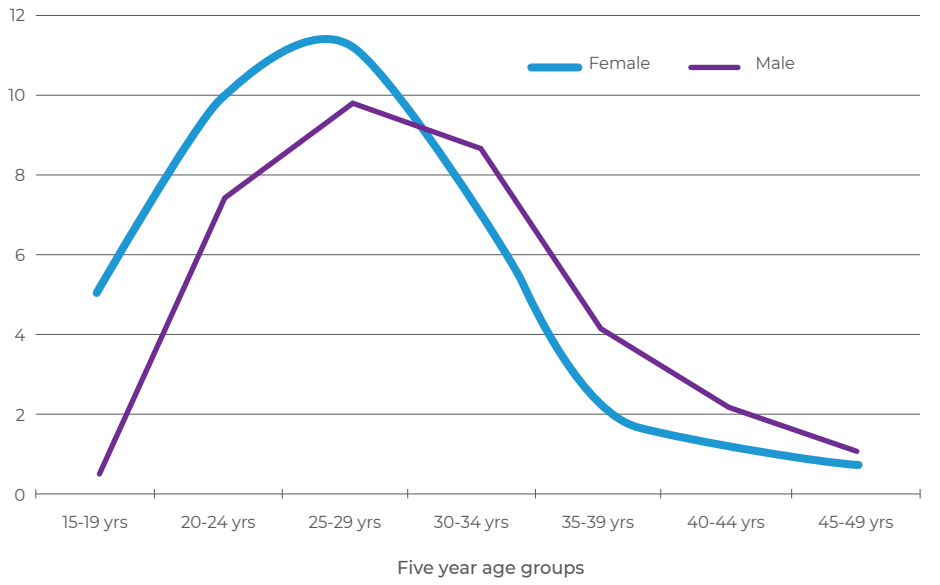
[60] The specific eligibility conditions and payment regulations should mirror the maternity scheme in the compulsory system.

[61] Previous analysis has suggested that the additional contribution would be between 1 and 1.5 per cent of earnings. See Doan-Trang Phan (2019a).

[62] As a point of reference, the current social pension, which is also intended as a basic income replacement benefit, is paid at VND270,000 a month.

**Figure 5.17: Percentage of adult workers with an infant (under one years), by sex and age**




Source: Analysis of VHLSS 2016

Due to the small size of the potential beneficiary population, reflected in the small sample of parents of newborns in the VHLSS, it is not possible to simulate the impacts of either tier 1 or tier 2 maternity benefit on beneficiaries and their families. In particular, because we do not know the target mothers' decisions about labour market participation following childbirth or adoption and how this may have affected their income, we cannot make statistical inferences about the effects of a maternity benefit.

However, we can say that, as a benefit that is intended to replace lost earnings, the tier 2 benefit would have a large effect on new parents, who would be able to maintain their standard of living during the six months following childbirth/adoption. Also, the tier 1 benefits, set at the poverty line, would ensure that no woman in Viet Nam who gives birth or adopts a child would (independently) fall into poverty as a result of having a child.

Likewise, even though the system-wide impacts on coverage and household welfare of a voluntary maternity package would be relatively small, the impacts are potentially much greater if it is implemented alongside a child/family benefit with a substantially larger beneficiary population. Similarly, a voluntary maternity benefit implemented on its own risks instituting adverse selection, where potential new parents join only for the period up to and including childbirth and then drop out after the period of paid leave. However, if parents can also expect to receive a longer term child or family benefit in the years following childbirth, potentially as long as the child is their dependant, the risk of adverse selection associated with the maternity benefit is neutralized.

For this reason, packages 1 and 2, which pair the maternity benefit with a child/family benefit, hold the most promise for maximizing the gains from this component.

## 5.4.3 Projected costs

A multi-tiered maternity benefit that included a new tier 2 maternity/paternity benefit for the voluntary system and a tax-financed maternity benefit for those who are not able to

make social insurance contributions would also seem to be affordable. The parameters presented in the cost projections are described in table 5.8.

**Table 5.8: Parameters for cost projections of a multi-tiered maternity benefit**

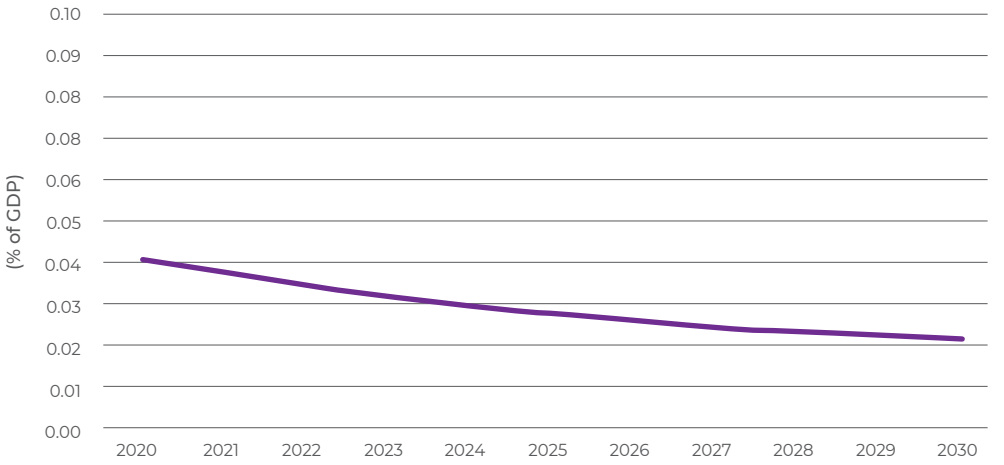
| Multi-tiered maternity benefit component | Value | Eligible population |
|---|---|---|
| Tier 1 | VND700,000 per month for 4 months | All future uninsured parents of newborns |
| Tier 2 | 100% of previous declared earnings for 6 months | All future parents of newborns assumed to be covered under the voluntary system[1] |

[1] Note that the assumptions about the likely covered population of the voluntary system do not consider the additional potential growth that might occur as a result of the addition of a maternity benefit or a child/family benefit.

### 5.4.3.1. Tier 1 maternity benefits

A maternity benefit provided at 100 per cent of the rural poverty line for four months to all uninsured mothers of newborns would cost less than 0.04 per cent of GDP in 2020, declining to 0.02 per cent of GDP in 2030, as shown in figure 5.18.

**Figure 5.18: Projected cost of a tier 1 maternity benefit, to 2030 (% GDP)**



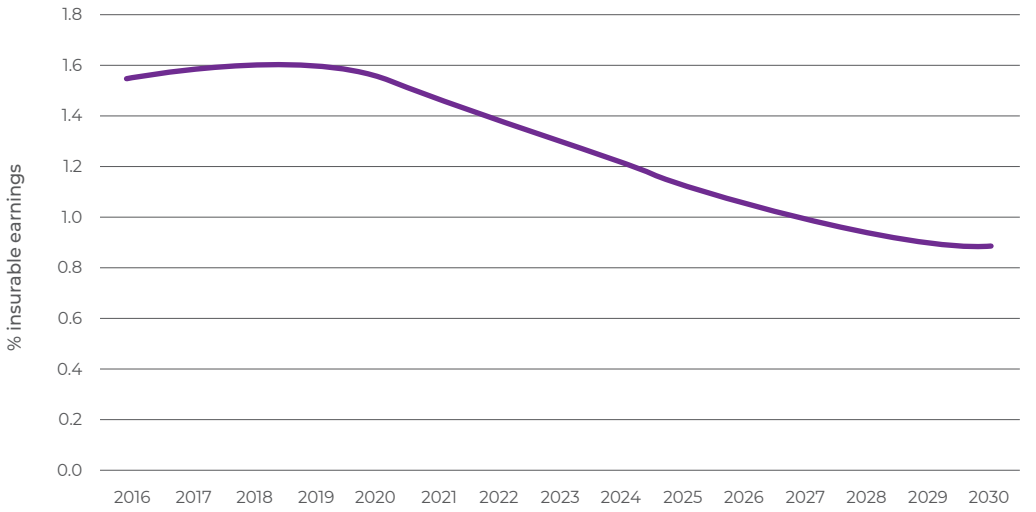

Source: Projections based on administrative data and assumptions used for the VSS actuarial valuation.

### 5.4.3.2. Tier 2 voluntary maternity benefits

Based on extrapolations of the population currently insured under the voluntary system, a maternity/paternity benefit paid under the voluntary system under equivalent parameters to those offered under the compulsory system would cost around 1.6 per cent initially, declining to 0.9 per cent of insurable earnings by 2030, as shown in Figure 5.19.[63]

[63] Because of demographic projections, the costs would then begin to rise again after this date. These costs are lower than the costs of financing the maternity/paternity benefit under the compulsory system due to the older cohort insured in the voluntary system but could change if the underlying demographics of the voluntarily insured population were to change, for example, as a result of the introduction of a child/family benefit. For detailed explanation of the assumptions used to project the costs of a voluntary maternity benefit, see Doan-Trang Phan (2019a). The relevant section from Doan-Trang Phan (2019a) is included as Annex III.

**Figure 5.19: Projected cost of a tier 2 voluntary system maternity benefit**




Source: Projections based on administrative data and assumptions used for the VSS actuarial valuation.

## 5.5 Component 3: Supporting employers

Currently, wage earners working for unregistered establishments or for firms that have not registered their employees are unable to join social insurance through no fault of their own. However, employees are not the only ones who benefit from social insurance. Employers also stand to gain from a more productive workforce, where, for example, a multi-tiered child or family benefit could also be seen as an implicit subsidy for employers, to the extent that it raises the incomes of working families, many of whom are low-income wage earners.

Enforcing compliance among those enterprises that can clearly afford to pay but are evading should be a top priority, and indeed efforts are underway to strengthen penalties and monitoring.[64] However, many enterprises, particularly microenterprises employing fewer than 10 employees, may struggle to afford contributions, which represent 21.5 per cent of payroll. In fact, administrative data suggests that most cases of late payment and withdrawal from social insurance are in small and medium-sized enterprises.[65]

Partly for this reason, the Government of Viet Nam is considering a reduction or exemption of corporate income tax for a limited period.[66] In conjunction with this, the Social Security Department is considering allowing newly established microenterprises to be exempt from the old age and survivors' fund (representing the largest contribution) for up to two years.[67]

However, newly established microenterprises not only make up a relatively small number of microenterprises, but they are also administratively difficult to track. Therefore, a potentially simpler and wider reaching measure could be to exempt all

[64] See VSS (2018).

[65] MOLISA's official response to the Ministry of Finance (2019) draft resolution to allow tax breaks for certain SMEs.

[66] Ministry of Finance (2019), draft resolution to allow tax breaks for certain SMEs.

[67] MOLISA's official response to the Ministry of Finance (2019) draft resolution to allow tax breaks for certain SMEs.

microenterprises from taxes for up to 2 years, during which time they are offered support in becoming compliant with social insurance obligations. Research into the specific contours of employer support policies and their potential impacts are outside the scope of this analysis, but nevertheless represent a crucial tool for ensuring the incorporation of uninsured wage earners.

## 5.6 Component 4: Contribution subsidies for voluntary insurance

### 5.6.1 Description and parameters

Previous research and the preceding analysis suggest that contributions to the voluntary system are prohibitively expensive for a large proportion of non-wage earners. It follows that a reduction in the contribution rate – a subsidy – might be required if the system is to be affordable or appealing for this group of workers.

In recognition of this, the Government currently has a system of subsidies for the voluntary system, as set out in Decree 134/2015/ND-CP of December 29, 2015, which pays 30 per cent of the rural poverty line (VND700,000/month) for persons living in poor households, 25 per cent for persons in near-poor households and 10 per cent for all others. The National Assembly is considering raising these levels to 50 per cent, 45 per cent and 30 per cent, respectively.

However, in a multi-tiered social protection system that ensures basic income security for those who are unable to participate in social insurance and higher level benefits for those who pay contributions, the Government must set priorities and make difficult choices about where to expend scarce resources. Extending social insurance coverage is clearly a top priority, but if doing so requires large public investment, it is worth asking whether there might be a more efficient use of the resources, such as strengthening the first tier. Alternatively, the resources could be used to finance the addition of multi-tiered benefits, provided the financing mechanism is equitable.

We also explore the potential effects and costs of a subsidy model that would "flatten" the current three-tiered subsidy system to a flat rate subsidy of 25 per cent of contributions for all non-wage earners, regardless of their income.

### 5.6.2 Potential effects

Averaged across all workers, the mean welfare loss of paying contributions into the VSS voluntary regime is 8.5 percent. When applying the current system of contribution subsidies for those in the voluntary system, the average welfare loss would reduce slightly to 7.5 per cent. Implementing the higher subsidy contributions discussed in the National Assembly would bring the welfare loss down to 6.4 per cent, on average; while with the flat rate subsidy for all insured workers, the average reduction in household per capita income would be 7.5 per cent. As indicated in table 5.9, the relative impact differs significantly depending on workers' status in the labour market.

