

**An expert group meeting:
Inclusive Social Protection Systems in Asia and the Pacific**

**Increasing social insurance coverage of informal
workers in Viet Nam**

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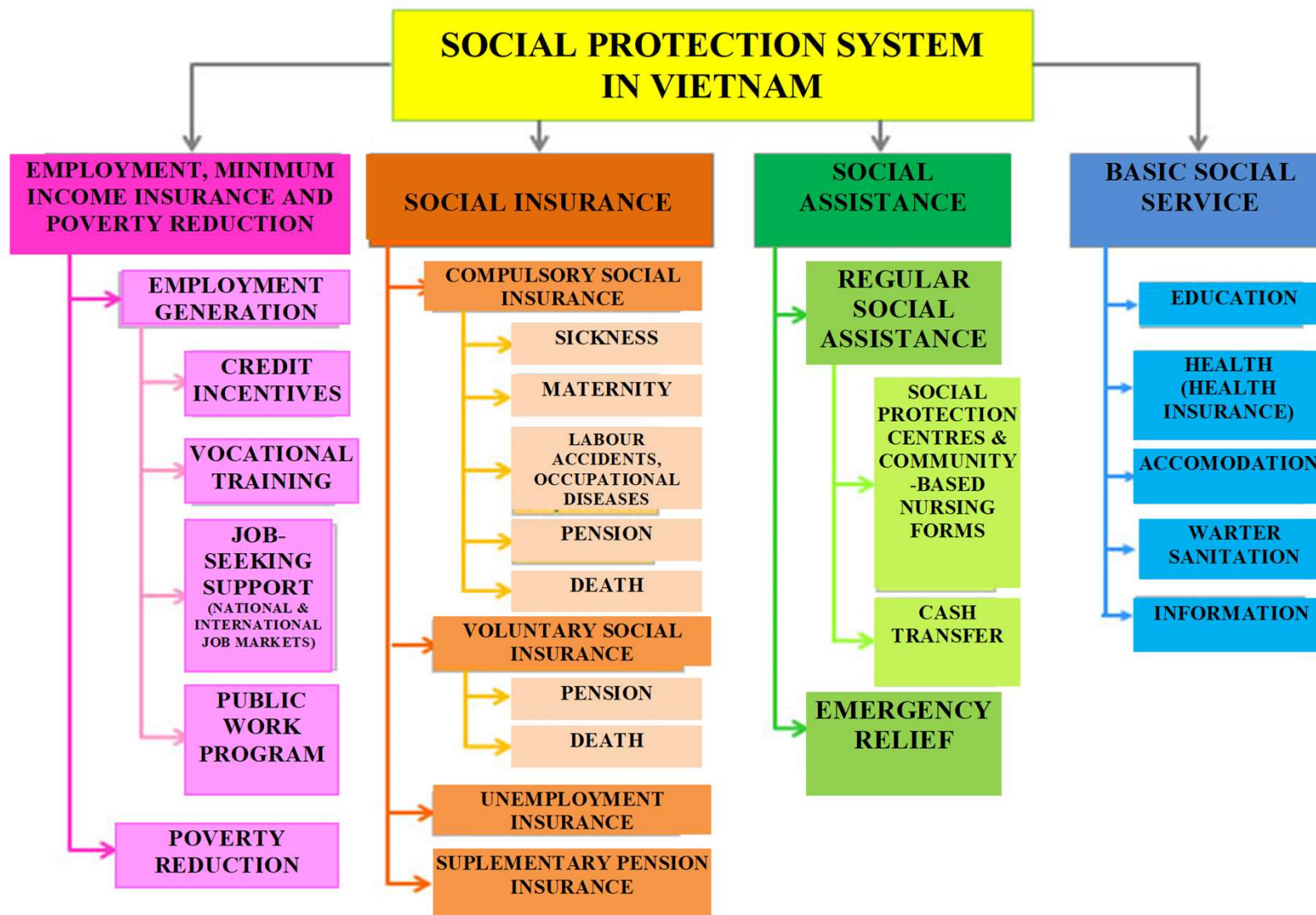
1. Country development profile (2010-2017)

