

Indonesia Social Protection Technical Seminar (ISPTS)

EXPANDING PENSION COVERAGE TO THE INFORMAL SECTOR IN VIET NAM

IMPACTS OF MATCHING AND COMMUNICATION

Trang Luu, Nga Thi Nguyen, Robert Palacios, Himanshi, Agastya



Supported by:



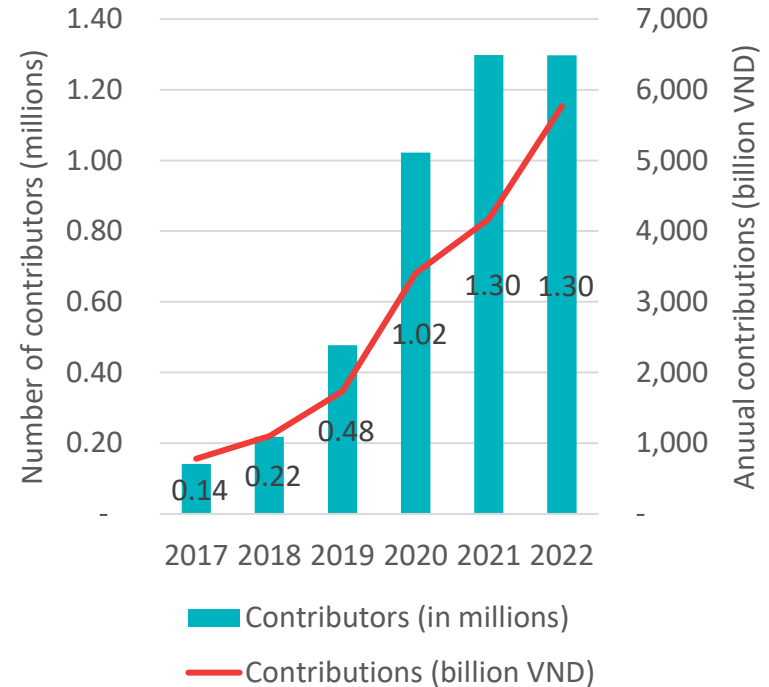
Australian Government

THE VIETNAM CONTEXT

- The population is aging fast, one of the fastest in the world.
- Low pension system coverage
 - Compulsory social insurance (SI) scheme: 31% of the labour force (16.4 million people) contributed in 2023
 - Voluntary scheme: less than 3% of the labour force contributed to the voluntary social insurance fund (VSIF)
- The government has set ambitious targets of **60% of the labor force** contributing to a pension scheme by 2030. This would entail:
 - Expand the categories of workers who are mandated to contribute under the compulsory scheme
 - Increase the voluntary pension scheme coverage for informal sector workers

THE VOLUNTARY SOCIAL INSURANCE SCHEME (VSIF)

- Introduced in 2008
- Eligibility: all informal workers in Vietnam between age 15 and 59, who are not mandated to contribute to the compulsory scheme
- Same benefit formula as the compulsory scheme
- Contribution: 22% of monthly declared income paid to the retirement and survivorship fund
- Minimum contribution is set at the rural poverty line (currently VND 1,500,000).
- Contributors can retire with a pension upon reaching the retirement age, after 15 years of contributions.



VSIF HOWEVER IS NOT DESIGNED OR IMPLEMENTED KEEPING IN MIND THE CHARACTERISTICS OF INFORMAL WORKERS

- VSIF benefits are limited to long-term benefits while contributors in the compulsory scheme receive both long-term and short-term benefits (such as maternity, sickness, unemployment, and labor accident insurance).
- Same contribution rate for the two schemes (both at 22% of salary)
- In VSIF, workers must pay the entire amount by themselves, no registered employers to share the contribution.

➤ **Solution: State subsidy on participants' contribution**

IMPACT OF MATCHING ON VSIF PARTICIPATION

STATE MATCHING ON PARTICIPANTS' CONTRIBUTION

- State subsidy started in 2018
- Match contribution to VSIF members as share of the minimum contribution (the rural poverty line):
 - 30% for poor households
 - 25% for near-poor households
 - 10% for the rest
- Participation has increased significantly since the implementation of the matching program in 2018 but has stabilized since 2021
- The current subsidy accounts for an average of 24 percent of total contribution
- Challenges to extend SI coverage to informal workers
 - No enforceable labour contract
 - Lack stable and regular salaries
 - Workers tend to have strong preferences for liquidity

WHAT IS THE EFFECT OF INCREASING MATCHING SUBSIDY ON VSIF PARTICIPATION?