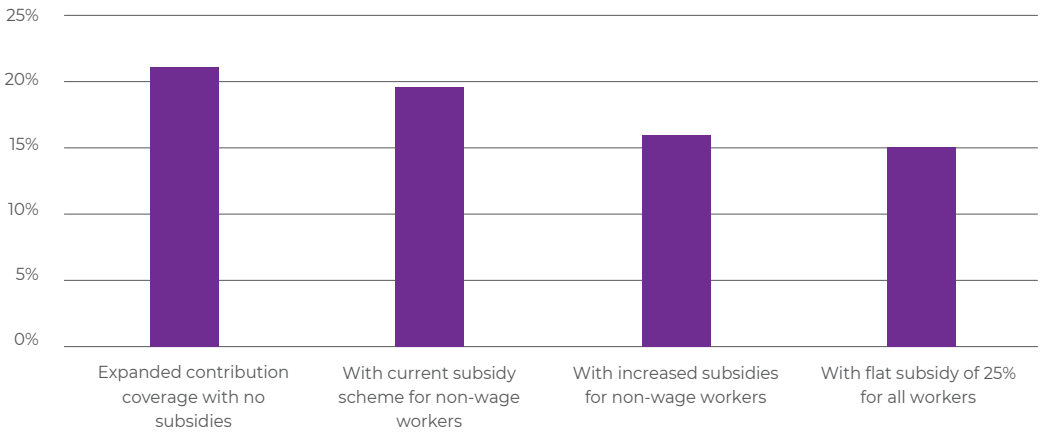
**Table 5.9: Simulated average effect on welfare (measured as the percentage change in per capita household income) from paying social insurance contributions under different subsidy regimes**

| Population details | No subsidies | Current subsidy scheme for non-wage workers | Increased subsidies for non-wage workers | Flat subsidy of 25% for all non-wage workers |
|---|---|---|---|---|
| Workers | | | | |
| Insurable wage workers | −8.8 | −8.8 | −8.5 | −8.7 |
| Insurable non-wage workers | −17.6 | −13.6 | −9.6 | −13.7 |
| Uninsurable workers | −3.1 | −3.0 | −2.9 | −3.0 |
| All workers | −8.5 | −7.5 | −6.4 | −7.5 |
| Parents | | | | |
| Insurable wage earning parents | −8.3 | −8.4 | −8.2 | −8.3 |
| Insurable non-wage parents | −18.5 | −13.4 | −9.4 | −14.2 |
| Uninsurable working parents | −3.4 | −3.3 | −3.1 | −3.2 |
| All working parents | −8.2 | −7.2 | −6.3 | −7.3 |
| Other population groups | | | | |
| Children up to 15 | −8.3 | −7.3 | −6.3 | −7.4 |
| Total population | −8.1 | −7.2 | −6.2 | −7.2 |
| All households | −7.7 | −6.9 | −5.9 | −6.8 |

Source: Analysis of VHLSS 2016.

As indicated earlier, if all insurable workers were to start contributing to the VSS, the estimated share of workers living below MOLISA's near-poverty line would rise from 13.4 per cent to 16.4 per cent, representing a relative increase of 22 per cent when compared with the status quo. Figure 5.20 shows the aggregate effect on the near-poverty headcount rate among adult workers under the three subsidy regimes.

**Figure 5.20: Relative increase in the near-poverty headcount rate among the adult working population, when compared to the status quo (%)**




Source: Analysis of VHLSS 2016.

Table 5.10 shows the percentage of the non-wage earning working population that would be classified as technically insurable before and after the implementation of the three subsidy regimes under consideration. The current subsidy (30 per cent if living in poor households; 25 per cent if in non-poor households; and 10 per cent for all others) is having a negligible difference on the size of the insurable population, increasing it by just 1.5 percentage points. While the higher rate subsidy regime currently being considered by the National Assembly – which would raise the existing subsidies to 50 per cent, 45 per cent and 30 per cent, respectively – would effectively bring the total size of the technically insurable non-wage earning population to its pre-contribution levels, the flat rate reformed subsidy scenario we considered would not make up for the negative impacts of a contribution on the size of the insurable non-wage workforce. The subsidy regimes show a similar pattern with respect to their overall impact on the size of the technically insurable working age population.[68]

**Table 5.10: Percentage of non-wage workers and all workers 15+ years classified as technically insurable using different reference bases to assess their capacity to contribute to VSS**

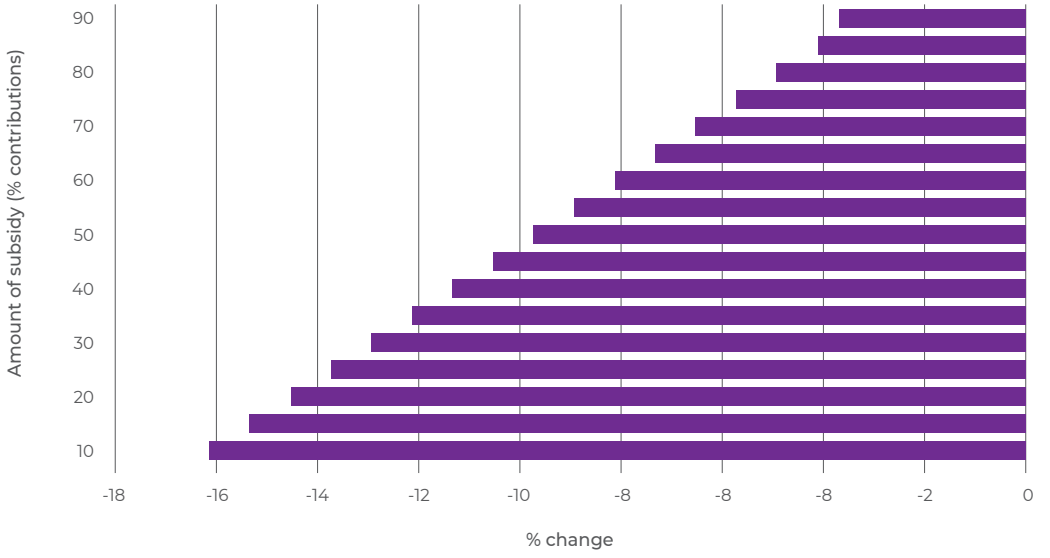
| Reference base to assess capacity to contribute to VSS | Percent of non-wage workers | Percent of all workers 15+ years |
|---|---|---|
| Pre-VSS earnings | 44.7 | 61.9 |
| Post-VSS earnings | 36.1 | 55.8 |
| Post-VSS earnings, with subsidy for non-wage workers | 41.5 | 58.8 |
| Post-VSS earnings, with increased subsidy for non-wage workers | 44.7 | 60.7 |
| Post-VSS earnings, with flat subsidy for all non-wage workers | 38.5 | 57.2 |

[68] The overall technically insurable working age population includes currently insured workers and uninsured workers classified as potentially insurable.

Because a general flat subsidy of 25 per cent of contributions for non-wage earners was ineffective in addressing welfare losses or increasing the size of the potentially insurable population, we examined a range of flat rate subsidies to try to identify a "tipping point" at which subsidies might achieve meaningful gains. Figure 5.21 shows the simulated average effect on household welfare of non-wage earning workers who join VSS and receive a flat rate contribution subsidy, ranging from 10 per cent to 90 per cent of the contribution owed. Even under a 90 per cent contribution, workers would experience an average welfare loss of about 3.3 per cent of their per capita household income.

While estimates of take up related to the subsidy are not possible, we would expect the subsidy to mitigate the impact on poverty of expanding the contributing population. We explored the potential effects of a range of flat rate subsidies on the near-poverty headcount rate among all adult workers. As illustrated in figure 5.22, if the subsidy were only 5 per cent, for example, then the near-poverty rate would increase by 17.6 per cent compared with the current status quo. To contain the relative increase in the near-poverty rate to below 5 per cent, the subsidy would have to cover at least 90 per cent of the contribution.

**Figure 5.21: Mean welfare effect (measured as the change in household per capita income) on non-wage workers moving into voluntary system and receiving a flat rate subsidy**




Source: Based on VHLSS 2016.

**Figure 5.22: Simulated increase in the near-poverty headcount rate among all adult workers, according to subsidy amount in the flat rate voluntary system subsidy egime (%)**


## 5.6.3 Projected costs

In recognition of the excessive welfare burden imposed by the high contribution rates in the voluntary system, we have proposed considering "flattening" the existing subsidy system – which currently includes three tiers of subsidies, for the poor, near-poor, and all others – into a flat rate subsidy for all members of the voluntary system.

We estimate the cost of the current subsidy mechanism and the proposed increase being considered in the National Assembly. We also compare this with the potential cost of a flat rate 25 per cent subsidy for all persons insured under the voluntary system and evaluate the impact of a new contribution subsidy on the size of the potentially insurable population.

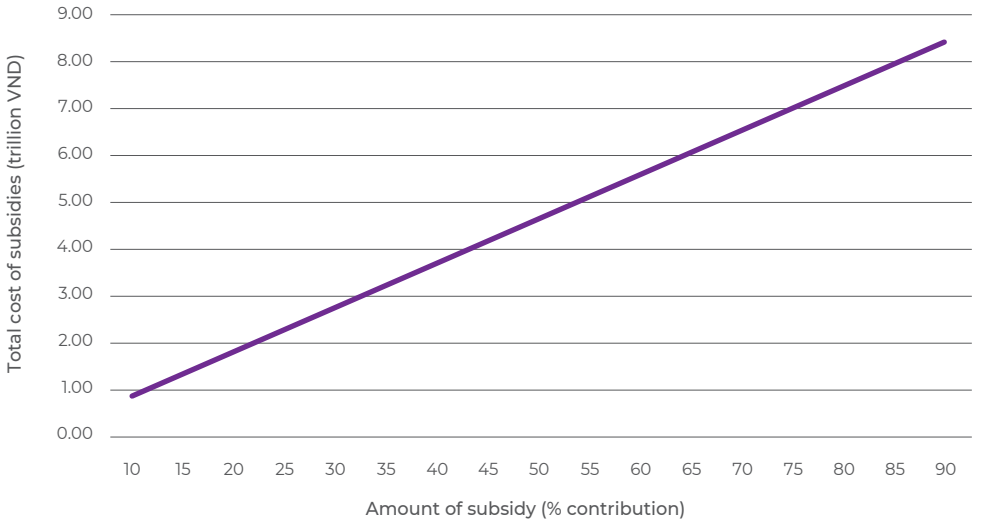
We extrapolated the estimated cost for the subsidy contributions from the VHLSS 2016 survey data. This entailed calculating the value of the subsidy provided to each individual, insurable non-wage worker, and then producing a weighted sum using the survey weights to account for the sampling design and make the information representative for the whole population. The estimates should be treated with caution but provide an indication of the magnitude and expected change in the required budget when tweaking the subsidy parameters. They are expressed in 2016 prices (i.e. not inflated to current price levels):

- VND3.82 trillion (0.08 per cent of GDP in 2016) if all insurable non-wage earners moved into the voluntary system and received the existing subsidy contributions, equivalent to;
- VND9.51 trillion (0.21 per cent of GDP) if the increased subsidy rates being considered in the National Assembly were implemented; and
- VND2.33 trillion (or 0.05 per cent of GDP) for a flat rate 25 per cent subsidy for all persons classified as insurable under the voluntary system.

A focus on families: A short-term benefit package for the extension of multi-tiered social security coverage in Viet Nam

In addition, we estimated the costs of a range of flat rate subsidies. As shown in figure 5.23, implementing a flat rate subsidy of 50 per cent of the voluntary contribution would cost the Government more than VND4.5 trillion, while those who would enter the system would still incur an average welfare loss of 10 per cent (see figure 5.21) and would still leave a relative increase in the near-poverty headcount by almost 10 per cent (figure 5.22).

**Figure 5.23: Total cost of a flat rate voluntary system subsidy regime (trillion VND)**




The results of the preceding analysis suggested that none of the three subsidy regimes considered – the existing regime under Decree 134, the one under discussion in the National Assembly, nor the alternative proposed based on stakeholder consultation – would appear to be effective in substantially altering the size of the potentially insurable non-wage earning population. Similarly, achieving a significant reduction in the welfare losses of a contribution would require a high level of investment – around 0.2 per cent of GDP – and it remains questionable whether workers would value an implicit subsidy, even if very high. Therefore, it is valid to question whether the current or planned use of subsidies for this scheme is warranted.

