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Income Guarantee for People beyond Working Age: A Case Study in Vietnam

[1] Bich Hong Hoang, [2] Duc Trong Pham
[1, 2] University of Labor and Social Affairs, Hanoi, Vietnam

Corresponding Author: **Bich Hong Hoang**

Abstract
The researchers studied the pension insurance model in some countries around the world and found that, with this model, all people of retirement age (beyond the working age) have income/pension to ensure their minimum standard of living. After conducting research on the income of workers beyond working age in Vietnam, the research team found that many people who reach retirement age do not have a stable source of income/pension; only one out of four people receives pension and one out of eight people receive social allowances (from the state budget with low entitlement) while the rest have to guarantee their income on their own. The article studies the pension insurance model in some countries and the current situation of pension insurance model in Vietnam. It proposes a model so that every worker beyond working age has an income/pension, which can guarantee a stable life for them and contribute to ensure social security.

Keywords: Pension, Beyond Working Age, Vietnam

1. Introduction and overview

There are many ways for one to guarantee his/her income when going beyond working age such as saving money, hoarding valuable assets or participating in insurance. Today, when the socio-economic has become more developed, the safest and most preeminent financial method is to participate in insurance. A retirement plan or pension scheme is a legal arrangement on retirement income. This agreement can be part of a labor agreement, or a separate agreement established by law, in order to guarantee income for members/participants when they reach retirement age (beyond the working age). This plan/scheme can be provided by the State, or can be provided by the private sector (used as a supplement or alternative to the pension scheme provided by the State). The state-provided retirement scheme is part of the Social Insurance system, where social insurance is built as the main pillar of the Social Security policy in order to guarantee income for workers against the risks of reducing or losing the source of income from labor.

To extend the protection of the pension scheme, pension systems in many countries often combine a contributory pension scheme and a non-contributory one (which is covered by taxes/state budget) to provide income guarantee for people who are beyond working age. The pension system is also used as a tool to redistribute income, emphasize equity and overcome inequalities in the society. However, due to the limited economic conditions in many countries, many workers cannot afford or do not want to participate in the contributory pension schemes, while the state budget is not enough to cover the non-contributory one; therefore, there are many people beyond working age now living without pension. According to the data of the International Labor Organization (ILO) in 2021, 77.5% of people beyond working age worldwide receive a pension, however, there are still large disparity between regions and between rural and urban areas. Many people, despite their pensions, still do not have the basic income to cover their living expenses.

Vietnam is a developing country. In addition to implementing solutions for economic development, the Government is also paying attention to implementing social security solutions, making efforts to expand the coverage of the pension insurance program so that more people can receive pension when they are beyond working age. However, by the end of 2021, there were still 62% of people beyond working age living without pension or subsidy from the state budget. Therefore, it is necessary to study the multi-pillared pension insurance model in countries that have successfully implemented it to guarantee income for everyone beyond working age.

Many countries have expanded pension insurance coverage based on a multi-pillared pension system, which typically includes an equal pension (basic pension) component from tax sources, a compulsory income-based contributory retirement pension component and an additional retirement component. The 1st pillar of the system usually comprises of a component supported by the Government from sources of public revenue to guarantee basic old-age security for everyone. This approach has proven to be one of the most effective ways to expand coverage in the short and medium term, including for those who have not accumulated a sufficient number of years of contributions or who have made no contributions at all. The 2nd pillar is a contribution-based (DB-defined benefit) scheme. It depends on the amount of contribution of paid employees, contributed by both employees and employers. Finally, the 3rd pillar is usually an additional pension component, allowing people to enjoy higher pension.

- **Pension Insurance System in China**

According to Earn & Yuong's New China report, 2023, in 2022, China made a breakthrough in pension reform, in which, the tax-deferred individual retirement account system was released, and the 3rd pillar was supplemented to complete the three-pillar pension system. This was the most important event of the year and marked a drastic change in the pension insurance system. China's three-pillar pension insurance system includes:
+ The 1st pillar: basic pension/basic welfare, for residents in both urban and rural areas (national pension, implemented according to household registration). Funds are formed from three sources, namely individual contributions, support from organizations and government subsidies. Although it is a voluntary insurance scheme, when the scheme is applied, it can be considered "mandatory", especially for people with income.
+ The 2nd pillar: pension for employees working in enterprises and in the state sector (paid employees). The fund is contributed by both employees and employers.
+ The 3rd pillar: tax-deferred personal account system, voluntarily contributed by employees, offering millions of workers more ways to have pension for themselves.
This system guarantees Chinese people a basic pension when they are beyond working age. That the 1st pillar of the scheme is not fully funded by taxes/state budget alleviates the burden on the state budget while the 2nd pillar and the 3rd pillar can meet the needs of people with higher incomes.