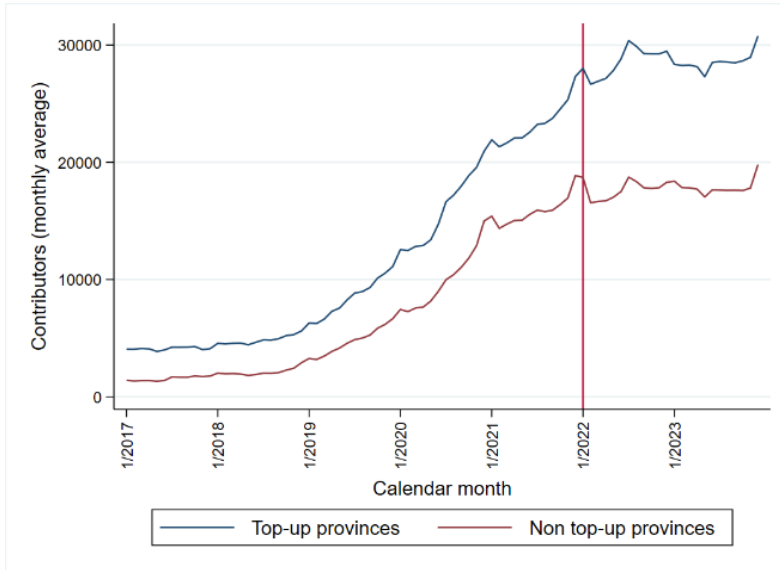
- From 2020, several provinces implemented top-ups in addition to the central government match
 - By January 2023, there were 13 provinces that provided top-ups with variation in amounts and the timing of introduction.
 - Among those, at least 5 provinces provided top up which double matching of the national level
- **Use variation in magnitude and timing of top-ups to evaluate the impact of increasing in subsidy on participation**

	Province	Effective date	Top up		
			Poor households	Near-poor households	Others
1	Ha Tinh	January 1, 2020			10%
2	Vinh Phuc	August 1, 2020	30%	25%	10%
3	Hai Duong	January 1, 2021	10%	10%	
4	Bac Ninh	August 1, 2021	30%	30%	30%
5	Bac Giang	January 1, 2022	10%	10%	10%
6	Quang Nam	January 1, 2022	10%	10%	5%
7	Hanoi	August 1, 2022	30%	25%	10%
8	Quang Binh	October 1, 2022	15%	15%	
9	Quang Ninh	January 1,2023	20%	20%	20%
10	Hai Phong	January 1,2023	30%	25%	10%
11	Binh Duong	January 1,2023	30%	25%	
12	Quang Tri	January 1,2023	20%	15%	10%
13	Son La	January 1,2023	10%	10%	10%

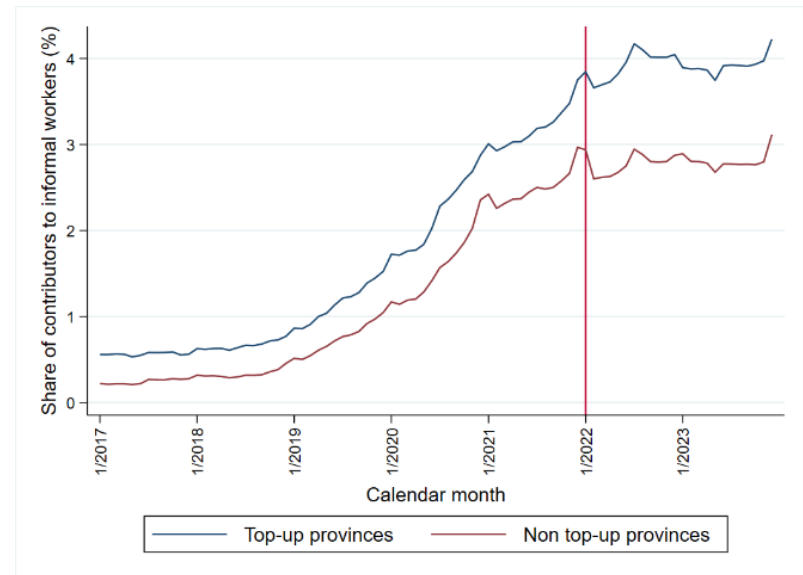
IMPACT OF MATCHING ON VSIF PARTICIPATION