## 5.7 Summary of projected costs

Table 5.11 summarizes the projected costs of the proposed combined family support packages as a percentage of GDP (tier 1 benefits and voluntary subsidies) and as a percentage of insurable earnings (tier 2 benefits) in 2020 and 2030.

Table 5.11: Summary of cost of key components under combined packages

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

The additional benefit components of a family support package, even when combined into the most generous package, would not appear to be prohibitively costly, and are expected to decline over time. The tier 1 benefits in package 1 would cost around 0.5 per cent of GDP in 2020 and fall to 0.33 per cent of GDP in 2030. In the beginning, the tier 2 benefits in packages 1 and 2 would cost 3.6 per cent of insurable earnings (child/family benefit) and 1.6 per cent of insurable earnings (voluntary maternity benefit) in 2020, declining to 1.5 per cent and 0.9 per cent, respectively, in 2030.

On the other hand, the current and proposed subsidy schemes range from 0.08 per cent of GDP to 0.21 per cent of GDP (in 2016 prices), which is significant. But, given the apparently small effects on the size of the insurable population, their value is questionable.

# 6. INVESTING IN FAMILIES – THE BROADER CASE

While offering family and child benefits certainly holds potential for encouraging social insurance participation, there are many other valid reasons to invest in social protection for families and children, as an increasing number of countries around the world recognize. A recent joint report by the ILO and the United Nations Children's Fund (UNICEF) found that 108 of 180 countries surveyed around the world had some kind of periodic cash benefit for children and families.[69] Of these, 31 countries provide a tier 2 social insurance benefit; 40 provide a tax-financed tier 1 benefit; and 14 countries provide a mix of contributory and tax-financed benefits. Coverage rates vary significantly across regions, with almost 90 per cent of children receiving benefits in Europe and Central Asia, compared with two-thirds in the Americas, 28 per cent in Asia and just 16 per cent in Africa. Furthermore, global data collected for children aged 0–14 years shows that countries spend an average of around 1.1 per cent of GDP on child and family benefits, with European countries spending significantly more, at 2.5 per cent of GDP.

In different parts of Asia, the policy landscape for child/family benefits is similarly varied. Some countries offer purely tax-financed benefits (some universal, others means-tested), while others have purely contributory systems. To our knowledge, no country in the region has a mixed (multi-tiered) system in the strict sense, although some countries, such as Thailand (see box 2) offer certain smaller (non-statutory) child- or family-oriented poverty targeted programmes alongside other larger national programmes. Table 6.1 summarizes the key design features of the main programmes (tax-financed and contributory) operating in the region.

[69] ILO and UNICEF (2019).

### Box 2: Child benefits in Thailand and Mongolia

**Thailand:** Thailand has made great progress toward increasing coverage of children through contributory and tax-financed programmes. The social insurance system currently offers a contributory child benefit paid at 400 baht a month (around 2.3 per cent of GDP per capita), or 200 baht if insured under the voluntary system for workers in the informal economy. The contributory child benefit currently covers around 19 per cent of children up to age 6 (ILO and UNICEF, 2019).

In addition, some 15 per cent of children up to age 3 are covered under the tax-financed, poverty targeted Child Support Grant, which the Government is considering making universal for all children under age 6 years (ILO and UNICEF, 2019). The programme pays 600 baht per child per month, and thus is higher than the value paid in the contributory system, raising questions about how the Government intends to manage the interaction between the two systems (see box 1).

**Mongolia:** According to the ILO, Mongolia's social protection system is among the most progressive and comprehensive in Asia. A key component is the Child Money Programme, a universal child benefit for all children aged 0 to 17.

The Child Money Programme is financed from taxes on mineral rents through the Human Development Fund and pays a monthly allowance of 20,000 Mongolian tugriks (around US$10 in 2016) via direct bank transfer. By 2019, the Child Money Programme had achieved 100 per cent coverage (ILO and UNICEF, 2019) and was the only country in Asia to reach this target.

**Table 6.1: Key design features of contributory child/family benefits systems in Asia**

| Country | Programme | Source of Funds | Eligibility criteria | Description and amount of monthly benefit (national currency) | Value of child/family benefit (% GDP per capita)[1] |
|---|---|---|---|---|---|
| Azerbaijan[2] | Child care benefit (social insurance) | A portion of global insured (3%) and employer (22%) contribution | Paid for covered children up to age 3 | 40 manat a month to 18 months, thereafter 25 manat a month | 7.7 |
| Islamic Republic of Iran | | Employer contribution (total cost) | Covered children up to 18; 720 working days of contributions | 3 times daily minimum wage of unskilled labourer for each child (270,772 rials in 2016) | 6.1 |
| Israel | Family allowance (universal) | Employer contribution (1.32%) | Paid to all resident families with children up to age 18 | 150 shekels for first child, increasing with each child up to the fifth (constant thereafter at 354 shekels); an additional supplement for families with at least 3 children | 1.2 |
| Japan | Family allowance (income tested) | Shared roughly 50:50 between employer and government (employer contribution of 0.2% of wages with different levels of government sharing the remainder) | Must have at least 2 children and meet income test | 15,000 yen a month for children up to age 3; 10,000 a month from age 3 to the start of secondary school (increasing with each subsequent child); 10,000 for children in secondary school | 4.3 |





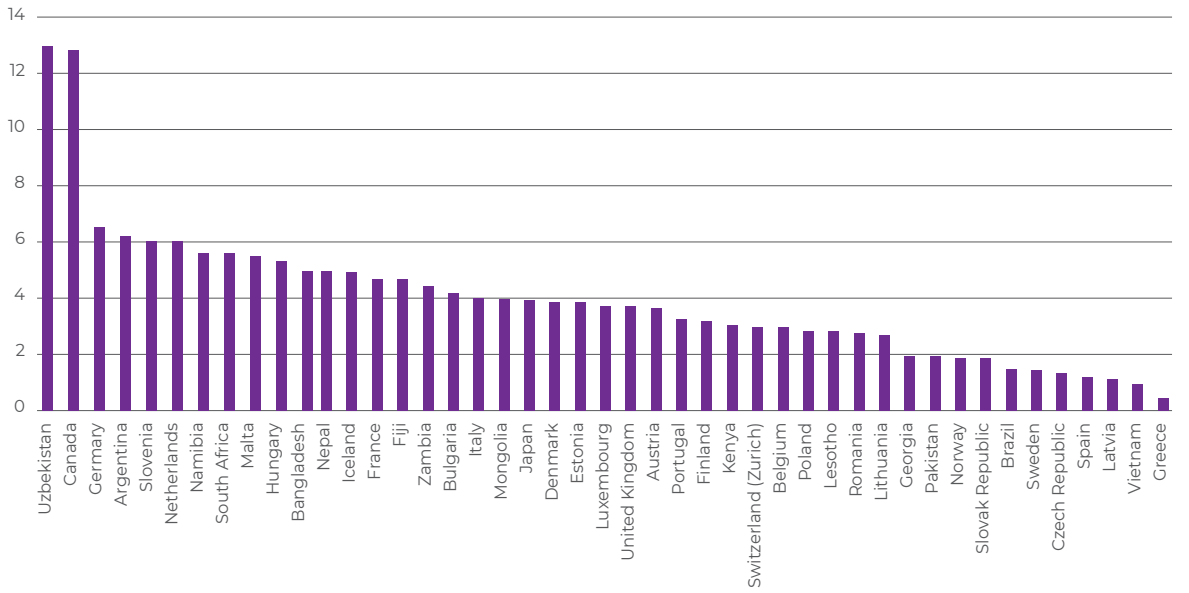
next

| Country | Programme | Source of Funds | Eligibility criteria | Description and amount of monthly benefit (national currency) | Value of child/family benefit (% GDP per capita)[1] |
|---|---|---|---|---|---|
| Thailand | Child allowance (social insurance) | A portion of global insured (3%) and employer (3%) contribution to old age benefits; a portion of global flat rate for voluntarily insured self-employed and informal-sector workers | Paid for up to 3 legitimate children up to age 6 | 400 baht for each child (compulsory insurance); 200 baht for each child (voluntary insurance) | 2.3 |
| Tajikistan | Child care allowance (social insurance) | A portion of global employer contribution (25%) | Paid for each child up to 18 months; no qualifying period but one parent must be in covered work | 40 somoni a month per child | 7.7 |
| Turkmenistan | Child care allowance (social insurance) | A portion of global employer contribution (20%) | Covered children up to age 3; no minimum qualifying period | 65% of the basic amount (242 manat in 2017) per child | 8.4 |
| Uzbekistan[3] | Young child allowance (social insurance, income/affluence tested) | A portion of global employer contribution (25%) | Covered children up to age 2 | 200% of the monthly minimum wage (149,775 soms in 2016) (regardless of the number of children) | 56.7[4] |

1 Value is for the first child only. GDP per capita is based on International Monetary Fund World Economic Outlook Database (2016) (current prices).
2 Azerbaijan also has a tax-financed poverty targeted child allowance for children up to age 1.
3 Uzbekistan also has a tax-financed means-tested child allowance for families of limited means with children younger than age 14.
4 The benefit is not paid on a per-child basis.
Source: ISSA and SSA (2016).

In addition, many places in the region pay tax-financed benefits for children, including Armenia, Australia, Georgia, Fiji, Hong Kong (China), Iraq, Kazakhstan, Kyrgyzstan, Mongolia, and New Zealand. Around the world, the values of tax-financed child/family benefits vary significantly, from upwards of 12 to 13 per cent of GDP per capita in Uzbekistan and Canada, to around 0.5 per cent in Greece, as shown in figure 6.1, and average around 4 per cent of GDP per capita. The wide range, however, reflects the very wide variation in governments' interpretations of adequacy and intended objectives. Indeed, research suggests that these comparisons should be treated with caution, because individual packages often vary according to earnings (including number of earners), family type, the number and ages of children, and whether or not comparisons are made before or after housing or childcare costs.[70]

**Figure 6.1: Per-child value of tax-financed child/family benefits around the world (as a percentage of GDP per capita)**




Note: Rates are given for the first child only.
Source: OECD and various national sources.

While the focus of this report is on the instrumental objectives of the different types of short-term and immediate benefits in terms of their potential to further the goals for social insurance extension under Resolution 28, it is important to recall the fundamental value of the benefits themselves beyond their instrumental uses. Investing in families through the social security system – for example, through child and family benefits or paid parental leave – makes economic and social sense and can make a big impact on gender equality. It is particularly important that families, as the custodians of Viet Nam's future, are supported through their childhood and working lives by a comprehensive social security system.

Support for families – including through cash benefits for children – is increasingly viewed around the world as a means of balancing the costs of raising children (which,

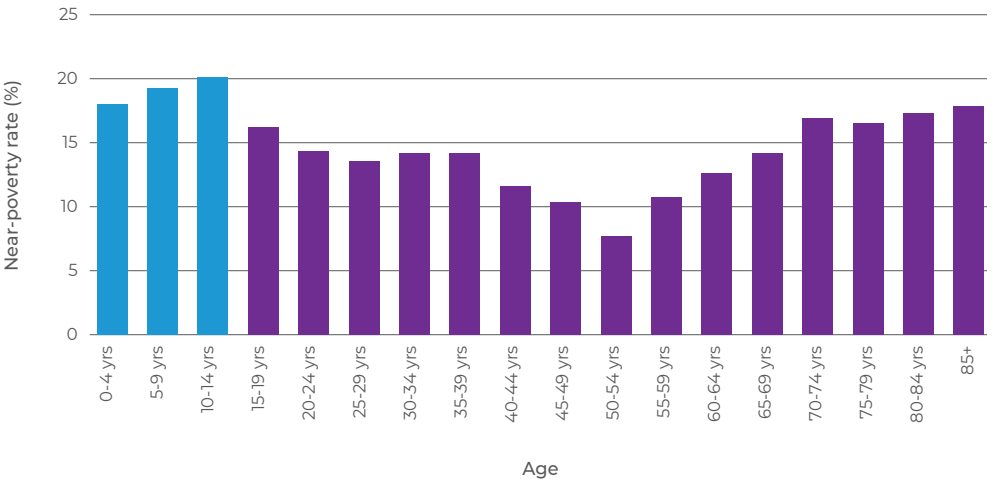
[70] See Bradshaw (2006) and Bradshaw and Finch (2010).

absent adequate social protection, are borne entirely by their parents and relatives) against the collective benefits of children for society at large. Children represent the future workforce, the future tax base, and the future caregivers for ageing elders (whether or not the elders are parents themselves). Equally, supporting parents through paid parental leave is a fundamental part of any effort to promote gender equality and shared responsibility for social reproduction.

## 6.1 Social rationale

Despite making good progress in recent decades, many children in Viet Nam still live in or are at serious risk of falling into poverty. In fact, near poverty rates are highest among children, and especially children aged 10–14, as shown figure 6.2.

