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# Improving the Investment Performance of Social Insurance Fund in Vietnam

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**Abstract**
Investing in social insurance funds is similar to other investment activities, including main issues of concern such as: source of investment capital/source of investment fund; investment time; method/form of investment; profits generated and who/which agency implements or manages it. However, social insurance is considered a pillar policy of the social insurance system in many countries, so there is often state intervention in the activities of social insurance fund investment, which can be the regulation of investment portfolios or designated to invest by the state, etc, to ensure "safety". Investment of social insurance funds in Vietnam shares many similarities with investment of such funds in other countries and must also comply with State regulations. The article focuses on evaluating the current status of the social insurance fund invested in Vietnam and provides a basis for proposing solutions to enhance the effectiveness of fund investment.

**Keywords:** Social Insurance, Business Cycle, Vietnam

## 1. Introduction

The source of social insurance funds is formed from the contributions of laborers, employers, and (possibly) the state. In addition, there is a very important source, which is profits earned from fund investment activities, because while other sources of income are restricted by legal regulations, income from investment activities can increase through flexible and effective investment measures. The key issue is how to initiate the fund in a way that yields high efficiency.

Insurance in general and social insurance in particular share the characteristic of a "reversed business cycle", meaning that the price is determined in advance (buyers/insurance participants pay premiums in advance), expenses occur later (compensation/payment to participants after the risk occurs). Therefore, the social insurance fund always has a temporarily unused amount of money to pay, especially funds of long-term schemes such as pensions, which will be invested to generate revenue for the fund. Depending on the economic and social conditions of different countries, funds may be invested in different fields. However, the primary investment principle is always safety and liquidity assurance.

Another financial issue concerning social insurance is the increasing cost of payments to laborers, especially in retirement schemes, due to the rising average lifespan of employees, which extends the payment duration, and the increase in pension to cope with inflation, ensuring the livelihood of pensioners. To balance the fund and ensure continuous growth of payment sources for workers, one of the measures is to increase income from investment activities of the social insurance fund.

In Vietnam, social insurance is the pillar of social security policy because of its wide scope of protection. Moreover, social insurance operates on a "contribution-benefit" principle, so the state budget does not have to subsidize in cases where workers are at risk and are entitled to social insurance benefits. Because of its important role, in order to avoid the risk of "fund depletion", the social insurance fund is only invested in the portfolio of investment forms regulated by law. These investment categories are considered safe and annually contribute over 40,000 trillion VND to the Social Insurance Fund (in 2022, the figure was 42,453 billion VND). However, the investment activities are deemed ineffective due to limited investment fields, low interest rates, etc. Therefore, the authors chose to research investment activities for the growth of the social insurance fund, then propose effective and feasible solutions to preserve and increase the value of the social insurance fund as well as ensure a sustainable balance of the social insurance fund.

## 2. Overview and Research Methodology

### *2.1 Research Overview*

Financial investment is an essential activity that every individual or organization thinks of when they have capital. The source of capital can be self-owned or borrowed. The simplest form of investment is depositing money in the bank to earn interest, or investing in the stock market, real estate market, etc. Different forms of investment will bring different results and effectiveness to investors, who always seek high profits, but projects with high profits often have higher risks. Therefore, investors must always research and choose investment options to achieve the highest efficiency with the lowest risk. Social insurance fund, including the pension fund, holds a large amount of temporarily idle money. Furthermore, the existence of the fund affects the lives of many workers and social safety. Therefore, how to invest the fund to achieve efficiency is an issue that many researchers pay interest in.

Gregorio Impavido *et al*, 2008, Improving the Investment Performance of Public Pension Funds: Lessons for the Social Insurance Fund of Cyprus from the Experience of Four OECD Countries. The authors have pointed out that the Public Pension Fund (a part of the Social Insurance Fund) in several countries has the advantage of being a large fund source with low system management and marketing costs, so it is temporarily unused and can be invested in a significant manner. However, in many countries, this advantage is not fully utilized due to low investment efficiency. The reason is due to weak governance structure, government intervention, lack of transparency and no binding accountability of those who take responsibility for investments. To enhance the efficiency of fund investments, many countries have established new pension fund or modernized existing one, with a particular focus on reforming investment policies and restructuring governance. This article explores four new public pension funds established in Norway, Canada, Ireland and New Zealand, discussing the measures implemented to ensure the independence of these funds, separating them from government influence, and evaluating their investment performance and investment strategies. All four countries have concentrated on reforming their implementation body, expanding investment portfolios and modernizing fund management and investment activities. The authors also conducted an assessment of investment activities of the Social Insurance Fund in Cyprus, thereby proposing lessons experienced to improve investment returns.