PROVINCES THAT IMPLEMENTED TOP-UP POLICY HAVE HIGHER NUMBER OF CONTRIBUTORS

Number of contributors



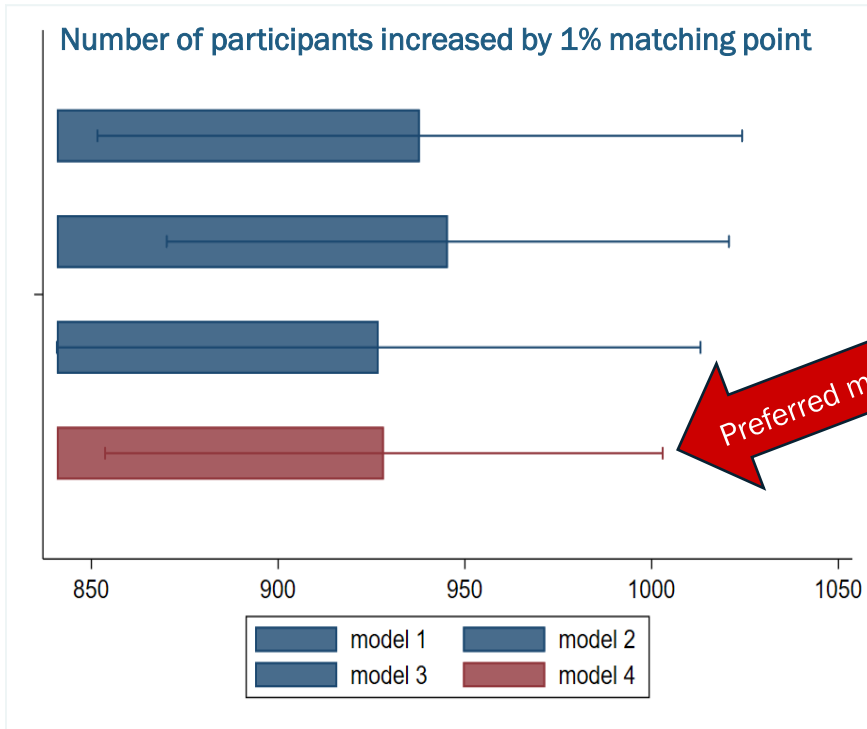
Share of contributors to informal workers



Note: the pool of informal workers include workers not yet contributed to compulsory scheme in LFS 2021.

Source: Authors' calculations based on VSS admin data on VSIF contribution

IMPACT OF MATCHING ON VSIF PARTICIPATION



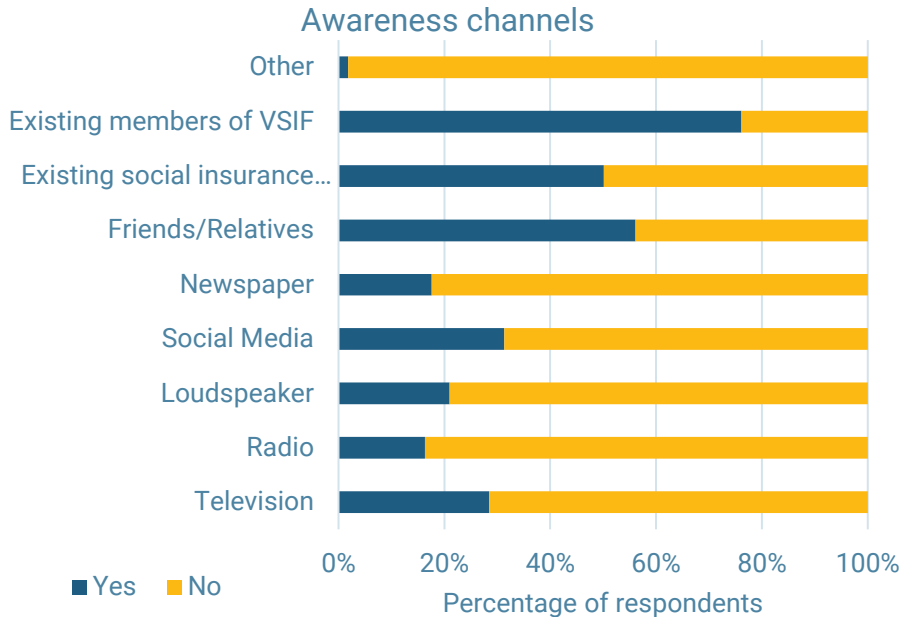
- Increasing matching by 1 percent point would increase VSIF participation by 928 people on average per province, keeping other things remain the same.
- Increase matching rate by 10 ppt -> number of participants would increase to 2 million nationwide
- Increase matching rate by 40 ppt (matching rate of 50%) -> number of participants would increase to 3.8 million
- Estimated expenditure of the subsidy (50% of the rural poverty rate) = $1,500,000 \text{ VND} \times 12 \text{ months} \times 0.22 \times 0.5 = 7,580 \text{ billion VND}$, which is equivalent to about 0.07% of 2023 GDP.