**Figure 6.2: Near-poverty rates across age groups in Viet Nam based on the MOLISA near-poverty line (%)**

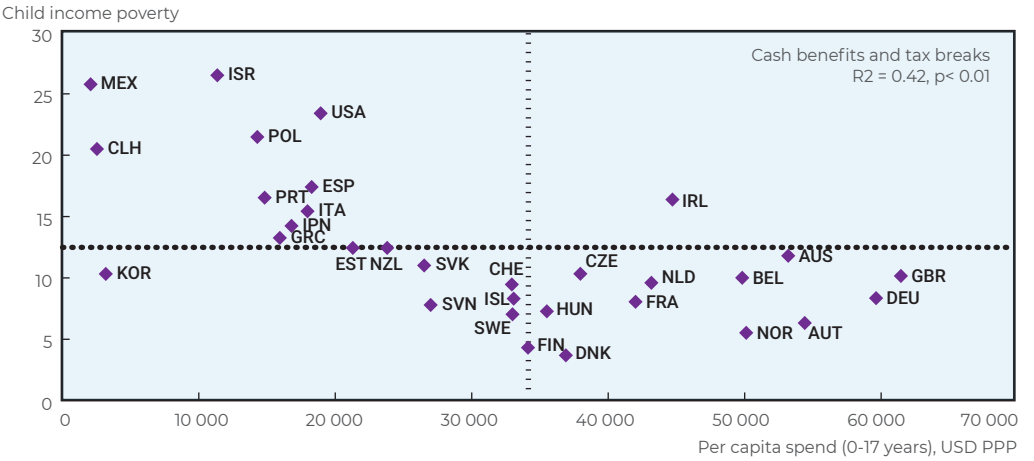



Source: Analysis of VHLSS 2016

Globally, public spending on families lifts families and children out of poverty. In the Organisation for Economic Co-operation and Development (OECD), countries that spend more on family benefits show lower child poverty rates, as shown in figure 6.3. In addition, the countries that ranked highest on UNICEF's multi-dimensional child well-being index – which includes measures of material well-being, health and safety, education, behaviours and risks, and housing and environment – are those that are widely recognized as having the most generous and family friendly social security systems, with the Netherlands, Norway, Iceland, Finland, and Sweden occupying the top five positions.[71]

[71] See UNICEF (2013).

**Figure 6.3: Child poverty rates and public spending on child/family cash benefits and tax breaks for children, OECD countries, 2011**




Source: Reproduced from OECD (2011), Doing Better for Families, Figure 5.A1.1

Supporting families can also help reduce risks to children, including maltreatment, abuse and child labour. There is ample evidence that lower levels of household income are associated with higher levels of domestic violence, conflict, abuse and neglect.[72] Low income limits the ability of families to meet children's basic needs, is negatively associated with parental stress and depression, and is a driver of parents' use of physical violence and discipline. In addition, societies with lower rates of child poverty also show lower levels of accidental and intentional child mortality.[73] And, evidence from Pakistan, Cambodia, Brazil, Nicaragua and Ecuador shows that children who benefit from social protection, in particular child cash benefits, are less likely to engage in child labour.[74]

With additional income, families are in a better position to support and invest in their children's education. There is widespread evidence worldwide that children in receipt of child/family benefits and similar cash transfers are more likely to attend school, as has happened in the Plurinational State of Bolivia, Mexico, Nicaragua, Turkey, Indonesia, Malawi, and many other countries.[75] In addition to improved attendance, children may even perform to a higher standard. For example, the earlier that children enroll in South Africa's Child Support Grant, the higher their test scores in mathematics and reading.[76] More educated children are better poised to be active and productive members of society in the future.

In addition, by removing financial barriers to accessing health care services, social protection can contribute to improving health outcomes among children, which in turn can have a positive effect on a nation's productivity and growth. For example, children

[72] Cornish-Spencer (2018). See also OECD (2011), summarizing research by Crittendon (1999); Stith et al (2009); Berger (2007); and others.

[73] See OECD (2011).

[74] See Skoufias and Parker (2001), Maluccio and Flores (2008), Schady and Araujo (2006), Edmonds and Schady (2009), Filmer and Schady (2009), IEG (2011).

[75] See Canelas & Niño-Zarazúa (2018); Schultz (2004); Maluccio and Flores (2004); Ahmed et al. (2006); Cahyadi et al. (2018); Miller et al. (2008). See also Veras et al (2007) and IEG (2011).

[76] See DSD, SASSA and UNICEF (2012).

under 5 years receiving transfers in Mexico were 12 per cent less likely to be ill,[77] and children in South Africa who received the Child Support Grant experienced lower incidences of illness, especially boys.[78] Therefore, investing in child and family benefits for all children would go a long way toward enhancing children's health and well-being.

## 6.2 Economic rationale

Families and children are the engines of today's and tomorrow's economy, and there is a very strong economic rationale for improving their well-being. At a basic level, the extra income from social protection enables beneficiaries and their families to have enhanced access to better and more diverse diets, thereby improving food security and resulting in improved nutritional outcomes, including reducing stunting. Stunting has irreversible impacts on children's brain development in the early years, and research suggests that children who experience stunting are likely to earn 26 per cent less as adults than if they had reached their full development potential.[79] Viet Nam is among the world's 34 worst affected countries, with some 1.8 million children under age 5 affected nationwide, although the prevalence rates are much higher in poorer areas of the country, including the Central Highlands and Northern Midlands and Mountain regions and among ethnic minorities.[80] For example, 65 per cent of Hmong children under age 5 are affected.[81]

Child and family benefits have also been associated with enhanced productivity of households, where the stability and predictability of transfers encourages adult labour market participation and investment in assets and business ventures, while also enabling people to shift into less arduous forms of employment. For example, in Brazil, child benefits increased labour participation rates by 2.6 percentage points, and by 4.3 per centage point for women.[82] In South Africa, Child Support Grant households are 15 per cent more likely to be in employment.[83] In Zambia, there was a shift from the least desirable forms of agricultural wage labour (9 percentage point decrease) into non-farm enterprises (16 percentage point increase) and own-farm labour (20 percentage point increase) as a result of receiving a child benefit through the Child Grant Programme.[84] In Lesotho, the Child Grant Programme led to a (desirable) reduction in the intensity of paid temporary and occasional work, and particularly in piecework labour, a common negative coping mechanism in hard times.[85] And, in Malawi's Social Cash Transfer Programme there was a strong increase in beneficiary household investment in agricultural activities, and the likelihood that households owned livestock doubled.[86]

In high income countries, child and family benefits have historically been used alongside other policies to influence reproductive decisions and fertility trends, which has implications for economic growth and the sustainability of tax benefit systems. For

[77] See Gertler (2000).
[78] See DSD, SASSA and UNICEF (2012).
[79] See Richter et al. (2017).
[80] See UNICEF (2019).
[81] Ibid.
[82] See Oliveira et al (2007).
[83] See Samson (2009).
[84] See Daidone, et al. (2014).
[85] See Daidone, Davis, Dewbre & Covarrubias (2014).
[86] See The Transfer Project (2017).

example, France, which like most high income countries faces a serious demographic crisis and rising old age dependency ratios, begins paying family allowances only after the birth of the second child, and then benefit rates increase with each subsequent child.[87] Similarly, Poland recently introduced a monthly payment for every second and subsequent child that is paid on top of its existing means-tested scheme.[88] Viet Nam is also facing a declining fertility rate over the longer term and may wish to leverage a child benefit system to encourage fertility in the future. Contrarily, if high fertility is cause for concern, capping a child benefit at two or three children could be a way of discouraging families from having too many children.

Finally, employers gain from a more secure and productive workforce. For example, recent research has shown that small and medium-sized firms in Viet Nam that increased their social security coverage by 10 per cent experienced a 1.2–1.5 per cent boost in revenue, and increased profits by 0.7 per cent.[89] This is likely because workers are more motivated and productive. If these gains occur even if most employees are not currently receiving benefits from the social insurance system, the effects are likely to be compounded if employees perceive an immediate, present day benefit from joining. Happier, more secure employees are more productive employees, which translates into more profitable businesses and a stronger economy.

## 6.3 Gender equality rationale

One of the pathways through which family policies improve economic outcomes is by contributing to improvements in gender equality. In particular, offering public transfers or services to families alleviates the private burden of care – disproportionately borne by women around the world – which can enable women to remain in or rejoin the workforce.

Specifically, investing in parental benefits encourage women's employment and improves household welfare, since expecting mothers and parents of newborns face the double shock of the cost of a child and the cost to the household of a mother's lost wages due to a maternity-related break in employment. A recent report by the International Monetary Fund attributed the continued increase in labour force participation rates in Europe to parental leave policies, which are well established and relatively generous by global standards, while noting that female participation rates peaked after 2000 in the United States, which lacks a national paid parental leave programme.[90] In addition, paid maternity and paternity leave can help prevent the "motherhood penalty" that occurs when women take time out of paid employment to care for dependents.[91] These dynamics translate into lower wages and fewer opportunities for promotion, which can negatively affect women's chances of earning adequate contributory pensions in retirement.[92]

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[87] See ISSA and SSA (2016). The benefit level also varies with family income.

[88] See Bennett (2017).

[89] See Torm (2018).

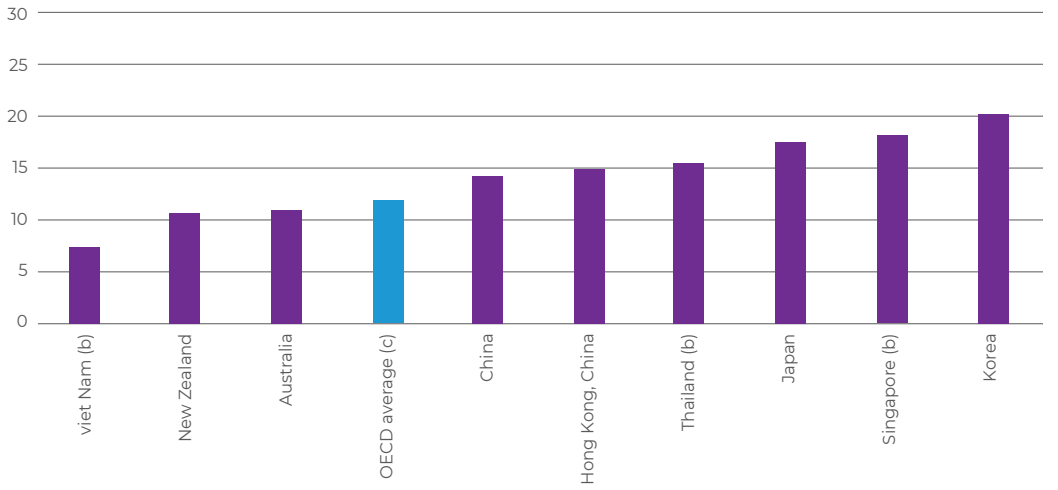
[90] See IMF (2018).

[91] Paternity leave, if well designed, can play a key role in combating gender discrimination and equalizing the care burdens within the household. Where paid paternity leave exists, generally, outcomes for women are better when paternity leave is compulsory.

[92] See Brimblecombe and McClanahan (2019).

In fact, Viet Nam, with a gender employment gap of 7.2 percentage points, already has one of the lowest gender employment gaps in the region, as shown in figure 6.4. However, these numbers likely mask more complex labour market dynamics and reflect the relatively high proportion of women employed in the garment industry. Because coverage under the compulsory system is low and there is no paid leave in the voluntary system, the costs of the woman's foregone income due to childbirth are currently borne entirely by the family for the vast majority – between 70 and 80 per cent – of Vietnamese households. Besides the burden on the families this imposes, it also potentially represents large productivity losses at the aggregate and is likely to be a drag on economic growth.

**Figure 6.4: Gender gap in employment in select countries of Asia and the Pacific, compared with OECD average**




Source: Reproduced from OECD (2017), Family Database in Asia-Pacific, Chart LMF1.6.A.

From a gender equality perspective, there are also certain risks associated with child and family benefits that can be avoided if the systems are well designed. In particular, setting the appropriate value of child and family benefits is key to avoiding the risk of generating work disincentives. For example, gender equality goals may be undermined if the value of child and family benefits is not appropriately tied to their principal underlying policy objective. While child benefits may bring income into a household, this income is generally intended to maintain a minimum standard of living of families with new children and should not be equivalent in scale to (a woman's) lost wages.[93] A child or family benefit that is too high could discourage women at the margins from entering the labour market (see box 1). However, a multi-tiered child/family benefit – in offering higher level benefits for workers who are insured – avoids these disincentives by embedding a formal employment-promotion feature into the system. In dual earner households, it is especially important to ensure that there are always incentives in place for both earners to be insured, for example, by providing an even higher level benefit if both parents or caregivers enrol.