Paskalis Seran *et al*, 2023, The Efficiency of Indonesian Pension Funds: A Two-Stage Additive Network DEA Approach. The article studies the investment efficiency of the Employer Pension Fund (EPF) through investigating the technical efficiency of Indonesian EPF and its determinants, using data from 38 actively operating EPFs during the period between 2011 and 2017. The results indicate that poor investment management is the fundamental cause of poor fund investment performance. Additionally, scale and ownership are the most important factors determining EPF efficiency. Ownership has positively correlates with investment efficiency, whereas scale negatively affects investment efficiency. The study also provides a predictive analytics model as a practical guide for EPFs to improve their performance.

Son Hong Trinh, 2021, Investment efficiency of social insurance funds in Vietnam. The thesis evaluated the financial efficiency of social insurance fund investment activities in Vietnam during the period of 2008-2018, encompassing 4 investment areas: government bonds purchases, term deposits at banks, investment in key projects and non-term deposits. The article also studies the influencing factors and uses a model to evaluate the fund investment efficiency of various fund managing departments involved in investing the social insurance fund into different types of assets. Based on this, recommendations are made to enhance the Fund's investment efficiency.

### *2.2 Research Methodology*

The writing utilized the following research methodologies:

- Logic-historical method, used to summarize theoretical literature on investment of social insurance fund and its role for fund’s balance.
- Descriptive statistics method, used to analyze the current status of social insurance fund investment in Vietnam based on data from the Vietnam Social Insurance and the General Statistics Office.
- Analysis-synthesis method and normative research, used to synthesize and analyze empirical data to obtain results and identify limitations of social insurance fund investment, thereby providing recommendations for its improvement.

## 3. Social Insurance Fund Investment in Vietnam

### *3.1 Social Insurance Fund Investment Policies*

In Vietnam, after transitioning to a market economy, social insurance has operated under the "contribution-benefit" principle since 1995. The social insurance fund is an independent fund that maintains a self-balancing income and expenditure structure. The Vietnam Social Security was established to implement social insurance policies and manage the fund. Due to the diverse nature of the risks, such as illness, maternity, occupational accidents and diseases, old age, and death, in order to be kept accounting and fund balancing, the social insurance fund is managed using component funds, including 3 main small funds: the illness and maternity fund, the occupational accidents and diseases fund, and the pension and survivorship fund. The illness and maternity fund is short-term and accounted for annually, which limits the fund to choose short-term investment options. The occupational accidents and diseases fund is accounted for over a more extended period. However, due to the low probability of risk, the contribution level is low, it has limited resources for long-term investments. The pension and survivorship fund is operated over a more extended period and accumulates the largest amount of temporarily unused money, because both employees and employers contribute to the fund over their working lives, and the contribution rate is determined to be high from the beginning, and remains stable throughout the contribution process. The benefits are only received after many years, typically when individuals reach retirement age. Therefore, this fund can be invested long-term to potentially earn a higher interest rate.

Social insurance has a significant impact on social and political stability, so the State will "protect the social insurance fund and take measures to preserve and grow the fund. Investment in the social insurance fund must comply with the regulations of the state, as stipulated in the Social Insurance Law of 2014 and detailed guidance in Decree 30/2016/ND-CP. According to these regulations, the principle of investing in the social insurance fund is to ensure transparency, safety, efficiency, and the ability to recover invested capital, with "safety" being the top priority. The fund must ensure the ability to pay for all social insurance benefits for workers in all circumstances. To ensure safety, the social insurance fund is only allowed to invest in the following priority order: (i) Purchase of government bonds, (ii) Making of deposits, or purchase of bonds, term bills or deposit certificates at well-performing commercial banks as rated by the State Bank of Vietnam, (iii) Provision of loans to the state budget. Based on this, the Board of Directors of Vietnam Social Security is the decision-making body responsible for the forms of investment and the investment structure of the funds.

### *3.2 Results of Social Insurance Fund Investments*

The source of investment funds for the Social Insurance Fund stems from the nature of social insurance operations, where contributions are collected in advance and benefits are paid out later. Furthermore, social insurance operates on the principle of "cross-subsidization," meaning that it uses contributions from the majority of participants to support those who face risks or events (such as illness and occupational accidents) randomly, and/or it uses long-term contribution periods to provide for those with shorter benefit periods (such as old age and death). Therefore, the difference in the timing of "income" and "expenditure" serves as the foundation for conducting fund investment projects. The variation in income and expenditure of the social insurance fund in Vietnam over the years is as follows:

**Table 1:** Surplus in social insurance fund

*Cal Unit: million VND*

| | Criteria \ Year | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|
| 1 | Total social insurance income | 223,084 | 245,361 | 263,949 | 269,605 | 306,939 |
| 2 | Total social insurance expenditure | 155,879 | 171,948 | 184,626 | 193,326 | 222,492 |
| 3 | Surplus | 67,205 | 73,413 | 79,323 | 76,279 | 84,447 |