- **Pension Insurance System in Japan**

The Japanese pension system was established in 1942, with the introduction of a pension program for employees, the foundation of which is the 1st pillar - Social pension with 2 programs: pension for non-state workers and pension support for employees of state-owned enterprises, teachers, and employees of private schools. Since 1950, Japan has been reforming the system according to the multi-pillared system, and now, it has built a model of national pension system with three-pillars:
+ The 1st pillar: the national pension, covering the whole working-age population. This is a mandatory pillar for everyone; the fund is contributed by the participants or their spouses with the same contribution and a pre-determined benefit level.
+ The 2nd pillar: pension for employees, a supplementary form to the national pension, in which participants are employees (salaried employees), made on the basis of contributions of employees and employers.
+ The 3rd pillar: voluntary pension, in which all employees can join this program to enjoy higher pension benefits.
The pension insurance system in Japan also includes three pillars: the basic pillar, the salaried pillar, and the voluntary pillar, all of which are contributed by participants, without burdening the state budget.

- **Pension Insurance System in Australia**

The Australian pension system is highly regarded for its level of development, as an effective system based on the following criteria: adequacy, sustainability, and integration. The Australian pension system is also built on a 3-pillar model:
+ The 1st pillar: basic pension/basic welfare, covering the entire population. This pillar is guaranteed by the state, and the beneficiaries are people reaching retirement age.
+ The 2nd pillar: occupational pension, mandatory and made by 3 contributors: employees, employers, and support from the Government. Occupational pension schemes in Australia are relatively diverse, including two main groups: Occupational pension schemes and Personal pension schemes.
+ The 3rd pillar: voluntary pension. In addition to compulsory pension programs, the Australian pension system allows individuals to participate in more voluntary pension programs in the form of savings accounts.
In general, countries have built a multi-pillar pension insurance system, and the 1st pillar covers the entire population, and the Government can provide financial support to guarantee everyone basic pension.

2. Research Objectives and Methodology

The main objective of this research is to study the pension insurance models in some countries and analyze the current situation of the pension insurance model in Vietnam, thereby proposing a model to aim at guaranteeing all people beyond working age income security. The research uses secondary data from the Ministry of Labour, Invalids and Social Affairs of Vietnam and Vietnam Social Security. This work uses an exploratory research approach to the questions it raises, making it theoretical in nature.

3. The Pension System in Vietnam

Currently, in Vietnam, the income gurantee system for people beyond working age includes a pension insurance scheme adjusted under the Law on Social Insurance 2014 and subsidies for the elderly according to the provisions of the Law on the Elderly 2009.

- **Pension Insurance Scheme**

There are three types of pension insurance:
+ Compulsory pension insurance
The subjects of this scheme are cadres, civil servants and public employees; employees working under labor contracts for 1 month or more. Funds are contributed by employees and employers. These subjects will be entitled to a monthly pension when they are eligible for retirement (get the age and have sufficient duration of social insurance contribution). The monthly pension depends on the contribution level.
+ Voluntary pension insurance
Employees who are not subjects of compulsory pension can participate in voluntary pension insurance. Funds are contributed by themselves and partly supported by the State. Beneficiaries are entitled to a pension when they reach retirement age and when they make the minimum contribution in an appropriate duration of time. The monthly pension depends on the contribution level.

+ Voluntary supplementary pension insurance
This type applies to all employees, contributed by the employees themselves or with an additional contribution from their employer. The pension is put into the personal account and the employee is entitled to it when they reach retirement age. This type of insurance is independent of the above two types of insurance in order to meet the needs of higher pension of employees.

- **Subsidies for the Elderly**

According to regulations, elderly people are Vietnamese citizens aged 60 years or older. Elderly people will receive social allowance in the following cases:
- Elderly people from poor households who do not have anyone under obligations to take care of or they do but they are enjoying monthly social allowance;
- People aged 80 years or older who are not subject to the above provisions and have no pension and monthly social insurance allowance or monthly social allowance;
- Elderly people from poor households who do not have anyone under obligations to take care of nor meet the conditions to live in the community, and are eligible for admission to social protection establishments or social houses but have someone to take care of them in the community.