IMPACT OF COMMUNICATION ON VSFI PARTICIPATION

GENERAL AWARENESS OF THE VSIF SCHEME

- Only 15% of respondents reported they are not aware of the voluntary scheme, most of whom are potential participants
- Awareness spreads largely through word of mouth – from existing members and friends/family
 - TV and social media are more common than loudspeakers, radio, or newspaper
 - No significant difference by urban/rural or gender

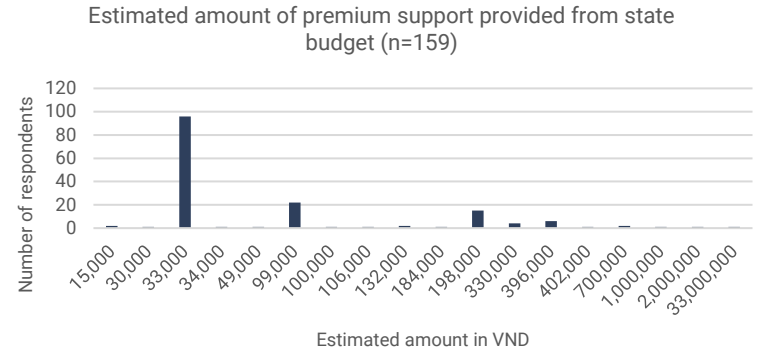
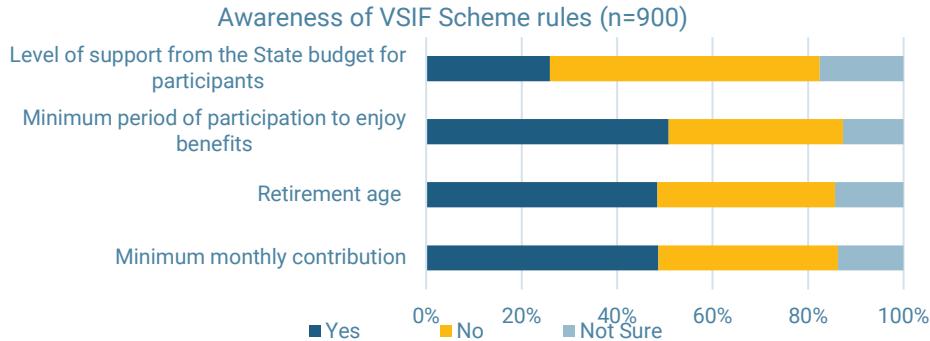
Awareness spread through word of mouth is significant and positively correlated to being a member in VSS



IMPACT OF COMMUNICATION ON VSFI PARTICIPATION

AWARENESS OF THE VSIF RULES AND STATE SUBSIDY

- Among those aware of VSIF ~50% said they know scheme rules (retirement age, minimum contribution & vesting period) **BUT only 25% know about state support**
- Of respondents who said they know about state support only 18% could tell what the amount is. This points to a common occurrence where reported awareness > actual knowledge
- The median response was 33,000 VND
- Awareness for each **design parameter and state subsidy** is strongly associated with **participation status**
- Participants with a higher **awareness of the vesting period** also made **higher contributions** (~111,900 VND)