Year	Unit	2010	2012	2014	2016	2017
CPI	%	11.75	9.21	4.09	2.66	2.53
GDP growth, year	%	6.78	5.03	5.98	6.21	6.81
Population	Million people	86.9	88.8	90.7	92.6	93.7
Population in working age	Million	65.9	67.7	69.3	70.9	72.2
Labour force	Million people	50.7	52.8	54.1	54.5	55.2
Unemployment	% labour force	2.39	2.61	2.02	2.20	2.19
Poverty	% of households	14.20	11.10	6.0	8.23	7%**

Country Initiatives on Social Protection

- Great efforts by Gov. to strengthen social protection system (the New law on Labour, employment, social insurance, health insurance)
- Right based approach on SP (Constitution 2013)
- Social protection strategies for 2012-2020
- Towards implementation of SPF
- Social protection in the context of SDGs

Figure 6: SOCIAL PROTECTION SYSTEM IN VIETNAM FOR THE PERIOD OF 2012-2020



2. Social insurance : Achievements and target

TT	Indicators	2017 (achieved)	2020 (target)
1	Participation in health insurance (millions)	81.3	96.2
	- Coverage rate by health insurance (%)	86	90.0
2	Participation in social insurance (millions)	13.8	28.4
	- Coverage of total labor force (%)	25	50.0
3	Participation in Unemp. insurance (million)	11.5	15.7
	Coverage of total labor force (%)	21.3	28.6
4	Participation in social assistance (million)	2.88	3.5
	- Coverage of population, %	3.0	3.65

3. Social insurance of informal workers: Current situation and Challenges

The Viet Nam labour market: high share of informal employment, but low wage type

	2012	2013	2014	2015	2016	2017
Total (thousand persons)	51,422	52,208	52,745	52,840	53,303	53,403
Structure (%)	100.0	100.0	100.0	100.0	100.0	100.0
Wage and salaried workers	34.7	34.8	35.6	39.3	41.2	42.8
Employers	2.7	2.5	2.1	2.9	2.8	2.1
Own-account workers and contributing family workers	62.5	62.7	62.2	57.8	55.9	55.1
Other	0.1	0.0	0.0	0.0	0.1	0.0

2018	Share of informal workers , %								
Total employment	Elementary and Vocational workers	Personnel services	High skilled	Non state sector	FDI	HH economy	Construction	Hotel . food, drinking	Other services
57.2	78.6	72.6	8.1%	72.1	8.4	98.7	90.2	80.7	83.3

The government social insurance polices aims to cover the informal sector

- The Vietnam Social Security (VSS) was created in 1995. Before that date, the State provided social insurance to public sector employees, the military, the police, and the members of the Party's organization.
- The pension rights of that period, claimed before 1995, are still covered by the budget through public transfers to VSS.

Dual Social insurance policies

Compulsory social insurance (since 1995):

- *Target group*: Officials and civil servants; wage workers with labour contracts at least 1 months++
- *Policy regimes*: sickness, maternity, working accidents and occupational diseases, pension, and survivor benefits.

→ Voluntary insurance (since 2008)

- *Target group*: the workers who are not covered by the compulsory social insurance
- *Benefits regimes*: pension and survivor benefits.

Social insurance contribution

- **For formal sector:** In 2017, the overall payroll tax is 32.5 % of employees' net wages : Social insurance 26%; 4.5% for health insurance and 2% for unemployment insurance. Social taxes represent 24% of gross wages.
- **For informal sector:**
 - The minimum contribution is calculated on the nation-wide minimum wage (2008); since the revision of the Social Insurance Law (2014), on the poverty line set by MOLISA for participants to the voluntary pension scheme of rural areas (400 thousand VND in 2015, about 18 US dollars).
 - ***Since 2018: Government subsidies*** 30% of the premiums for the poor; 25% for the near poor; 10% for others according to the rural poverty line.