[93] However, this income can also be a way of redistributing from richer to poorer families if poorer families tend to have larger children.

Overall, child and family benefits can and should be part of an overall gender-responsive policy package, but policy-makers should not rely on them alone to correct much more deeply embedded gender-based inequalities.[94] Other social security instruments that are intended for income replacement, such as paid parental leave, caregivers' allowances, caregivers' credits (to cover missing contribution periods due to caring) and non-contributory pensions should be part of a Government's larger strategy for promoting gender equality.

[94] See also the general discussion of key design elements of multi-tiered systems in Section 5.3.1

# 7. CONCLUSION: IMPLICATIONS FOR THE DESIGN OF A FAMILY SUPPORT PACKAGE

It is inevitable that time, budget and information deficits will constrain decision-making around the selection and design of the package. In particular, the Government's pressing imperative in the context of Resolution 125 to design a pilot in a very short amount of time means that the Government will need to act quickly to achieve early coverage gains and may not be operating with complete information.[95] Against this political backdrop, this chapter reviews the potential combinations of the above components that could form the basis for a pilot and subsequent national programme.

## 7.1 Overall performance of the packages

From a system-wide design perspective, an effective package should adhere to some basic principles that balance the goals of universal social protection with the priority extension of social insurance:

1. It must be rights-based, fair and equitable (and must not be not regressive).
   - Does everyone stand to benefit from improved lifecycle social security?
2. It must be attractive enough to appeal to the largest number of potentially insurable people as possible.
   - Does it further the Government's stated goals to expand social insurance coverage?
3. It must be affordable in terms of system-wide financing.
   - Can available resources support the system now and in the future?
4. It must be sustainable.
   - Is the system capable of sustaining and growing broad political and societal support?

[95] Indeed, urgency around achieving coverage gains is arguably among the reasons a short-term benefit package for the voluntary system was pre-defined as a solution, unduly narrowing the universe of options around a problem of coverage extension that had not been clearly defined in the first place.

Based on the analysis presented in the preceding chapter, package 1 clearly performs the best on each of these dimensions. Table 7.1 compares the packages' performance on these basic principles.

**Table 7.1: Summary of system-wide performance of packages**

| Package | System-wide performance | | | |
|---|---|---|---|---|
| | Equitable | Attractive | Sustainable | Affordable |
| 1 – Full multi-tiered package | High | High | Medium | High |
| 2 – Contributory (tier 2) solutions only | Low | High | Medium | Low |
| 3 – Voluntary contributory solutions only | Low | Low | Medium | Low |

While both packages 1 and 2 have a high potential to further the social insurance coverage goals by reaching large numbers of uninsured workers, package 1 is the only package that is truly rights-based, fair and equitable. The multi-tiered design ensures that no child, family or parent of a newborn goes without adequate protection, while allowing those who enter the social insurance system – a high policy priority – to access higher level benefits in the interest of further extending social insurance coverage for all. Finally, package 1 is also the only package that has a high potential to be politically sustainable over time, because after just one generation, everyone in Viet Nam will have benefited in some way from the policies.

## 7.2 Achieving coverage gains through a high-impact pilot

Designing a pilot requires a clear definition of the pilot's objectives and scope. For example, pilots may be used to test the likely effectiveness of different interventions or parameters, or they may be used to establish an early record of success that can be replicated in a future national rollout.

When implementing a new benefit or package, the former model (a pilot used to test parameters, which may then be altered in subsequent phases) is arguably more appropriate if time and resources allow. Under this model, the pilot would serve not only to advance coverage extension goals but also to gather critical information about recipients' perceptions of the new policy, their experiences with the delivery mechanisms, and other information that could ultimately determine the success or failure of a nationally rolled out policy.

[96] In all cases, affordability is recognized to be inherently subjective and fundamentally political; hence they are scored as "medium."

On the other hand, if the purpose of the pilot is to demonstrate early success of what is likely to become a national programme, the design of the pilot would need to focus narrowly on achieving maximum coverage gains by targeting the regions, sectors and/or specific categories of workers/enterprises that offer the greatest potential for success. Such a model, which prioritizes showing rapid coverage gains over understanding the more complex motivations and behaviours of individuals in response to the policy, would require acknowledging that early gains from a targeted pilot may not translate into comparable gains when implemented across diverse regions and sectors of the economy.

We understand the Government's objectives to be the latter – that is, to design a high-impact pilot that achieves maximum coverage gains in a relatively short period. To this end, we propose piloting the most generous and ambitious package (package 1) and identifying the geographical areas and economic sectors where the biggest returns might be possible from a pilot.

### 7.2.1 Key sectors

Table 7.2 provides a breakdown of the number of uninsured workers that have the capacity to contribute – using the technical definition of "insurability" according to VSS regulations – by industry.

The vast majority of uninsured non-wage earners classified as "technically insurable" (93 per cent) are, not surprisingly, active in the agriculture, forestry and fishing industry. This group of agricultural workers is difficult to reach, though, as nearly all work in the household sector. This suggests that the voluntary system will always have very limited potential to reach these workers, and certainly as long as it is optional.

**Table 7.2: Percentage distribution of uninsured wage and non-wage workers with capacity to contribute by industry, 2016**

| Region | Uninsured wage workers | | | Uninsured non-wage workers | | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Number (rounded) | % of workers in region | % of all workers | Number (rounded) | % of workers in region | % of all workers | Number (rounded) | % of workers in region |
| Agriculture, forestry and fishing | 1 180 000 | 12 | 5 | 13 080 000 | 93 | 55 | 14 260 000 | 60 |
| Manufacturing and other industry | 2 310 000 | 24 | 10 | 240 000 | 2 | 1 | 2 550 000 | 11 |
| Construction | 3 060 000 | 32 | 13 | 10 000 | 0 | 0 | 3 070 000 | 13 |
| Wholesale and retail trade | 1 210 000 | 13 | 5 | 590 000 | 4 | 2 | 1 800 000 | 8 |
| Transportation and storage | 450 000 | 5 | 2 | 30 000 | 0 | 0 | 480 000 | 2 |
| Accommodation and food services | 480 000 | 5 | 2 | 50 000 | 0 | 0 | 530 000 | 2 |
| Public administration and defence | 50 000 | 1 | 0 | 0 | 0 | 0 | 50 000 | 0 |
| Education, human health and social work | 170 000 | 2 | 1 | 10 000 | 0 | 0 | 170 000 | 1 |
| Other activities | 610 000 | 6 | 3 | 90 000 | 1 | 0 | 700 000 | 3 |
| **Total** | **9 520 000** | **100** | **40** | **14 100 000** | **100** | **60** | **23 620 000** | **100** |

Source: Authors' analysis of VHLSS 2016.

### 7.2.2 Key geographical areas

Table 7.3 provides a regional breakdown of the number of uninsured workers that have the capacity to contribute, using the technical definition of "insurability" according to VSS regulations. In absolute terms, the number of insurable workers varies significantly between regions, largely a reflection of differences in population size and density in different parts of the country. To achieve rapid gains in the overall national contribution coverage rate, efforts should focus on those regions with the largest number of uninsured workers.

**Table 7.3: Percentage distribution of uninsured wage and non-wage workers with capacity to contribute by region, 2016**

| Region | Uninsured wage workers | | | Uninsured non-wage workers | | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Number (rounded) | % of workers in region | % of all workers | Number (rounded) | % of workers in region | % of all workers | Number (rounded) | % of workers in region |
| Red River Delta | 2 340 000 | 25 | 10 | 2 020 000 | 14 | 9 | 4 360 000 | 18 |
| East Northern Mtns | 910 000 | 10 | 4 | 2 250 000 | 16 | 10 | 3 160 000 | 13 |
| West Northern Mtns | 170 000 | 2 | 1 | 920 000 | 7 | 4 | 1 090 000 | 5 |
| North Central Coast | 1 130 000 | 12 | 5 | 1 910 000 | 14 | 8 | 3 040 000 | 13 |
| South Central Coast | 930 000 | 10 | 4 | 950 000 | 7 | 4 | 1 880 000 | 8 |
| Central Highlands | 310 000 | 3 | 1 | 1 640 000 | 12 | 7 | 1 960 000 | 8 |
| Southeast | 1 850 000 | 19 | 8 | 1 260 000 | 9 | 5 | 3 110 000 | 13 |
| Mekong Delta | 1 870 000 | 20 | 8 | 3 160 000 | 22 | 13 | 5 030 000 | 21 |
| Total | 9 520 000 | 100 | 40 | 14 100 000 | 100 | 60 | 23 620 000 | 100 |

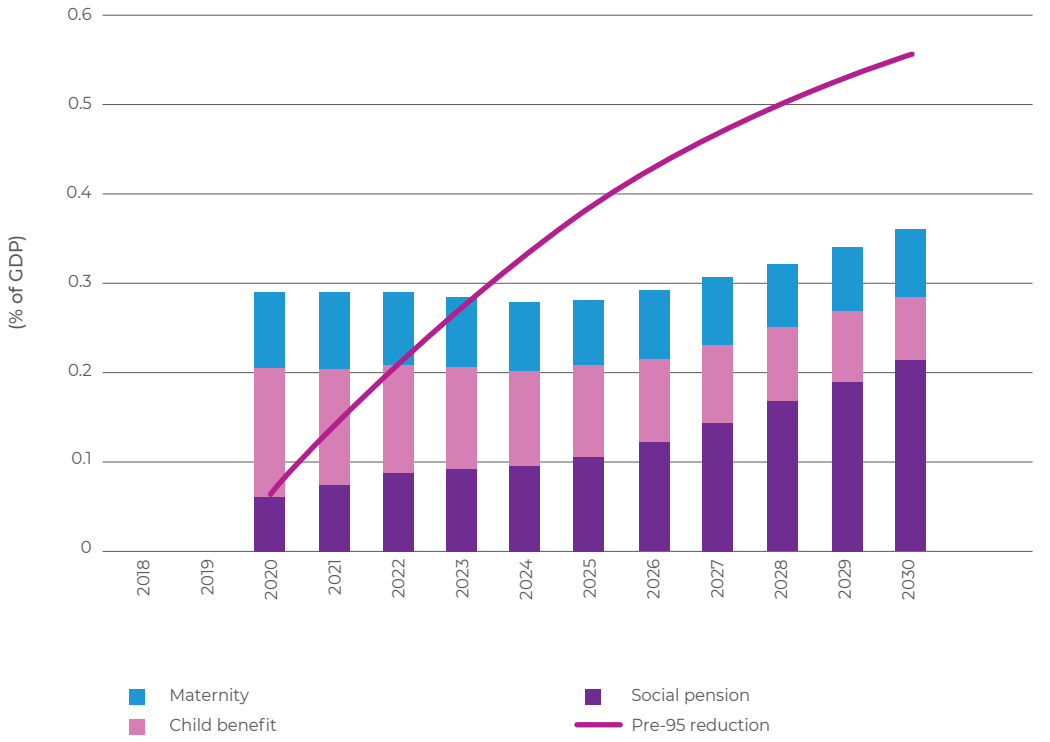
Source: Authors' analysis of VHLSS 2016.

## 7.3 Financing considerations

Decisions about the respective financing of tax-financed and contributory tiers cannot be undertaken in isolation. For example, in the case of multi-tiered child/family benefits, financing a contributory tier 2 family benefit could be politically challenging, since employers and workers will not support additional contributions. However, a decision to use State budget resources to finance extension of the contributory tier could affect the resources available to fund equally important priorities for expanding tax-financed benefits envisaged under the MPSARD and, more importantly, would introduce regressive elements into the financing mix that could be difficult to reverse in the future.

Equally, securing financing for the expansion of tax-financed benefits is also a priority. Parallel research has suggested that there is a window of opportunity created by the expected decline in State commitments to finance the pre-1995 pension entitlements, freeing up resources that could be directed toward expanding tier 1 benefits. Figure 7.1 shows that the expected savings could be sufficient to finance the tier 1 child/family benefit (valued at VND140,000/month per child), the tier 1 maternity benefit (valued at VND700,000/month for 4 months), and a social pension covering increasingly more elderly (valued at VND270,000/month). [97]

**Figure 7.1: Illustration of fiscal space for expanded tier 1 benefits**




Note: All benefits are indexed to inflation from 2020.
Source: Projections based on VSS administrative data

[97] See Doan-Trang Phan (2019b). The value of the social pension presented here reflects the status quo, indexed to inflation.