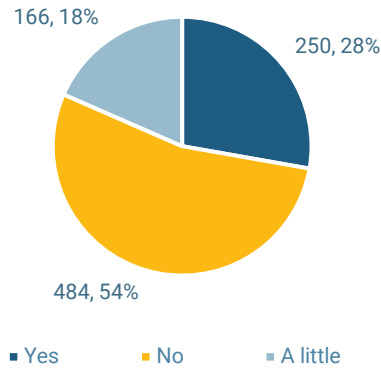


IMPACT OF COMMUNICATION ON VSFI PARTICIPATION

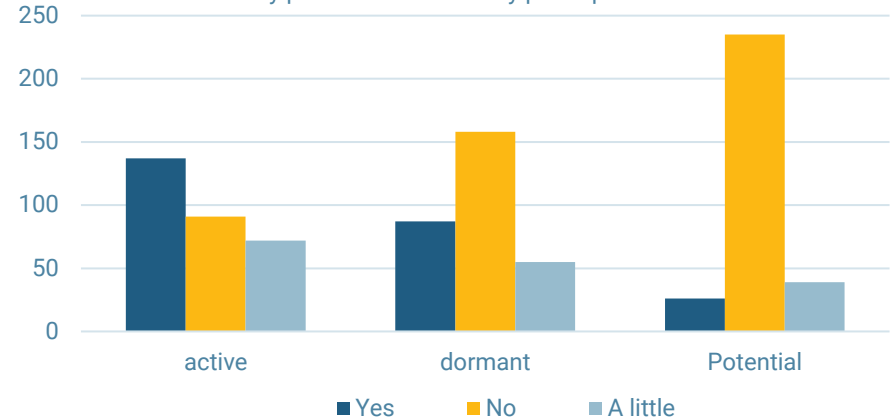
AWARENESS OF THE VSIF RULES AND STATE SUBSIDY

- The ability to estimate pension amounts **does not vary by gender or location**
- 45% of actives can estimate their pensions while only 33% of dormant can do so. This highlights **ability to estimate pensions is correlated to participation status**

Can you estimate the pension amount by continuing to save in voluntary pension scheme? (n=900)



Can you estimate the pension amount if you continued to save in voluntary pension scheme? –by participation status

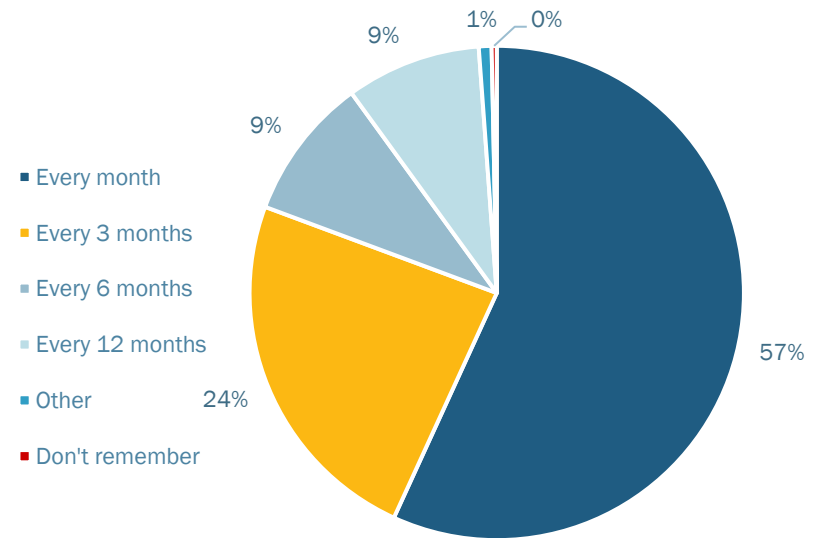


IMPACT OF COMMUNICATION ON VSFI PARTICIPATION

SAVINGS METHODS

- 57% of participants reported making monthly contributions
- The median monthly contribution amount is ~VND 700,000 (\$ 28)
- VND 297,000 (\$12) was reported as the monthly contribution amount by 25% of respondents. **
- Participants who **save in personal bank accounts made higher contributions** (~144,000 VND or \$8) than those who do not.

Chosen frequency of last payment (n=600)



POLICY IMPLICATIONS

- The government's ambitious goal of having 60 percent of the labor force contributing to a pension scheme
- The findings suggest that increasing the incentive such that the contributor pays half of the total contribution could result in a tripling of the current coverage to around 10 percent of the labor force.
- Improvements in other areas of implementation, particularly on overall awareness of the scheme, rules and state subsidy, ability to estimate pension, savings in personal bank account could boost coverage further.



*Kementerian PPN/
Bappenas*



WORLD BANK GROUP

SUPPORTED BY:



Australian Government