Low, slow increase of social insurance coverage, especially for informal workers,

	2010	2014	2015	2016	2017
1. Total labour force (1000 people)	50,840	53,750	54,320	54,450	54,940
2. Total contribution (1000 people)	9,523	11,646	12,291	13,066	13,818
Compulsory	9,441	11,453	12,073	12,862	13,584
Voluntary	81.3	193.3	217.7	203.6	234.0
2. % of labour force of compulsory workers	18.73	21.67	22.63	24.00	25.15
of voluntary workers	0.24	0.59	0.71	0.68	0.80

Majority have no labour contract, not participating in social insurance

	Not having Written labour contract	Participation in compulsory social insurance	Participation in voluntary social insurance
2017	76,7%	0.2%	1.9%

- **Majority of rural labour have not participated in any kind of social insurance**

Participation increases with firms' size, 84% of non-participating firms are households' units

- Very few (5.2%) of the enterprises with less than 5 employees participate in social insurance. At the opposite, all the firms that employ 200 persons or more are covered.
- About 83.9% of the firms that do not participate in social insurance are households' units with less than 10 employees.
- More than half (59.5%) of uncovered employees work in households' units, 38.3% work in small enterprises and, 2.1% work in medium enterprises.

Size of firms Number of employees	Firms not paying social insurance (informal)	Uncovered employment	Firm's coverage rate: % of firms paying social insurance
less than 5	49.8	24.7	5.2
5 to 9	34.1	34.8	22.6
10 to 49	15.8	38.3	62.6
50 to 199	0.2	2.1	97.8
200 to 299	0.0	0.0	100.0
Total	100.0	100.0	33.5

- **The reasons for low extending coverage**

Social Insurance policy design: Eligibility

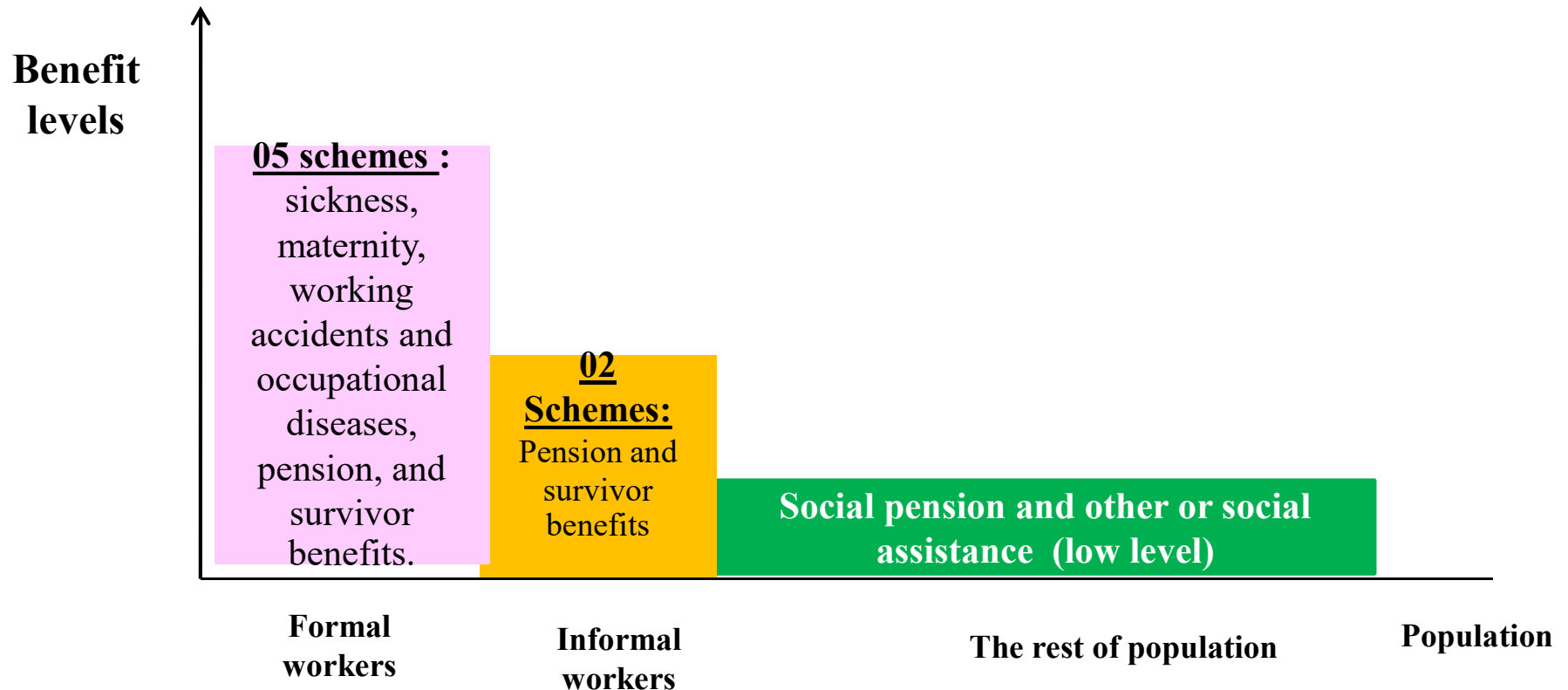
The social insurance participation depends on the labour contract, which excludes majority of wage workers but having no labour contract or labour contract less than 1 month

