

Assessment the Social Insurance in Vietnam

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Abstract

This paper focuses on the evaluation and analysis of revenue and expenditure of the Social Insurance (SI) in Vietnam in recent years (2010-2012). In addition to an overall assessment on the operation of social insurance revenues and expenditures, the research analyzes the causes affecting the collection and expenditure of social insurance leads to the instability of social insurance funds. The assessment and analysis of this paper is based on specific research and data collection. The research also proposes solutions to overcome the remaining difficulties in the management of social insurance funds

Key word: Social Insurance, imbalance of SI, welfare system

1. Introduction

Vietnam is one of the most populous country in the world (over 90 million), as well as a developing country with low national income and low living standards. So, for all social security matters in general, specifically the Social Insurance (SI) carries a significant meaning to the whole population. In the last several years, social insurance policy in Vietnam played an important role of contributing to the physical benefits, life support for the Social Security beneficiaries and their families when faced risks, events in lifetime leads to reduced or lost labor power, reduction or loss of income due to illness, maternity, labor accident, occupational disease, or death. The policy of social insurance also motivates workers, officials, armed forces assured work, production, contributing in the victories of the construction process and defense of the homeland. Recognizing this, the policy of the Party and State always focused on building and developing the social insurance system in the entire population, the social insurance system in Vietnam is now gradually improving and the majority of everyone involved. Infact that the current implementation of social insurance policies in Vietnam is considered relatively stable and growing, expressed as the number of participants growing year after year, Social insurance has created the trust among the people, especially those who were involved in the actual process of labor and production. It helps built a huge budget from the insurance premiums from the employee and the employer makes social insurance pension protection work for participants eligible for Social Security benefits under the Social Security regulations. Social insurance is a pillar of the social security system, so the improvement of social insurance policy plays a large role in contributing to social security. For our country to ensure better social welfare system has always been the policy, major tasks of the Party and State, showing good nature

of our regime and have important implications for political stability - social and sustainable development of the country. However, so far the number of people participating in the social security funds account for a small proportion of the population compared with an average of 68 % (end of 2012). Number of employees not participating in social insurance mainly focus on non-state sector is mainly due to unit employers and employees do not comply with the law on social insurance revenues. The change in the size and structure of population, aging of the population and a number of other causes of social security funds is pushing Vietnam to the imbalance and risk of rupture fund which also strongly influenced to implementation mode, social insurance policy for workers in general and the implementation of social insurance management in particular which reduce the effect of social insurance agencies in the management of collection activities SI. This paper shows the cause of the imbalance of social insurance funds, assess the situation and detailed collection of social insurance funds in 3 years from 2010 to 2012. From that offer policy suggestions to improve the efficiency of revenue & expenditure management in Vietnam Social Insurance Fund.

2. Overview of the researches

Recently in Vietnam, social insurance policies are very concerned. So there are many research articles dig even deeper about this issue. This research mainly focuses on policy analysis of the Vietnam Social Insurance has achieved what? Remain any restrictions? There are many very in-depth researchs on activities of social insurance revenues and expenditures, specifically for the collection: the status of collecting social insurance? These impacts affect the collection of social insurance and social insurance fund management revenues effectively or not... As for expenses: Expenses for what activities? How social

insurance fund management expenses like? The analysis of revenue and expenditure imbalance of social insurance is interested in many studies but not many articles focus on analyzing the causes of the imbalance between revenues and expenditures of social insurance in Vietnam. In this paper, authors focused primarily on the theory instead focus on analyzing the cause of the imbalance of social security funds. However, the research still fully evaluated and a brief overview of the activities in Vietnam Social insurance's revenue and expenditure. From analyzing the status of the Social Security revenue and expenditure to find out the cause of the instability to provides the database to assess the revenue and the expenditure of the social insurance in Vietnam. The paper also proposes solutions to improve the quality of expenditure and health insurance operations in Vietnam. Thereby contributing to improved social insurance policy better and more complete.

3.The research method

a. Data

Collect data from the research on the situation of the Income & Expense Insurance Fund in three years from 2010 to 2012.

- Collect data from the Statistical Yearbook for three years from 2010 to 2012.
- Gather information from books and articles related to the content of the collected funds & insurance costs in the three years from 2010 to 2012.

b.Method

Table 1: The Number of Social Insurance Participants 2010 – 2012 (Unit: Millions of people)

		2010	2011	2012
Social Insurance	Compulsory Social Insurance	9.343.000	10.100.000	10.437.000
	Voluntary Social Insurance	61.689	104.000	140.000
	Unemployment Insurance	7.055.000	8.000.000	8.300.000
Health Insurance		35.620.019	38.926.000	41.672.768
Total Number of Participants		52.081.718	57.132.011	60.551.780

Source: The report on the Collected & Expenditure of Insurance Funds (2010 - 2012)

Recently, Vietnam's population reaches the 90 million people while the number of people participating in social insurance is only about 60 million people (66% of the population). Considering formula of the Social Insurance income and Expenses:

Using the method of qualitative analysis in the research. Where we use the historical overview that is the mainly method to analysis. The statistics describing the data through tables and charts compare the methods relative, absolute to evaluate and make conclusions.