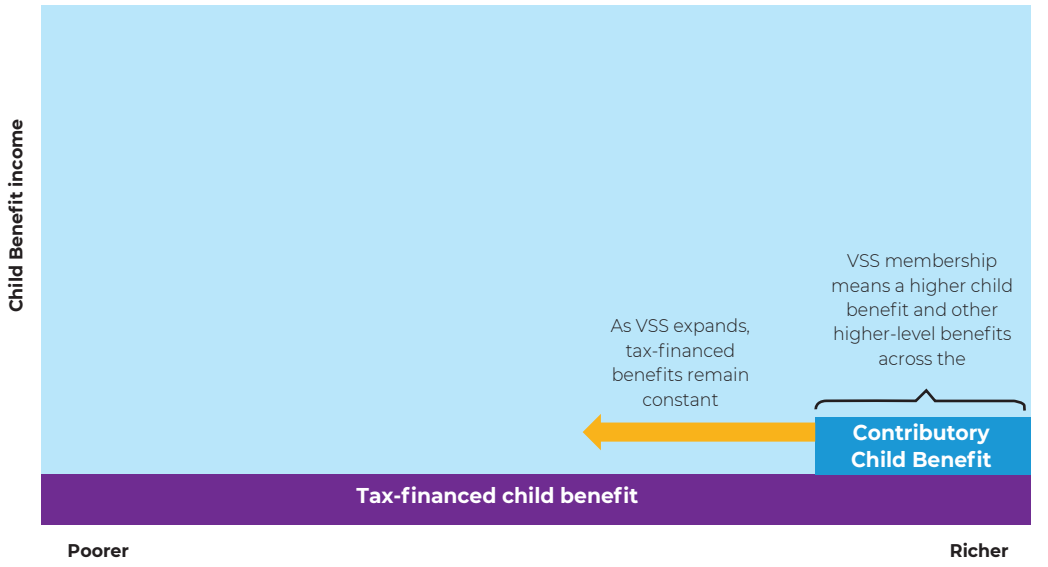
Alternative sources or mechanisms must also be considered. While this report has assessed the costs of each intervention,[98] the exact sources and mechanisms for financing the interventions will only be specified once the interventions and parameters for the pilot are selected.

If raising contributions is not politically feasible, in the short run, the additional contribution required to finance tier 2 benefits could potentially be financed using cross subsidization from other branches. However, it is important to note that the ILO cannot make an official recommendation in this regard without carrying out the appropriate actuarial valuation of all branches which make up the total contributory burden. Only a decision based on an updated valuation would ensure that the proposed measure is financially sustainable for the VSS fund in the medium and long term.

However, if such an option is to be explored further to be based on evidence, in the longer run, the additional contribution could be shared equally between employers and employees or financed entirely by employers as many contributory family benefits are around the world. Alternatively, since the costs of all tier 2 benefits are expected to decline over time,[99] it may be wise to consider initially setting the contribution at a lower rate than would be fiscally required (say, at 1 per cent), while applying a scaled premium approach. In this way, an initial subsidy would not only pay for itself over time, but it could provide additional resources for the fund over the longer term, turning a deficit into a surplus. This is again, just a theory that would need to be validated by the appropriate actuarial study.

An alternative financing arrangement could be to offer a universal tier 1 benefit financed from State resources, as depicted in figure 7.2. Under this model, only the difference between the value of the tier 1 and tier 2 benefits would need to be financed through social insurance contributions.

**Figure 7.2: Multi-tiered child/family benefit system with a universal tier 1 benefit**




[98] Except for measures aimed at employers, as previously explained.

[99] Actuarial forecasts predict that the cost of child/family benefits would reduce over time, regardless of any additional growth in social insurance membership that might be attributed to a child/family benefit.

This arrangement has potential to enhance buy-in across society and the government for a universal child benefit – ensuring that the State invests equally in every child, regardless of the parents' insurance status. It would be more expensive from a State budget perspective, since the liability for the tier 1 benefit would not decline as quickly over time as it would under the benefit-tested model. However, by shifting some of the financing burden to the State, it would reduce the cost of tier 2 and thus the pressure to finance this from existing contribution surplus (if any exists). Moreover, by using a universal tier 1 benefit, the administrative complexity and cost of the system will be more manageable, both at pilot and national levels. Finally, if State resources will need to be used, a tier 1 benefit is more visible than a hidden subsidization of tier 2 – which analysis of component 4 suggests has had little impact and thus fewer incentives for increased registration.

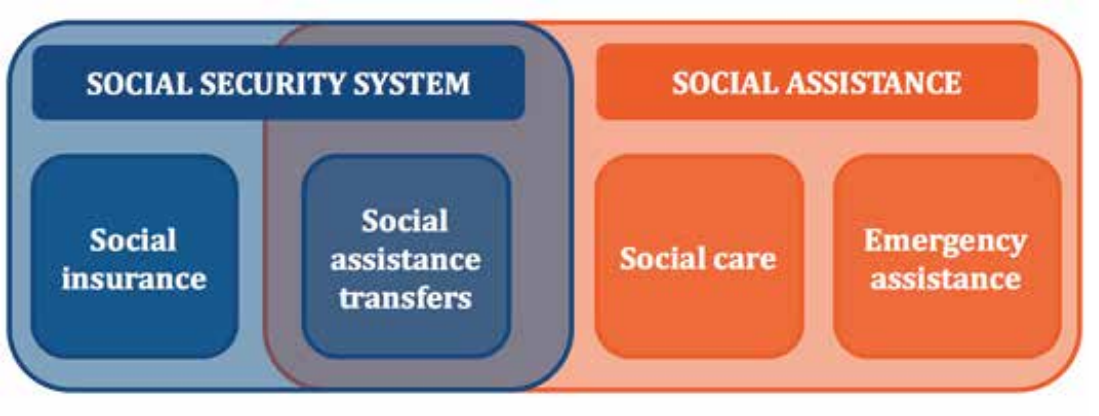
## 7.4 Implications for social security governance

Finally, to the extent possible, a pilot should involve all relevant actors and agencies – the Social Security Department, the Social Assistance Department, the tax authorities, VSS compliance units,[100] Ministry of Finance and/or provincial authorities – in order to leverage their respective mandates and responsibilities in pursuit of the common goal of social protection extension. In particular, both the social insurance and social assistance departments of MOLISA could legitimately claim a mandate over child and family benefits; therefore, decisions will need to be made about the respective roles. If successful, the move to consolidate the payment of all old age pensions – including the social pension – under one agency, the VSS, could be a model for implementing a multi-tiered child/family benefit.

The further integration of certain income transfers would have implications for the governance of the social protection system, potentially creating space to move away from the rigid distinction between social insurance and social assistance that currently exists and toward a social security system that oversees all lifecycle income transfers, as shown in figure 7.3. One option could be for Social Assistance Department to retain its responsibility, with minimum disruption, for narrow transfers for particularly vulnerable or marginalized groups.

[100] For example, the Penal Code 2015 (enforced since 1/1/2018) for the first time regulated (in article 216) the behaviour of "Evading payment of social insurance, health insurance, unemployment insurance for workers" as a crime, but so far, there is no guidance on how to implement the regulations. As a result, no case has been prosecuted. Coordination with the VSS in its efforts to combat evasion would be critical to any extension strategy aimed at wage earners. See also VSS (2018).

**Figure 7.3: Toward increased integration of the social security income transfer system**




Regardless of which agency retains responsibility for administering lifecycle income transfers, ensuring coherence between the contributory and tax-financed tiers is of utmost importance. In particular, the imperative to implement "a flexible voluntary short-term social insurance package" must not obscure the equally important goals of extending lifecycle social security coverage to everyone in Viet Nam.[101]

The current reform context presents a unique opportunity to take a bold and coordinated approach that simultaneously addresses multiple policy objectives – some of which challenge us to think beyond the historically defined mandates of individual department: incorporating working families into the social insurance system; promoting women's employment through expanded paid leave and basic protections; covering children from birth as a right, through a social security system that is blind to their parents' insurance status; reforming inadequate administrative and delivery systems; and potentially overhauling the governance system to reflect a lifecycle approach to income security. Taking advantage of this opportunity can set Viet Nam on a path to developing a coherent and well-designed family support system within the emerging social security system, one that is fitting for a rapidly growing middle-income country.

[101] Government of Viet Nam, 2018a.

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# Annex I. Defining the uninsured workforce – methodology

The analysis used microdata from the VHLSS 2016. Although the VHLSS is not a standard labour force survey, great care was taken to align the operational definition of "informal economy" as closely as possible to the ILO's standard approach. Wage earners are classified as being in informal employment if they are not entitled to social insurance. Non-wage workers are considered to be in informal employment if their main activity is in the informal sector. The informal sector comprises independent production and business households, which have not registered as a business and operate as an enterprise. The formal sector includes collective, private, state-run and foreign-owned enterprises. The household sector refers to agriculture, forestry and aquaculture households and individuals who are not required to register business in accordance with Decree No. 88/2006/ND-CP.[102] Table AI.1 shows the percentage distribution of working parents according to their status in employment and economic sector.

**Table AI.1: Distribution of working parents according to status in employment and economic sector, Viet Nam (%)**

| Type of worker | Economic sector | | | |
|---|---|---|---|---|
| | Formal | Informal | Household | Total |
| Wage worker with social insurance | 24 | 0 | 0 | 24 |
| Wage worker without social insurance | 6 | 11 | 6 | 23 |
| Non-wage worker | 1 | 17 | 35 | 53 |
| Total | 31 | 28 | 41 | 100 |

Note: The cells shaded in grey indicate informal economy workers.

[102] See General Statistics Office (GSO) (2010).

## AI.1 Wage workers in the informal economy

The simulations treat wage and non-wage workers in the informal economy differently. There are reasons to believe that wage workers in the informal economy would be easier for the VSS to reach both in terms of their initial incorporation and registration and ensuring compliance. These workers are engaged in dependent employment relationships but in unregistered firms, working without contracts or working part time.[103] In these cases, the challenge would not simply be enticing a worker to join the VSS under a voluntary scheme, but rather to enforce (and potentially strengthen) labour laws to ensure that employers comply with existing social insurance obligations, while also, potentially, broadening the definition of the covered population under the VSS to include certain workers who are currently excluded, including part-time work and workers with earnings below the minimum threshold used to calculate contributions (equal to the basic salary).

For wage workers, their potential contribution to the VSS is estimated on the basis of the reported regular wages received from their main job in the last 12 months. This includes salaries and wages in cash and in kind but excludes other payments such as bonuses or allowances for travel. Employers' contributions are not taken into account in the model.

## AI.2 Non-wage workers in the informal economy

As discussed, the contribution rate for the voluntary system is currently at least 26.5 per cent, although the actual rate experienced by workers with dependants would be higher due to additional health insurance premiums for each insured family member. Further, the analysis does not take into account subsidies currently offered under the health insurance component.

Estimating the potential taxable income for individual workers in the non-wage sector is challenging as the VHLSS does not collect data on the individual income of non-wage workers; rather, information on non-wage income is collected at the household level only. We sum up household revenue from agriculture, forestry, fisheries, services and non-farm business and deduct all associated costs incurred by the household for production – such as for seed, animal feed, materials and fuel – to obtain an estimate of the net non-wage household income. Negative values are recoded as zero income; and non-wage workers in households with no positive net non-wage income are excluded from the analysis as a potential group that could contribute to the VSS.

## AI.3 Treatment of single and dual earning households

In practice, social insurance contributions are levied on an individual basis, but for methodological reasons, the analysis takes the wage earner as a default in determining the contribution rate in households in which both parents are working. This default practice is also based on an assumption about the likely rational household response to

[103] The social insurance coverage status of part-time workers with contracts of at least one month remains unclear. According to the labour code 2012, it is legal to have a contract of at least one month that specifies a wage below the basic salary. However, VSS regulations establish the basic salary as the minimum earnings used to levy contributions, suggesting that formally employed part-time workers are not contributing to the VSS.

a child/family benefit offered as an incentive. For example, if one earner works in non-wage employment and another in wage employment, it is unlikely that the non-wage earner would join the VSS under the voluntary system at the higher contribution rate, if the wage-earner already qualified for a contributory child/family benefit based on a lower contribution rate for employees. Table AI.2 sets out the basis for calculating the amount of contributions, according to the parent(s)' employment status in the informal economy.

**Table AI.2: Contribution categories for single and dual earning families, Viet Nam**

| Family type | Status in informal economy | Applicable rate | | Basis for calculating amount of contributions |
|---|---|---|---|---|
| | | Informal | Household | |
| Sole parent | Wage earner | X | | Wages of sole parent |
| | Non-wage earner | | X | Household non-wage income |
| | Not working | | | Not applicable |
| Two-parent family | Two wage earners[1] | X | | Wages of both parents |
| | One wage earner, one non-wage earner | X | | Wages of wage-earning parent |
| | Two non-wage earners | | X | Household non-wage income |
| | One wage earner, one parent not working | X | | Wages of wage-earning parent |
| | One non-wage earner, one parent not working | | X | Household non-wage income |
| | No parent working | | | Not applicable |

1 During the course of the project, we have recognized the potential disincentive for a second earner to join the system. There are a number of ways to address this through improvements to design and administrative features (see for example 6.3). These solutions will be furthered developed during the subsequent phase of research providing specific technical support for the pilot.