Type of workers	Compulsory participation	Voluntary participation
Wage workers with labour contract from 1 month +++	+	-
Enterprise owners in formal sectors	+	-
Wage workers without labour contract	-	+
Wage workers with labour contract less than 1 month +++	-	+
Non wage earners or working in HH business with no employees	-	+
Self employed, part employees	-	+

Social Insurance policy design: benefits

- ✓ **Design:** Unequal treatment between formal and informal sector: No short term social insurance for informal sector
- ✓ **Low level of benefits** due to low level of contribution (basic salary equal only 40% of total income) although high replacement rate (up to 75% of the average reported salary)
- ✓ Pension covers only 45% of elderly

The voluntary schemes lacks of short term social benefits



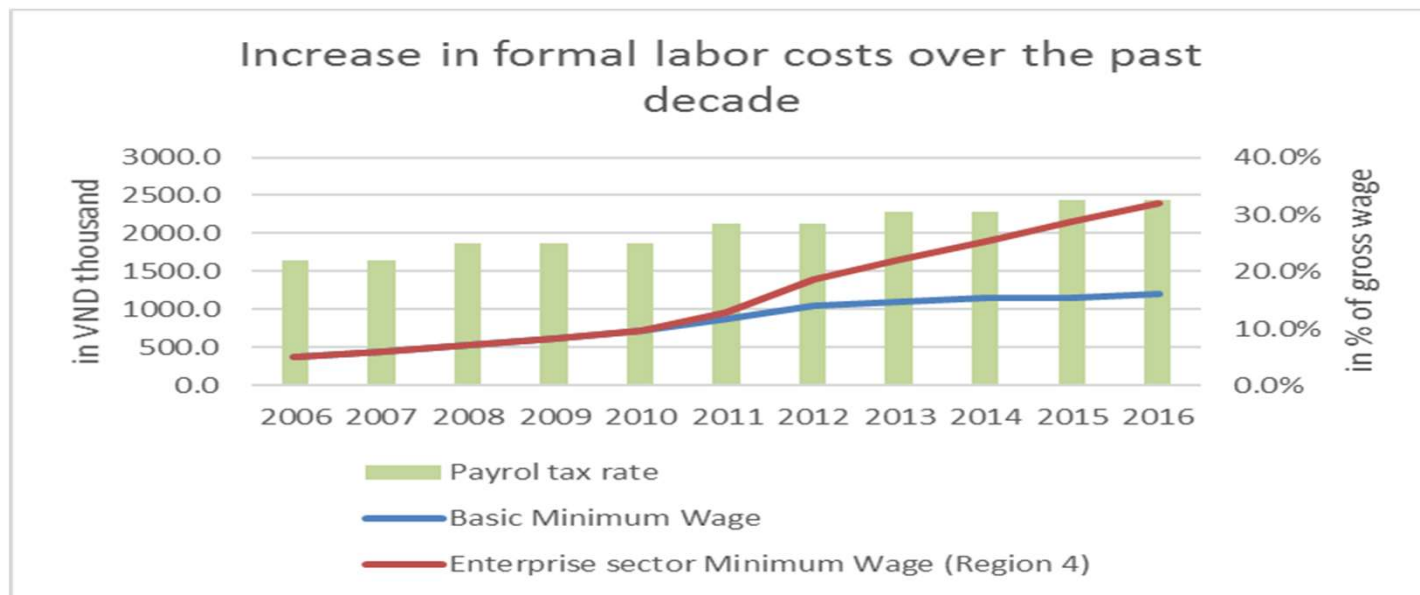
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**The burden of the tax for enterprises to be informal:
The evolution of the payroll tax since 2005 (%)**