4. The result

•**In terms of the coverage of social insurance:** According to data collected from the social insurance agency in Vietnam, generally over the recent years, the number of people that participating in social insurance have increased but not significantly. In 2010 the total number of participants of social insurance is about 52.081.718 people in the number of participants that social insurance is compulsory 9.343 million people, the number of participants was 61.689 people voluntary social insurance, unemployment insurance 7.055 million people and health insurance is 35.620.019 people. By 2012, the total number of participants has increased to 60.551.780 million people have health insurance, the number is rising but the growth rate is declining. The increased number of participant is mainly from the voluntary social insurance. Within 3 years from 2010 to 2012 the number of people participating in voluntary social insurance has increased from 61.689 people (in 2010) up to 140.000 people. Through it shows people's awareness has increased. People have realized the value of social insurance and actively participate in this type of insurance. However, the number of participants in social insurance as of 2012 has not reached the effective number. Because the more participants the more efficiently. (See Table 1)

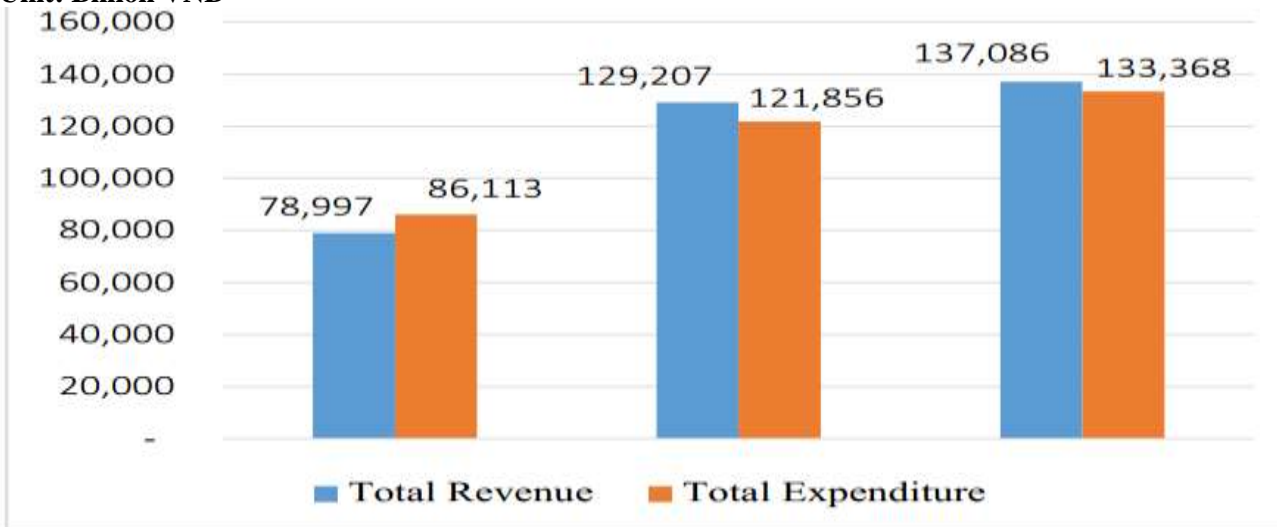
SI Total Revenue = Number of Participants x Charge Rates

The money spent for 1 person = Total revenue/Number of people entitled to Social Insurance Thus, to achieve effective and not lead to deficits the total revenue must be pushed up to a maximum, increase the gross premiums and the total number of participants up to maximum. The social insurance premiums charge rate are adjusted each period but could only located in one fixed intervals in individual income, further more the total number of participants in the current social insurance accounts for only about 66% of the population, so the propagation of social insurance coverage is not really effective. So the government needs to take measures to increase the number of participants to the entire population

●**In terms of total revenue and expenditure period 2010 - 2012:** Through data collected detailed chart 1 below shows total revenues and expenditures may increase social insurance are specific for each year: Total revenue at 78 997 billion in 2010, in the end 2011 was increased to 129 207 and 137 086 billion in 2012. Total spending in 2010, was 86 113 billion in 2011 to total approximately 121 856 billion and reached 133 368 billion at the end of 2012. It is obvious that total total expenditures are gradually catching up with total revenue and is expected to exceed the total revenues in the coming years. The risk of rupture of social insurance funds is near if there is no policies to balance revenues and expenditures.