# Annex II. Setting adequate child benefits[104]

Subjectivity is inherent in setting adequate benefit levels for all benefits, and particularly in setting benefits for children, since international guidelines for setting adequate child and family benefits are either lacking in specifics or arguably based on outdated notions of a family model with one male breadwinner. ILO Convention No. 102, for example, suggests a benchmark of 3 per cent of an ordinary adult male labourer. However, this does not appear to be linked to the cost/needs of the child, and the suggested benchmark appears to be low relative to what countries around the world actually spend. And ILO Recommendation No. 202, in calling for basic income security for children, leaves the determination of minimum levels for individual countries to define according to national standards, provided they ensure that the child can access "nutrition, education, care and any other necessary goods and services." Despite these drawbacks, to our knowledge the Convention No. 102 standard is the only international standard for calculating child benefits, so we will examine the Convention No. 102 levels in the Vietnamese context.

However, we also propose using a replacement rate approach that assumes that a child benefit will not compensate for the full costs of a child but is nevertheless informed by the average child's actual needs (as measured in terms of cost). James and McClanahan (2019) discuss in detail the additional costs that families typically face as a result of having or caring for a child. A child benefit is usually designed to help mitigate the costs of bringing up children for families and provide children with an appropriate start in life. Whereas the additional costs of raising children ranged from 10 per cent to 32 per cent in the literature reviewed, the international comparison of per child benefit values around the world suggests that only two countries (Canada and Uzbekistan, both of which pay 13 per cent per capita) are paying an amount that could be considered sufficient to cover the full marginal cost of a child to a family. Rather, most countries are only partially compensating families for these costs. As such, we will propose adequacy measures based on a proportion, rather than the total, cost of a child. This partial replacement approach is warranted for two additional reasons: first, it is likely that the marginal cost of a child decreases with each additional child;[105] and second, a flat rate

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[104] This annex draws heavily on parallel work on the adequacy of tax-financed benefits in Viet Nam. See McClanhan and James (forthcoming).

[105] See, e.g., Letablier (2009).

benefit for all children would have a strongly redistributive effect on lower-income and single-parents households; hence the value of the benefit would represent a more significant share of the "cost" of children for families in the lower ends of the income distribution who need the most support.

To approximate the cost of a child, we use 25 per cent of the household budget of a childless couple as the "most likely" level. The additional costs of having a child are described as "per couple" and the comparators that we have described are "per person" as such the poverty lines are doubled (i.e. for two people), the minimum wage comparator assumes that both the couple are on the minimum wage, and mean incomes are doubled.

We then calculate an adequate benefit level range based on a replacement rate to cover the partial costs of bringing up children. In the absence of an international benchmark for the replacement rate, we propose adequacy thresholds of 40 per cent and 50 per cent of the estimated total marginal cost of a child. In this way, a child benefit would aim to compensate families for up to half the cost of a child.

# Annex II.1
# Adequate levels for child benefits based on Convention No. 102

Part VII of ILO Convention No. 102 of 1952 establishes minimum standards for a family benefits to be paid in respect of children. Article 44 offers two means of calculating the total value of benefits, including:

- "3 per cent of the wage of an ordinary adult male labourer… multiplied by the total number of children of persons protected; or
- 1.5 per cent of the said wage, multiplied by the total number of children of all residents".[106]

We can understand the two rates as reflecting options for contributory and non-contributory systems: whereas the former, higher rate value would have been intended to apply to workers covered under social insurance arrangements, the latter, lower-rate value would apply for tax-financed child benefits paid with respect to all resident children.[107] In the absence of reliable data on the prevailing wage of an ordinary manual labourer,[108] we use the private sector minimum wage as the basis for applying the replacement rate. Table AII.1 presents the per child values of a child benefit in Viet Nam based on ILO Convention No. 102.

**Table AII.1: Child benefit values (per child) based on ILO Convention No. 102**

| Region | 2019 monthly minimum wage (VND/month) | Convention No. 102 minimum standard (1.5%) (VND/month) | Convention No. 102 minimum standard (3%) (VND/month) |
|---|---|---|---|
| I[1] | 4 180 000 | 62 700 | 125 400 |
| II[2] | 3 710 000 | 55 650 | 111 300 |
| III[3] | 3 250 000 | 48 750 | 97 500 |
| IV[4] | 2 920 000 | 43 800 | 87 600 |

1 Urban Hanoi and Ho Chi Minh City.
2 Rural Hanoi and Ho Chi Minh City, along with urban Can Tho, Da Nang and Hai Phong.
3 Provincial cities and the districts of Bac Ninh, Bac Giang, Hai Duong and Vinh Phuc provinces.
4 Remaining localities.

106 ILO, 1952.

107 According to Article 43, "The benefit specified in Article 42 shall be secured at least to a person protected who, within a prescribed period, has completed a qualifying period which may be three months of contribution or employment, or one year of residence, as may be prescribed."

108 VHLSS does not allow for comparisons of the labour income of individuals in the informal economy.

Clearly, the minimum standard range for tax-financed family benefits is extremely low, with values of VND43,800–VND62,700 representing only around 0.9 per cent to 1.2 per cent of GDP per capita in Viet Nam. And, while the higher rate (3 per cent) values would seem more appropriate, even the upper bound (VND125,000, or 2.5 per cent) is still only half of the value of child benefits envisioned in the MPSARD draft action plan and is significantly lower than the international average (4 per cent) for countries that pay conventional tax-financed child benefits. Therefore, we suggest that a needs- or cost-based approach to calculating an adequate child benefit may be more appropriate.

# Annex II.2
# Adequate levels for child benefits based on partial compensation for the cost of a child

The cost of bringing up a child in Viet Nam is significant, regardless of the whether costs are calculated using the poverty line, minimum wage, basic food basket or average income or expenditure methodologies. The following paragraphs propose ranges for minimum acceptable child benefit values based on each of these methodologies.

As the primary policy objective of conventional child benefits is not poverty reduction, it is unlikely that the Government would want to set child benefits to poverty levels. However, table AII.2 shows that, even by the near-poverty measure, the most likely cost of a child is between VND500,000 and VND650,000 per month, and the minimum corresponding acceptable child benefit would range between VND200,000 (rural, replacement rate of 40 per cent) and 325,000 (urban, 50 per cent replacement). For a poverty-line based benefit, the corresponding range would be VND140,000 to VND225,000.

**Table AII.2: Minimum adequate child benefits on a poverty line basis (VND/month)**

| Decision 59 poverty line | Poverty line | Couple poverty line | Child cost, most likely (25%) | Minimum adequate child benefit (40%) | Minimum adequate child benefit (50%) |
|---|---|---|---|---|---|
| **Poverty** | | | | | |
| Rural | 700 000 | 1 400 000 | 350 000 | 140 000 | 175 000 |
| Urban | 900 000 | 1 800 000 | 450 000 | 180 000 | 225 000 |
| **Near-poverty** | | | | | |
| Rural | 1 000 000 | 2 000 000 | 500 000 | 200 000 | 250 000 |
| Urban | 1 300 000 | 2 600 000 | 650 000 | 260 000 | 325 000 |

A more appropriate measure would be the additional cost based on the wage brought in by two adults on a minimum wage, although in reality, both parents may not be working and therefore using the minimum wage for a couple may overestimate the cost of raising a child. The most likely costs of raising a child based on minimum wage vary between VND1.5 million to VND2 million, suggesting that for a child benefit to be adequate based on minimum wages (that is, cover 40–50 per cent of the cost of a child), it would need to be set between VND584,000 (40 per cent, Region IV) to VND1,045,000 (50 per cent, Region I).

**Table AII.3: Minimum adequate child benefits based on 2019 minimum wage**

| Region | 2019 monthly minimum wage (VND/month) | Effective minimum wage for a couple (VND/month) | Child cost, most likely (25%) | Minimum adequate child benefit (40%) (VND/month) | Minimum adequate child benefit (50%) (VND/month) |
|---|---|---|---|---|---|
| I[1] | 4 180 000 | 8 360 000 | 2 090 000 | 836 000 | 1 045 000 |
| II[2] | 3 710 000 | 7 420 000 | 1 855 000 | 742 000 | 927 500 |
| III[3] | 3 250 000 | 6 500 000 | 1 625 000 | 650 000 | 812 500 |
| IV[4] | 2 920 000 | 5 840 000 | 1 460 000 | 584 000 | 730 000 |

1 Urban Hanoi and Ho Chi Minh City.
2 Rural Hanoi and Ho Chi Minh City, along with urban Can Tho, Da Nang and Hai Phong.
3 Provincial cities and the districts of Bac Ninh, Bac Giang, Hai Duong and Vinh Phuc provinces.
4 Remaining localities.

The minimum wage is made up of two components the minimum living standard (adult-based) and the dependent allowance. Based on the estimated cost of a dependent in the minimum wage calculation, the child benefit is suggested to be adequate if between VND550,000 and VND685,000 on average per month. We also calculate adequacy based on an additional cost of a child being 25 per cent of the income of two adults; this necessitates doubling the minimum living standard for a single person. Based on the minimum living standard of an adult it is suggested that an adequate child benefit would be between VND430,000 and 540,000 on average per month.

**Table AII.4: Minimum adequate child benefit as per different methodologies**

| Region | Dependent-based minimum adequate child benefit (40%) (VND/month) | Dependent-based minimum adequate child benefit (50%) (VND/month) | 25% of the adult-based[1] minimum adequate child benefit (40%) (VND/month) | 25% of the adult-based[1] minimum adequate child benefit (50%) (VND/month) |
|---|---|---|---|---|
| I[1] | 650 983 | 813 728 | 510 509 | 638 136 |
| II[2] | 577 786 | 722 233 | 453 107 | 566 384 |
| III[3] | 506 147 | 632 684 | 396 927 | 496 158 |
| IV[4] | 454 753 | 568 442 | 356 623 | 445 779 |
| Average | 547 417 | 684 272 | 429 291 | 536 614 |

1 Minimum living standard for an adult is doubled as the 25 per cent additional cost of a child is based on a couple's earnings.
2 Urban Hanoi and Ho Chi Minh City.
3 Rural Hanoi and Ho Chi Minh City, along with urban Can Tho, Da Nang and Hai Phong.
4 Provincial cities and the districts of Bac Ninh, Bac Giang, Hai Duong and Vinh Phuc provinces.
5 Remaining localities.

Estimating the cost of a child based on the average food basket may yield overestimations, since the cost of feeding a child may be slightly smaller than an adult. Because adult male equivalents vary by age and gender,[109] we use adult male equivalents of males and females of 0–18 years, which are 0.83 and 0.73 of the adult equivalent, and we take the midpoint between these (0.78) to calculate the food basket for a child. This means that an average food basket for a child, in the lowest income quintile, ranges from VND444,600 to VND1,025,000 based on the rural minimum wage, giving a minimum benefit range of around VND178,000 to VND410,000 (at a 40 per cent replacement rate).

On a general income and expenditure basis, the most likely cost of a child is between VND660,000 and VND1,555,000. Table AII.5 demonstrates that the spending of a two-person household is only marginally higher than the per capita mean expenditure. Therefore, a reasonable estimate of the cost of a child is about VND660,000 per child per month on an expenditure basis, and an adequate child benefit using this methodology would range from VND265,000 (40 per cent replacement rate) and VND332,000 (50 per cent replacement rate).

**Table AII.5: Minimum adequate child benefits based on average income and expenditure**

| Measure | Per capita value (VND/ month) | Per two person household (VND/month) | Child cost, most likely (25%) | Minimum adequate child benefit (40%) (VND/month | Minimum adequate child benefit (50%) (VND/month) |
|---|---|---|---|---|---|
| Mean income (VLHSS 2016) | 3 110 000 | 6 215 000[1] | 1 555 000 | 622 000 | 777 500 |
| Mean expenditure (VLHSS 2016) | 2 280 000 | 2 654 000[1] | 664 000 | 265 600 | 332 000 |
| Decision 59: Medium income[2] | | | | | |
| Rural | 1 500 000 | 3 000 000 | 750 000 | 300 000 | 375 000 |
| Urban | 1 950 000 | 3 900 000 | 975 000 | 390 000 | 487 500 |

1 Calculated for a 1–2 person household using the VLHSS 2016 data.
2 Medium income considered between the near poverty income threshold and the stated threshold above

109 For example, Weisell and Dop (2012) suggest that the adult male equivalents of a 3-year-old male child was 0.44 and for a 12-year-old female child 0.809. Claro (2010) provides a full list of age and gender related adult-equivalent conversion factors, ranging from newborns at 0.29 to male teenagers (15–18 years) at 1.18 and female teenagers (15–18 years) at 0.86.