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Employer												
Maternity & sick leave etc.	3	3	3	3	3	3	3	3	3	3	3	3
Old-age survivorship etc.	10	10	11	11	11	12	12	13	13	14	14	14
Unemployment	0	0	1	1	1	1	1	1	1	1	1	1
Health	2	2	2	2	2	3	3	3	3	3	3	3
Work injury & prof. disease	1	1	1	1	1	1	1	1	1	1	1	1
Employees												
Old-age survivorship etc.	5	5	5	5	5	6	6	7	7	8	8	8
Unemployment			1	1	1	1	1	1	1	1	1	1
Health	1	1	1	1	1	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Total	22	22	25	25	25	28.5	28.5	30.5	30.5	32.5	32.5	32.5
SI Voluntary old-age	0	0	0	16	16	18	18	20	20	22	22	22

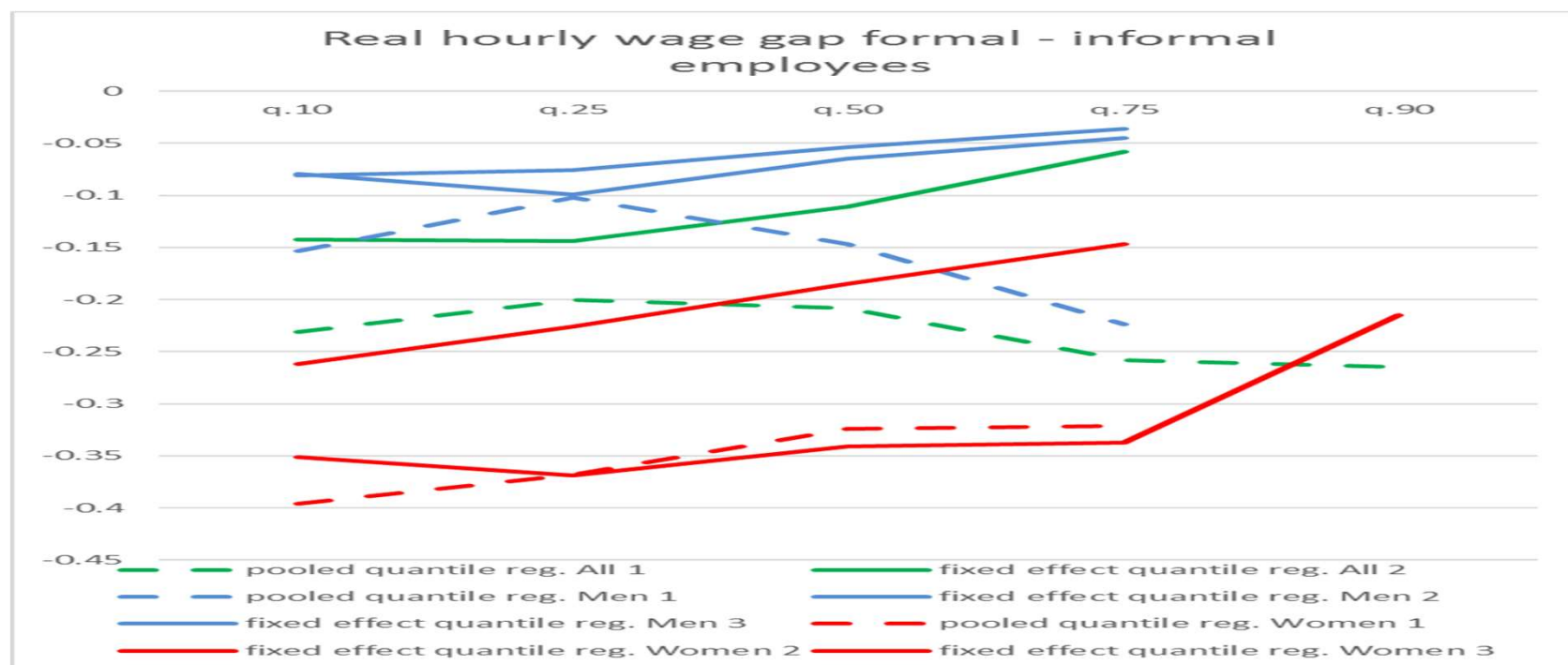
The benefits of formalization

- The level of the payroll tax was increased by 10.5 p.p. (from 22% in 2006 to 32.5% in 2014, a level considered to be high among East-Asian countries, Schmitten and Packard, 2016).
- The successive increases in the payroll taxes and the minimum wages by increasing labor costs have slowdown the progression of social insurance coverage and employment.



The bonus of not paying social insurance

- The higher end of the wage distribution receive part (or all) of unpaid social contributions through wages: the earning gap between formal and informal wage earners diminishes along the wage curve
- The average wage of firms that fully protect employees is lower than in firms that under-report wages for social contributions.



Low level of incentives

- Another concern is that employees are not willing to be enrolled in social insurance and collude with employers to avoid paying social insurance as the popularity of the possibility to opt-out VSS among young workers suggests.
- Complicated administrative requirements, including “residential status”