Chart 1: Total Revenue and of Total Expenditure of Insurance Funds 2010 – 2012

Unit: Billion VND



Source: The report on the Collected & Expenditure of Insurance Funds (2010 - 2012)

●**Reason causes a risk of rupture led to social insurance funds in the coming years:**

First, as stated in the first part, the total revenue of social insurance affected by the structure and population number. The structure of our population is gradually shifting from young population structure to old population structure; this has increased a big pressure on the balance of revenue and expenditure of the Vietnam social insurance. According to statistics, the labor force aged 15 and older in 2012 was 52.58 million, up 2.3 % compared to 2011. Structure labor aged 15 working on the state sector accounted for 10.4 % of the total workforce, the non-state sector accounted for 86.3 % and the foreign investment accounted for 3.3 %. It should be noted that in the more than 52 million people, only about 7.8 million have been training, accounting for 15.4 %. This means 84.6 % of the people who work have not been trained. The unemployment rate of workers aged 2012 is 1.99 %, while the urban area is 3.25 %, in rural areas is 1.42 %. The percentage of unemployed workers aged 2012 is 2.8 %...With the number of young people in the working age decreases and pension regimes

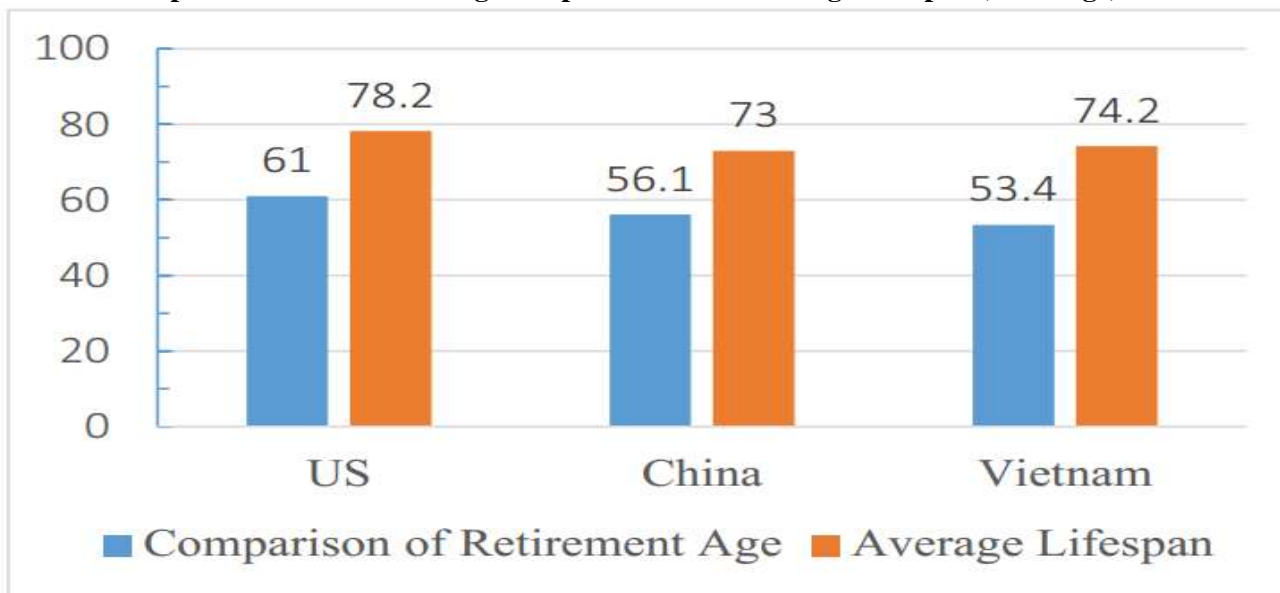
"generous" pension fund will run out if not given the urgent measures. Currently, though jobs for more than 1 million young men and women to join the labor market every year is a priority in the short term, but the process of population aging rapidly in Vietnam poses a serious challenge in the long run. Accordingly, amendments to the Social Insurance Law direction how to expand coverage and diversify the type of insurance on the principle of "Play and Enjoy."

The second Cause is the contributions rate and the beneficiaries rate of Social insurance was not satisfactory: Under the provisions of the Law on Social Insurance, the current monthly pensions of workers equal to 45 % of the average wage, remuneration for social insurance contribution corresponding to 15 years of paying social insurance, then each additional

year of paying social insurance is an additional 2 % to 3 % for male and female, so that the maximum pension is 75 %. While other countries in the world for pension percentage of workers at around 40-45 %. In other words, one person contribute in SI fund while we have three beneficiaries, the imbalance is inevitable. According to an analysis by the Ministry of Labour, Invalids and Social Affairs and the Vietnam Social Insurance, revenues of pension funds and death allowances in 2010 increased by 35.8 % but is caused by social insurance rate increase by 2 % in 2010. while the rate of spending increase by 29.3 % but in fact, the expenditure still accounted for 77.6% - a figure too large. Worth mentioning, according to statistics from the Ministry of Labour, Invalids and Social Affairs, a number of social insurance contributions for pensioners is declining fast.