110 Letablier (2009).

111 While there may be many single parent households, this is roughly equivalent to VND300,000 per parent.

The VHLSS also allows for a comparison of the cost of living (proxied by expenditure) of households with children and those without. Although this analysis poses a number of methodological challenges,[110] it provides us with another indicator of the cost in Viet Nam of raising a child. The data show that households with children spent an additional VND600,000 per child,[111] which is extremely similar to the most likely additional cost shown in table AII.6. Therefore, because this figure holds up against actual expenditure data according to analysis of VHLSS 2016, and it corresponds to 25 per cent of average expenditures (which is in line with the international literature on estimating the cost of children), this measure is arguably the most appropriate basis for calculating an adequate child benefit in Viet Nam. Table AII.6 suggests that an adequate child benefit to partially compensate families for the additional costs of bringing up a child in Viet Nam would range from VND240,000 to VND300,000.

**Table AII.6: Minimum adequate child benefit based on additional expenditure of households with children (VHLSS)**

| Measure | Per capita value (VND/month) | Minimum adequate child benefit (40%) (VND/month) | Minimum adequate child benefit (50%) (VND/month) |
|---|---|---|---|
| Additional expenditure of households with children compared to households without (VHLSS 2016) | 600 000 | 240 000 | 300 000 |

[112] Taken from Doan-Trang Phan (2019a).

# Annex III
# Extension of maternity coverage through voluntary insurance[112]

Under the status quo, the benefits provided under the compulsory insurance and voluntary schemes and their financing can be summarized as follows.

**Table AIII.1: Summary of contribution rates for benefits provided under the compulsory and voluntary schemes (%)**

| Contingency | Compulsory system | | Voluntary system |
|---|---|---|---|
| | Employees | Employers | |
| Old age and survivors | 8.0 | 14 | 22 |
| Sickness and maternity | N/A | 3 | N/A |
| Unemployment insurance | 1.0 | 1 | N/A |
| Employment injury | N/A | 0.5 | N/A |
| Health insurance | 1.5 | 3 | 4.5 |
| Total[1] | 10.5 | 21.5 | 26.5 |

N/A = not applicable.
[1] The contribution rates are not strictly agreeable, since health insurance contributions are levied on a different insurable base. They are aggregated here for the purpose of illustration.

The maternity benefits provided under the compulsory insurance scheme are not provided under the current voluntary insurance scheme. What if maternity benefits were provided under voluntary insurance system? To start the analysis, let's consider the following hypothetical base scenario:

- The voluntary insurance provides the same maternity benefits as under compulsory insurance.
- The addition of maternity benefits does not change the participation to the voluntary insurance.
- The assumed incidence and take-up rates for the projection of maternity benefits under the compulsory insurance also apply for voluntary insurance.

Table AIII.2 presents the projected numbers of persons receiving different types of maternity benefits in a given year for the period 2016–45, while their correspondent amounts of annual benefit expenditure are presented in table AIII.3.

**Table AIII.2: Projection of the number of maternity beneficiaries, 2016–45 (thousand persons)**

| Year | Childbirth (female insured) | Childbirth (male insured) | Prenatal check-up | Pregnancy interruption | Contraceptive measures | Covered population |
|---|---|---|---|---|---|---|
| 2016 | 5.3 | 0.4 | 2.8 | 1.0 | 0.7 | 196.3 |
| 2017 | 5.2 | 0.4 | 2.8 | 1.0 | 0.8 | 198.8 |
| 2018 | 5.4 | 0.4 | 2.8 | 1.0 | 0.8 | 201.2 |
| 2019 | 5.4 | 0.4 | 2.7 | 1.0 | 0.8 | 203.4 |
| 2020 | 5.4 | 0.4 | 2.5 | 1.0 | 0.8 | 205.9 |
| 2021 | 5.2 | 0.4 | 2.4 | 1.0 | 0.8 | 208.2 |
| 2022 | 5.0 | 0.3 | 2.3 | 1.0 | 0.8 | 210.4 |
| 2023 | 4.7 | 0.3 | 2.1 | 0.9 | 0.8 | 212.5 |
| 2024 | 4.4 | 0.3 | 2.0 | 0.9 | 0.7 | 214.4 |
| 2025 | 4.1 | 0.3 | 1.9 | 0.9 | 0.7 | 216.2 |
| 2030 | 3.5 | 0.2 | 1.7 | 0.8 | 0.6 | 224.4 |
| 2035 | 3.8 | 0.2 | 1.9 | 0.8 | 0.6 | 230.7 |
| 2040 | 4.7 | 0.2 | 2.4 | 0.9 | 0.7 | 234.3 |
| 2045 | 5.2 | 0.3 | 2.6 | 1.0 | 0.8 | 235.8 |

N/A = not applicable.

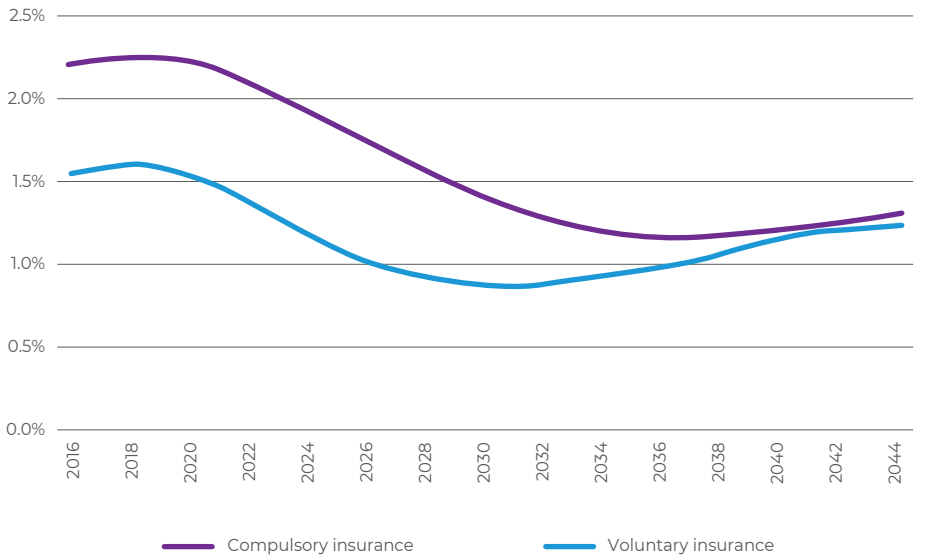
[1] The contribution rates are not strictly agreeable, since health insurance contributions are levied on a different insurable base. They are aggregated here for the purpose of illustration.

Table AIII.3: Projection of total amount of maternity benefits, 2016–55 (billion VND)

| Year | Maternity leave | | Lump sum | | Prenatal | | | | Total contribution base (%) |
|---|---|---|---|---|---|---|---|---|---|
| | Mothers | Fathers | Mothers | Fathers | Check-up | Pregnancy interruption | Contraceptive measures | Total | |
| 2016 | 54.9 | 0.1 | 11.7 | 1.0 | 0.5 | 1.3 | 0.3 | 69.9 | 1.6 |
| 2017 | 60.9 | 0.1 | 13.1 | 1.0 | 0.6 | 1.5 | 0.4 | 77.6 | 1.6 |
| 2018 | 68.8 | 0.2 | 13.9 | 1.0 | 0.6 | 1.7 | 0.4 | 86.6 | 1.6 |
| 2019 | 76.0 | 0.2 | 15.3 | 1.1 | 0.6 | 1.8 | 0.5 | 95.4 | 1.6 |
| 2020 | 82.4 | 0.2 | 16.5 | 1.2 | 0.7 | 1.9 | 0.5 | 103.3 | 1.6 |
| 2021 | 87.6 | 0.2 | 17.5 | 1.2 | 0.7 | 2.1 | 0.6 | 109.8 | 1.5 |
| 2022 | 91.5 | 0.2 | 18.2 | 1.3 | 0.7 | 2.2 | 0.6 | 114.7 | 1.4 |
| 2023 | 94.3 | 0.2 | 18.7 | 1.3 | 0.7 | 2.4 | 0.7 | 118.4 | 1.3 |
| 2024 | 97.0 | 0.2 | 19.3 | 1.4 | 0.8 | 2.5 | 0.7 | 121.9 | 1.2 |
| 2025 | 99.7 | 0.2 | 19.8 | 1.5 | 0.8 | 2.7 | 0.8 | 125.4 | 1.1 |
| 2030 | 130.0 | 0.3 | 26.2 | 1.8 | 1.1 | 3.6 | 1.0 | 164.0 | 0.9 |
| 2035 | 212.3 | 0.4 | 43.3 | 2.6 | 1.8 | 5.3 | 1.5 | 267.3 | 0.9 |
| 2040 | 378.4 | 0.6 | 77.4 | 3.9 | 3.2 | 8.7 | 2.3 | 474.5 | 1.1 |
| 2045 | 585.4 | 1.0 | 118.4 | 6.3 | 4.8 | 13.4 | 3.6 | 732.9 | 1.2 |

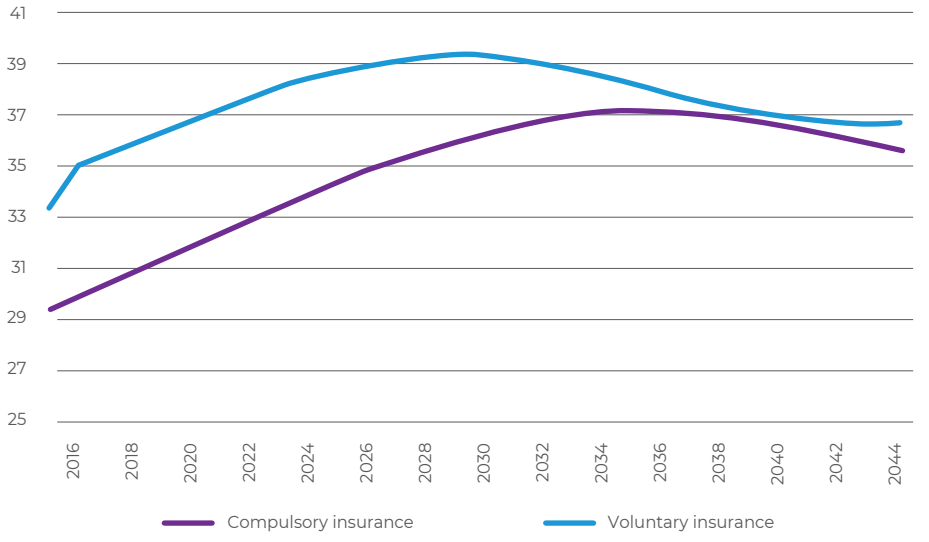
Figure AIII.1 presents the cost of the above scenario in comparison to the cost under the compulsory insurance.

**Figure AIII.1: Cost of maternity benefits as % of insurable salaries, 2016–46**




The cost rate of maternity benefits under the voluntary insurance is lower than that under the compulsory insurance during more than 25 years of projection. They tend to converge thereafter. The lower cost of voluntary insurance is mainly explained by the fact that female voluntary participants in the age group 15–49 are older than those in the same age group under the compulsory insurance. Figure AIII.2 illustrates this fact with the average age of female insured workers under compulsory insurance and voluntary insurance in the private sector in 2016 and 2026.

**Figure AIII.2: Average age of female insured workers, age group 15–49 in private sector under compulsory insurance and voluntary insurance, 2016–46**



# Annex III.1
# Cost estimate of maternity benefits under the voluntary insurance

The projected cost of maternity benefits under the voluntary insurance roughly varies between 1 and 1.5 per cent of insurable salaries. However, the voluntary insurance system introduced in 2008 is still in transition, as it has mostly attracted people with past participation in compulsory social insurance who are interested in completing the required contribution period for a pension. The cost rate projected for the voluntary insurance shows a higher estimate in the near term due to the ageing effect of the female covered population under voluntary insurance. The estimated cost rates of maternity benefits under compulsory and voluntary insurance are mainly driven by the following assumptions:

- on the contribution side, VSS male and female covered populations and their insurable salaries (developed for long-term benefits);
- on the benefit side, fertility rate of female covered workers (constant), their child-bearing schedule (gradually delayed from 2016 to 2022) and their insurable salaries (same as salaries of non-beneficiaries); and
- under the scenarios of higher total fertility rate or lower covered population, the cost rate of maternity benefits would be higher.

**ILO Country Office for Viet Nam**
48 - 50 Nguyen Thai Hoc, Ha Noi
+84 24 3 734 0902
hanoi@ilo.org
www.ilo.org/hanoi
Vietnam.ILO

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