- Poor service

4. Options for extending the social insurance coverage for informal workers

Rationale

- The multiple barriers to formality, employees' lack of interest for social insurance benefits and, possibly, employers' self-interest, suggest that additional policies could be put in place to speed up these transformations and foster the progression of covered employment.
- Respect the rights to social insurance of all workers
- Flexible policies to address diversified needs of informal workers
- New form of informal workers (share economy, online business..)

Makes social insurance more affordable

- China: Making cheaper participation will likely encourage the participation of many low-income people: The minimum level of contribution is quite low (4 to 8% of per capital rural income, slightly higher in urban areas)
- >>>> *It reduces the minimum contribution in the voluntary system* to particularly low levels proportional to the poverty line (158 and 198 VND thousand per month in rural and urban areas, about 7 and 9 dollars).
- The possibility of making up with the payment of a lump sum for the contribution gap when reaching pension age with 15 years of contribution

Flat, but minimum contribution

- China's specific political economy has probably been a significant factor in the impressive growth of participation, although participation in the pension scheme for urban and rural residents is voluntary:
- China: Introduce “**token participation**” that allows to pay one flat amount of 100 RMB of contributions per year,
- The **eligibility for non-contributory pension under family** binding conditions (i.e. if all his or her adult children contribute to the basic pension scheme).