Retirement age is too low to cause breakage third leading cause of social security funds: The average retirement age in our current average is lower than stipulated by law (about 53.4), while life expectancy is increasing. With pay-hedonic mechanisms such as during the recent, pension fund is surely running out. Since 2007, the number of people in retirement are increasing each year. In 2012, the number of beneficiaries increased pension regime 1.78 times compared to 2007, the amount of pension increases 4.11 times. The coming years, the number of pensioners entitled to from Social Insurance Fund as much, the spent of SI fund will increase in the near future lead to the imbalance. From 2024 onwards, to ensure costs to pension, death allowances in addition to the revenue in year we have to use the remaining funds in previous years to ensure revenue and expenditure; this is the starting point forecast imbalance of revenues and expenditures for the fund, right as ILO recommendations, the 2024 and 2037 funds will run out. The average life expectancy of Americans is 78.2 years old, 73 years old in China and in Vietnam is 74.2 years old. Although the average retirement age in Vietnam is lower than these countries but the average lifespan of Vietnam on the rise and almost as compared to developed countries (see Chart 2)

Chart 2: Comparison of Retirement Age compared with the Average Lifespan (Unit: Age)



Source: World Population Statistics

● **Another reason** leading to imbalance of revenues and expenditures is pension adjustment after each time the minimum salary increase. This condition can lead to lot of people have higher pension than salary when they were working. In addition, the low retirement age regulations, conditions of early retirement too wide so not limit the early retirement (currently 60%).

5. Solution

Generally the cause of broken social security funds in the near future include 3 main reasons the income and expenses are not effective, the restructuring of the state's population and evading social insurance contribution of the business. To overcome the above reasons firstly to increase the coverage of social insurance by propagation to all citizens to be aware of every citizen to participate in Social Security benefits for individuals and for society

as a whole. Then, to extend social insurance to increase the number of participants. At the same time, we have to enhance the quality of voluntary social insurance so new people will participate fully in response to voluntary social insurance.

Secondly, immediately implement measures to increase revenues by increased law enforcement to the number of people eligible for social insurance increases through increase consciousness about law-abiding of labor user,

especially for small and medium business sector. Increase the years of mandatory social insurance contributions up from 15 years to 20 years and decrease the pension down to 45% or 51% of pre-retirement salary. As with compulsory social insurance period of 15 years as at present, there are many less than 40 years old retirees receiving pensions in proportion above. Government should to increased levels of social insurance of workers and employers, according to a roadmap for gradually.

Third, to ensure the sustainability of the social insurance fund, Vietnam should raise the retirement age for both men and women to 65 because the average life expectancy of people is increasing. This will reduce the ratio of the number of employees and the number of people receiving pensions, creating a workforce sufficient to compensate for the decline in the working age population as well as maintaining the financial sustainability of pension regime. According to the ILO, the change in policy to extend sustainable solvency of the fund must be made at the same time ensuring fairness between public sector employees and state workers in the private sector. The pension formula is now short-term incentives, not laborers encourage long-term employment. Therefore, if only increase the retirement age of men and women simply will not help increase working time and insurance premiums in the future. So pension calculation formula should be changed to an annual rate of fixed cumulative decrease from the current 2.5 % to 1.5 or 2 % ..ILO has recommended the Government consider increasing plan retirement age of female and male workers upto 65 in 2036, change the pension formula, remove ceiling the 75 % and applicable regulations that pay 1.5% up to 2% for each year contribute in social insurance; adjust pensions for workers in both the public and private sector consistent with wage growth, apply the reduction coefficient for each year of early retirement (5-6 % / year); establish the multi-pillar pension system, including supplementary pension system and the apparent cohesion with social assistance for the elderly. In addition, for civil servants, reference period for calculating the average salary used to calculate pensions should be extended by the entire period of work rather base on the last 10 years as at present. In the private sector, reference should also calculated at the average salary increase rather than adjusted by inflation.

Overall, modify and improve Social Insurance Law is an urgent task. It's not just for today but the action we need to consider the impact of population structure on the social security system and employment prospects in the future. Vietnam should consider designing an overall

strategy to facilitate social security for all older people are involved, with basic programs like premium payment and benefited (mandatory and voluntary). Retirement programs to ensure budget is for old people. Moreover, the voluntary retirement program should play a complementary role to the current monthly salary by providing additional modes. These reforms will help to improve the system of financial, support for the calculation of pension easier and bring motivation to work for the insured. Modify and improve Social Security Law is an urgent task. It's not just for today but the action we need to consider the impact of population structure on the social security system and employment prospects in the future.

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