**Source:** Vietnam Social Security

Because the social insurance system in Vietnam applies the PAYG (pay-as-you-go (PAYG) financial social security systems) financial mechanism, taking contributions from participating parties to pay for the current social insurance regime, and also due to inheriting the social insurance policy from the centrally planned economy, the contribution level is low. As a result, the difference between income and expenditure in the social insurance fund accounts for only about 30% of the total income. This difference is intended to be supplemented into the investment fund. The investment activities are carried out by the Investment Management Division, a part of the Vietnam Social Security. This division is responsible for conducting investment operations in accordance with decisions made by the Board of Management. There are three forms of investment allowed for the social insurance fund, but since 2017, all state budget loans have been converted into government bonds. Therefore, the fund currently operates under two investment forms: purchasing government bonds and making deposits, buying bonds, debentures, certificates of deposit at commercial banks. Vietnam's social insurance system invests in government bonds through competitive bidding on the Hanoi Stock Exchange, which has helped improve the efficiency of the fund's investment activities and contributed to the development of the capital market in Vietnam. The investment proportion in the government bond portfolio has been consistently maintained above 80% of the balance as of December 31 each year during the period from 2018 to 2022.

Due to the decreasing trend in government bond interest rates and various legal issues and capital mobilization challenges associated with making deposits, buying bonds, debentures, certificates of deposit at commercial banks, the results of the Social Insurance Fund investments have been impacted. During the 2018-2022 period, the average annual investment interest rates of the fund have shown a declining trend.

**Table 2:** Status of social insurance funds investment

| | Criteria \ Year | Cal Unit | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|
| 1 | Investment balance at the end of the year | Billion VND | 728,085 | 813,663 | 897,715 | 983,068 | 1,132,294 |
| 2 | The amount of profit earned during the year | Billion VND | 41,978 | 46,570 | 47,592 | 43,278 | 42,453 |
| 3 | The average investment interest rate | % | 6.4 | 5.8 | 5.02 | 4.39 | 4,19 |
| 4 | Inflation rate | % | 3.54 | 2.79 | 3.23 | 1.84 | 3.15 |

**Source:** [1, 2, 3] Vietnam Social Security; [4] General Statistics Office

The accumulated investment amount from the Social Insurance Fund increases every year. By the end of 2022, the total surplus in the social insurance fund had increased by 1.56 times compared to the year 2018, with an annual growth rate of approximately 10% in fund size, peaking at 15% in 2022. While the fund's investment size has been growing, the investment interest rates have been decreasing. In 2018, the average investment interest rate was 6.4%, but by 2022, it had dropped to 4.19%. However, when compared to the Consumer Price Index (CPI) or the inflation rate, the investment interest rates have remained relatively higher, with a difference of 1% to 3%. The largest discrepancy occurred in 2019 at 3.01%, while the smallest was in 2022 at 1.01%. Since the fund primarily invests in government bonds, the significant reduction in government bond interest rates during the 2018-2022 period, driven by economic difficulties, has contributed to the decrease in investment interest rates in the social insurance fund.

Thus, it can be seen that the investment in social insurance funds has achieved significant results: (i) adhering well to the 'safety' principle, with all investments being recoverable and no bad debts, (ii) ensuring liquidity to meet the demands for paying social insurance benefits to the workforce, (iii) the management of the fund's investments has become more stringent and uniform through regulations on fund investments and the utilization of investment results, (iv) the investment interest rates have consistently maintained a positive rate compared to the inflation rate. However, the efficiency of the fund's investments remains relatively low, as reflected by:

- Poor investment portfolio, focusing primarily on government bonds, and interest rates are affected by the government's need for money at each stage.
- The average investment interest rate is low, although it is higher than the inflation rate when considered in the long term. The fund's growth does not meet the demands for paying social insurance benefits, especially retirement benefits, because the current investment interest rates are lower than the increase in pension amounts (to compensate for the Consumer Price Index and ensure the livelihood of retirees), such as in 2018 when pensions increased by 6.97%.
- There are no specific regulations on risk management for insurance agencies and risk management during the investment process for investment products.

## 4. Solutions

The scale of the capital investment in the social insurance fund is trending upwards due to the annual addition of the surplus between revenue and expenditure. Therefore, effective fund investment not only increases revenue for the fund but also has a positive impact on the domestic capital market, especially in the current economic conditions where capital is needed for development in Vietnam. To enhance the efficiency of social insurance fund investments, it is necessary to focus on the following measures:

*Firstly, in terms of the social insurance investment policy*

Social insurance is considered as a tool of the state to implement social security policies. Therefore, the state must have measures to expand and develop the social security system. From the planning stage of the policy, the state must take into account measures to balance the revenues and expenditures to ensure the fund's ability to pay for a long time. One of the measures to balance the fund is to increase revenue from the fund's investment activities. However, investments must ensure safety and the ability to convert into cash to meet the needs of payments to workers. Many countries in the world intervene in the fund's investment activities to ensure safety by limiting investment forms and scope. In Vietnam, in recent years, the investment portfolio of the social insurance fund includes only 3-4 categories, focusing on forms of lending to the state budget directly or through the purchase of government bonds. These forms of investment ensure safety but low profitability. To increase the efficiency of the social insurance fund's investment, it is necessary to diversify the investment portfolio. This is also the inevitable trend of social insurance funds in general, and retirement funds in particular in many countries in the world, such as Canada, Australia, Malaysia, South Korea, etc. To have a full legal basis for investment activities, the first step is to amend the regulations on social insurance fund investment in the Social Insurance Law. The contents to be amended include:

- Supplementary investment forms: Currently, there are 3 investment forms, including investment in government bonds, lending to the state budget, and deposits at commercial banks. The investment portfolio can be expanded with additional forms, such as equity participation in projects or industries with the potential for high returns, real estate investments, and foreign investments. Alternatively, for the existing form of bank deposits, additional regulations regarding deposit bidding can be introduced to allow for choosing banks offering the highest interest rates for deposits.
- Supplementary entrusted investment forms: Apart from the direct investments made by the Vietnam Social Insurance Authority, consider adding entrusted investment options to specialized organizations with expertise and experience in this field. This approach can leverage their expertise and experience in this field, potentially leading to better investment decisions.
- Developing investment management and risk governance procedures: Establish detailed procedures for investment management and risk assessment. This should include clear guidelines for evaluating the effectiveness and potential risks associated with investments. Introducing new investment options presents opportunities for higher returns, but also additional risks. Therefore, specific and transparent regulations for assessing investment efficiency and risk management are essential to identify and address investment-related risks.
- Accountability for investment efficiency: Implement a mechanism or department responsible for monitoring investment activities' effectiveness. This department should be entirely responsible for monitoring and ensuring investment efficiency, playing a significant advisory role, and potentially influencing critical changes in investment strategy. Adequate compensation should be provided to members of this department based on investment performance to motivate them effectively.
- Incorporate independent annual audits: Introduce a requirement for independent annual audits of the social insurance's investment activities. Develop a monitoring mechanism that promotes transparency and accountability in investment activities, enabling timely detection of errors or losses in investments and helping prevent misuse.

*Secondly, regarding the implementation organization*

The amount of the Social Insurance Fund's investment is substantial (1.132 quadrillion VND), so an increase in the investment interest rate has a significant impact on the fund's ability to balance (a 1% increase in the investment interest rate is equivalent to an additional profit of 10,000 trillion VND). This ensures the ability to make payments and serves as the basis for improving workers' benefits. The Social Insurance Law only specifies the investment portfolio, while the choice of investment methods and structures to maximize profits is the advisory responsibility of the Vietnam Social Insurance agency (specifically, the Fund Management Department of the social insurance) and the decision of the Vietnam Social Security Management Council. In each phase, different investment methods will yield different profit rates, requiring investment managers to regularly assess risks, predict development trends, and propose and choose appropriate and efficient investment methods.

A significant factor influencing the quality of investment is the staff. Therefore, the Vietnam Social Insurance needs to build a highly professional team in financial investment to advise decision-makers at all levels. In addition, it is necessary to seek the experience of domestic experts and international experts from organizations such as the World Bank, the International Labor Organization (ILO) to enhance investment capacity, improve risk management, and enhance management capabilities for the Vietnam Social Insurance.

Furthermore, it is essential to establish a risk measurement and assessment toolkit, enhance financial assessment and forecasting, and improve the investment effectiveness of the Social Insurance Fund. As the basis for selecting investment methods, in addition to traditional investment forms, it is necessary to expand investments into high-profit potential areas, and conduct investments through entrusted investment in both domestic and international markets, ensuring safety and sustainability.

## 5. Conclusion

Unlike business insurance, the goal of social insurance is to ensure stable life for workers and social security, so social insurance policy needs to aim at stability and ensuring long-term payment capabilities. Unlike business-oriented insurance, the goal of Social Insurance is to ensure the stability of the lives of workers and social well-being. Therefore, social insurance policies need to aim for stability and ensure long-term payment capabilities. While the costs of payments for social insurance schemes, especially retirement benefits, increase annually due to a growing number of beneficiaries, adjustments to pension levels are made to cope with the increase in the consumer price index, increased life expectancy (aging population), etc. To balance the fund, it is necessary to increase revenue, but raising the contribution levels of the participants is challenging because it would impact the lives of workers and the business activities of companies. Therefore, increasing revenue from investing the Social Insurance Fund is a feasible measure, as there is a substantial idle fund source and a high cash demand in the economy. The effectiveness of fund investment is not only a subject of concern and research in Vietnam but also in many countries worldwide.

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