>>> *to be considered for rural workers*

Matching contributions and benefits to low income group

- Measures are also used in India, Mexico, Thailand and many other countries to support participation.
 - In the USA, experimental evidence show a clear impact of matching contributions in participation, but government's financial incentives, in the forms of tax deductions or matching of employees contributions in 401(k) plans
 - China:
 - participation is subsidized with local government matching 25% to 50% of the contributions.
 - *Pension consists into a solidarity component and individual accounts:*
 - *Pension = basic pension of 55 RMB or 8 dollars per month + contributory pension.*
- >>> ***Expanding the government's subsidies to support participation of low income group***
- *increasing level of matching*
 - *Minimum pension guarantee*

- **Increasing participation of the small firms and household's unit**

Reduce obstacles to participation

Issues

- Payroll taxes amount to 32.5 % of take-home wages,
- Procedures are complex
- Increase the vulnerability of the firms abiding by the law to local officials' pressure and informal payments demands
-

Measures

- Partial or total reimbursement to employers of social contributions through a flat tax credit per employee to help avoid that paying payroll taxes consumes all the earnings small employers
- *Paying social insurance should be made a simple procedure that requires no registration, no labor contract and no record keeping.*
- Managers or owners of existing small firms or units that would like to amend their situation should be allowed to ask for waives past contributions.

Aligning employee's other incentives with the willingness to participate

- Propaganda policies to supports the participation in the voluntary system of the poor and very low income people with government subsidies ranging from 10% to 30% of the minimum level of contributions (based on the poverty line).
- *Replace the possibility to opt-out social insurance* and get a lump sum with the possibility to realize partial withdrawals for specific purposes such as financing education, housing etc. (the example of Singapore).. *that social insurance becomes a safe saving option.*
- Mandates that employers inform employees twice a year about the payment of social insurance contributions.
-

Foster inspection

Penalty for not late payment

- Pay past contributions inflated by two times VSS Fund's return of the previous year.
- A fine between 12% and 15% of the amount of social contributions is also due on the wages of the employees that were not registered to VSS
- The penal code foresees additional penalties between VND 0.5 to 1 billion (US\$ 22385 to 44 770)
- The payment of social contributions due only for a few months are subject to the same penalty, unless the default is due to extreme circumstances such as firms' fall in employment by half or, of firm's loss of 50% of its asset for natural disaster.