The monthly social allowance level is fixed, depending on the subject (from 24% to 72% of the base salary). Payments come from the state budget.

4. Comments and recommendations

Comments

Compared with the retirement system model of other countries, the retirement pension system in Vietnam also consists of 3 pillars:

- The 1st pillar is basic pension; however, it has not yet covered all people who are beyond working age. This pillar is of social subsidy with low allowance and it only covers people aged 80 years and above. People who already receive pensions or other benefits are not eligible for this.
- The 2nd pillar is pension insurance for employees, including 2 forms of participation: compulsory and voluntary. However, compulsory pension insurance is only applied for salaried employees, and it has barely reached other subjects. According to statistics of Vietnam Social Security, by the end of 2022, there were 3.1 million people receiving pensions, while there were 11.9 million elderly people in total. Moreover, the number of people currently participating in pension insurance at the second pillar is low with only 17,498 million people in 2022, reaching about 38.07% of the labor force in the age group. Thus, there are still many workers who will not have a pension when they reach retirement age.
- The 3rd pillar is voluntary additional pension insurance. Although the pension system consists of 3 pillars, the protection coverage of the pillars is not enough to guarantee that all people beyond working age have a pension. As of December 2022, only 1.7 million out of 11.9 million of old age received social benefits; 3.1 million people received social insurance pensions; the number of people with pensions/monthly allowance accounts for only about 40%; the rest was not guaranteed for income when they get old.

Moreover, the policy of social susidy being separated from the pension insurance system also reveals limitations such as: (i) due to the lack of control over income, many people with income still receive social benefits every month; (ii) people do not actively participate in pension insurance because they think they have income when they get older; (iii) the social subsidy burden the state budget.

Recommendations

Many countries, including Vietnam, when implementing social security, develop social pensions on the basis of state subsidies to guarantee a minimum income for people when they are beyond working age. However, only countries with abundant state budget can achieve this goal. To achieve the goal that all elderly people have at least one social pension, given the current economic conditions of Vietnam (public debt in 2021 accounted for 43.1% of GDP, government debt in the first half of 2022 was VND 3,285 million billion, equivalent to USD 141,594 million (Ministry of Finance, 2022)), it is suggested that a 3-pillar pension system on the basis of “insurance” instead of “subsidy” should be built as follows:
+ The 1st pillar: Social pension/basic pension, with the subject of protection being all citizens, must be implemented compulsorily. The goal of this pillar is to guarantee a minimum fixed pension for everyone beyond working age. Funds are contributed by employees and the state. High-income employees or non-poor or non-near-poor households have to contribute more, while low-income employees (up to a specified level), receive more from the state. The state may even cover for them for a certain period before they escape poverty.
Currently, social pension benefits are being implemented on the basis of fully guaranteed by the state budget. This policy makes people become passive in finding solutions to guarantee their income when they get olders. Moreover, many people can take advantage of the government's inability to control people's income, so instead of participating in voluntary pension, they can make savings and investment so that when they get old, they can also enjoy social benefits. That is not fair to those who truly participate in voluntary pension insurance. Therefore, instead of subsidizing the elderly, the Government should support people to participate in voluntary pension insurance when they are still at the prescribed age. For those with low incomes, the support levels should be specified, and the support period should be prolonged. On the other hand, the Government should lower the minimum period of social insurance participation required so that the elderly can enjoy the monthly pension; for example, the current minimum participation period of 20 years can be reduced to 10 years. By doing so, more people are likely to join for pension. The shift from receiving support to paying for support will help strengthen the responsibility of employees, guarantee fairness in policy beneficiaries, and in the long run, reduce the burden on the state budget.
+ The 2nd pillar: Compulsory pension, applied to all salaried employees, contributed by employees and employers. The contribution level is based on salary.
+ The 3rd pillar: Supplementary pension insurance, applied to the entire population, voluntarily implemented according to market principles, creating favorable conditions for employees and employers to have more options to participate in contributions to enjoy higher pensions.

Thus, it is every citizen's responsibility to contribute to guarantee a pension when they are beyond working age. The Government's financial support responsibility shall reduce so that the Government can concentrate resources on economic development, or on other social security policies. Moreover, it guarantees fairness and equality among people in performing their rights and responsibilities.

5. Conclusion

To guarantee all elderly people basic pension/social pension, achieve social security goals and guarantee fairness and equality among workers, Vietnam needs to restructure the pension insurance system. On the other hand, it is necessary to change the perception of people and managers, from passively receiving "subsidy" to "actively" participating in social pension insurance programs.

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