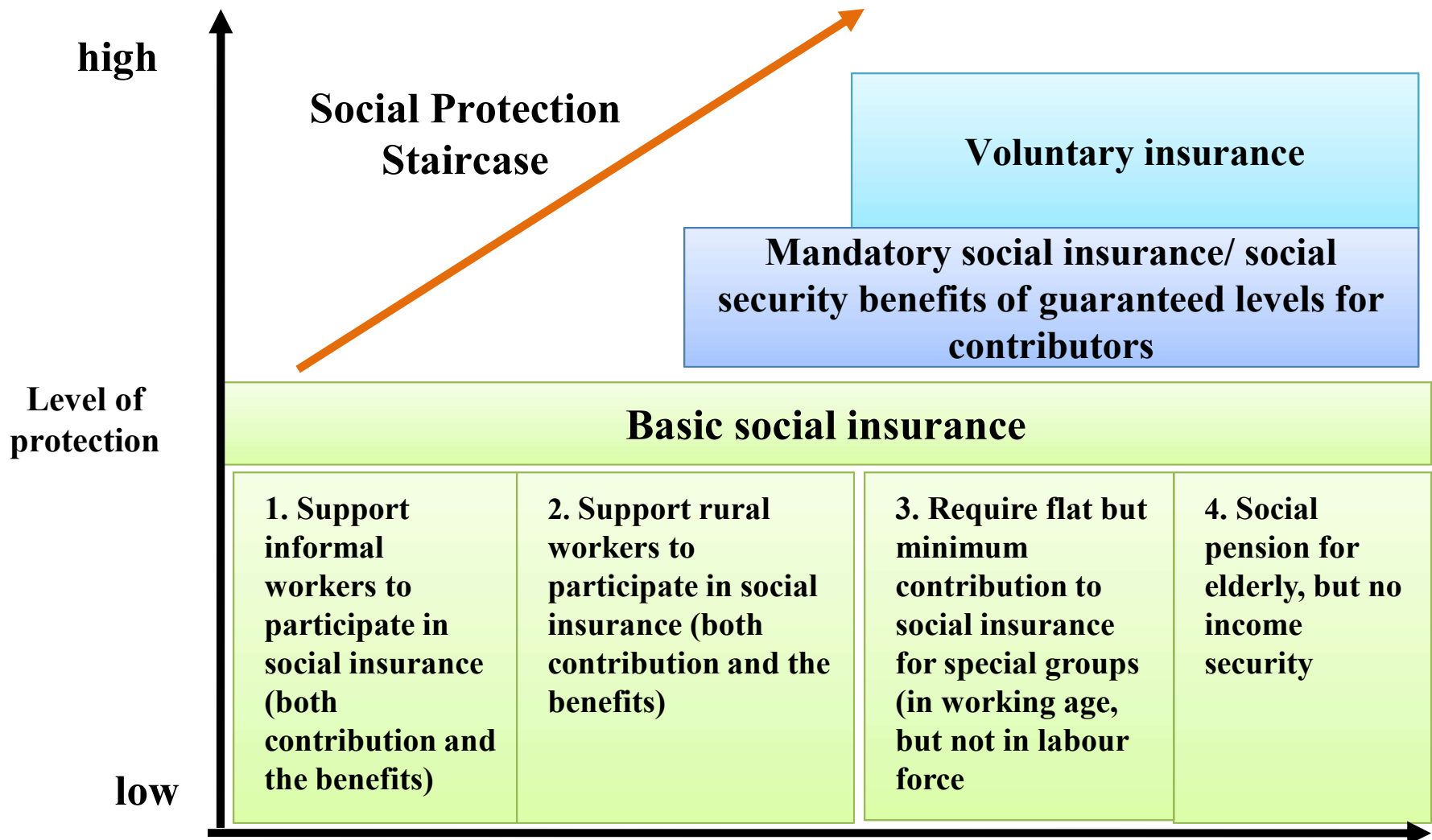
Give more incentives

- Increase the probability of inspections (more staff in peri-urban and rural areas etc.)
- Limit the recall period for contributions and require lump sum amounts when no proper documentation is available to avoid excessively high debts and to speed up the process
- *Spread over time the payments of contributions arrears (with the corresponding penalties)*
- *Apply a large discount on the amount of penalties as long as the firm is up-to-date with the payments of contributions and arrears.*

Rising awareness and accessibility

- The commitment of People's Committees
- Involvement of grassroots organizations in the information campaign for the expansion of coverage
- The reform of Vietnam social security to better service

The way to universal coverage: Re-designing the social insurance system



5. How to finance

Increase government revenue

- Economic stability to GDP growth, reducing vulnerabilities (target 6.5-7% and 1-digit inflation)
- The tax system is rather progressive but only a minority of income earners (14%-17%) in the top defiles are obliged to pay taxes
- *Expanding social protection to get more revenue (including the increase of retirement age).*
- Structure reform (banking systems and SOEs): Reduce tax exemption, broaden revenue base; introduce tax on property, avoid tax and tariff deduction and exemption.
- Fiscal space to address the contingent liabilities from banking sector and strengthening SOEs, increase non tax revenue

5. How to finance (cont.)

Better expenditure

- Rationing unproductive expenditure
- Cutting non efficient spending, avoid tax and tariff deduction and exemption.
- Fiscal space to address the contingent liabilities from banking sector and strengthening SOEs,
- Capital investment efficiency (on SOEs??)

Source for this presentation

1. ILSSA (2016), Study on increasing social security coverage of employees in small and medium enterprises, supported by the European Union, the Organisation for Economic Co-operation and Development (OECD) and the Government of Finland.
2. MOLISA, Government reports on social protections a
3. Research studies

**Thank you very much
for your attention!**