Aging Population and Social Insurance Schemes in Viet Nam

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Outline

• An overview of the Vietnamese economy
  - GDP growth rate
  - export, import
  - FDI
  - exchange rate, inflation
  - industrial structure
  - government expenditures and government revenues

• Demographical changes of Vietnam

• Social Insurance Schemes in Vietnam and related to the aging issue

• Implications for the future
Vietnamese economy: An overview

• Vietnam has been enjoying a quite high economic growth in the last 10 years (6.5% average per annum)

• Foreign Direct Investment and Exports are two important growth driving forces. (Japan is important both in terms of trade and investment)

• The country has experiences some episodes of macroeconomic turbulences due to stock market bubble, public investment over-spending and mismanagement (2006-2008; 2010) when inflation was very high (20 percent)

• Fiscal imbalances and debt burden could be a serious problem in the future. A quasi-fixed exchange rate regime may make the problem worse
Topten trading partners 2015

USA: 33.5
China: 17.1
Japan: 14.1
Korea: 8.9
Hong Kong: 7.0
Germany: 5.7
UAE: 5.7
UK: 4.6
Malaysia: 3.6
Singapore: 3.3

China: 49.5
Korea: 27.6
Japan: 14.4
Taiwan: 11.0
Thailand: 8.3
USA: 7.8
Singapore: 6.0
Malaysia: 4.2
Germany: 3.2
Indonesia: 2.7
Vietnam FDI inflows 2000-2015
FDI Accumulated Registered Capital 2015: Top ten

Accumulated Registered Capital 2015

- Korea: 45.2
- Japan: 39.0
- Singapore: 35.1
- Taiwan: 31.0
- B. Virgin: 19.3
- Hong: 15.5
- Malaysia: 13.4
- USA: 11.3
- China: 10.2
- Netherlands: 8.3
Government Spending Composition, 2005-2014
Budget Deficit and Debt Repayment, 2006-2014

![Graph showing budget deficit and debt repayment from 2006 to 2014. The graph indicates the percentage of GDP for budget deficit and the percentage of total spendings for debt repayment. The values are as follows:

- Budget Deficit (% GDP)
  - 2006: 5.00
  - 2007: 6.00
  - 2008: 4.58
  - 2009: 6.90
  - 2010: 5.50
  - 2011: 4.40
  - 2012: 5.36
  - 2013: 6.60
  - 2014: 6.33

- Debt Payment (% Total Spendings)
  - 2006: 12.7
  - 2007: 15.2
  - 2008: 12.0
  - 2009: 14.2
  - 2010: 10.3
  - 2011: 12.0
  - 2012: 14.2
  - 2013: 10.3
  - 2014: 12.0]
Demographical changes in Vietnam: Aging Population Problem?

- Vietnam Population is relatively young.
- But Aging Population could become a problem in the future. By the Vietnamese definition of ‘elderly’ aging comes much sooner (by 20 years) compared to the international definition (65+).
Population Pyramid Vietnam 2015, 2030
Population Pyramids
Vietnam and Japan 2030
AGING TRENDS

AGING TRENDS

Dependency Ratio, Vietnam and Japan and selected countries in the region, 1990-2100
SOCIAL INSURANCE SCHEMES, RETIREMENT AND PENSION ALLOWANCE

INVESTMENT ACTIVITIES
- Lends to the Government
- Treasury Bonds
- Lending to selected Commercial Banks
- Invest in government-directed projects
- Support Development Banks and Social Policy Banks (support policy-lending)

Employee

14%
Social Insurance Fund

14%

8%

Retired

Pension and Survivorship allowance

Mandatory retirement: 60 yo for male and 55 yo for female;
Early retirement: subject to health loss and occupational features
Institutionalized in Social Insurance Law 2014

Complicated eligibility criteria

Complicated pension payment schedules: Pension allowance depends on

- Duration of SIF contribution payment
- Historical SIF contribution and salary records
- Gender-specific (will be phase out by 2020)

Complicated compliance from employers perspective

Wide-spread payment delay or avoidance
# Balance of Social Insurance Fund (SIF)

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</thead>
<tbody>
<tr>
<td><strong>Compulsory SIF</strong></td>
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<tr>
<td>Receipts (VND billion)</td>
<td>23,755</td>
<td>30,939</td>
<td>37,488</td>
<td>49,549</td>
<td>62,009</td>
<td>78,133</td>
<td>145,054</td>
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<tr>
<td>Expenses (VND billion)</td>
<td>14,465</td>
<td>21,360</td>
<td>28,419</td>
<td>35,163</td>
<td>44,237</td>
<td>59,043</td>
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<tr>
<td>Expense-Receipt Ratio</td>
<td>61%</td>
<td>69%</td>
<td>76%</td>
<td>71%</td>
<td>71%</td>
<td>76%</td>
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<tr>
<td><strong>Pension Fund</strong></td>
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<td>Receipts (VND billion)</td>
<td>19,004</td>
<td>24,752</td>
<td>29,990</td>
<td>40,540</td>
<td>50,735</td>
<td>65,111</td>
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<tr>
<td>Expenses (VND billion)</td>
<td>12,244</td>
<td>18,236</td>
<td>24,522</td>
<td>30,940</td>
<td>38,397</td>
<td>50,339</td>
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</tr>
<tr>
<td>Expense-Receipt Ratio</td>
<td>64%</td>
<td>74%</td>
<td>82%</td>
<td>76%</td>
<td>76%</td>
<td>77%</td>
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<tr>
<td>Exchange rate (VND'000/USD)</td>
<td>16.7</td>
<td>17</td>
<td>18</td>
<td>19.2</td>
<td>20.5</td>
<td>21</td>
<td>22</td>
</tr>
</tbody>
</table>

*Source: Vietnam Social Insurance*
## Social Insurance Fund (SIF) Investment Portfolio 2008-2015 (VND billion)

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Lends to Government</strong></td>
<td>8.5</td>
<td>20.0</td>
<td>50.0</td>
<td>69.0</td>
<td>106.0</td>
<td>324.0</td>
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<tr>
<td><strong>Treasure Bills and others</strong></td>
<td>22.5</td>
<td>28.5</td>
<td>34.5</td>
<td>40.5</td>
<td>42.5</td>
<td>45.5</td>
</tr>
<tr>
<td><strong>Lends to Commercial Banks</strong></td>
<td>52.8</td>
<td>46.5</td>
<td>53.5</td>
<td>70.0</td>
<td>66.5</td>
<td>59.6</td>
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<tr>
<td><strong>Government Project (Lai Chau hydropower)</strong></td>
<td></td>
<td></td>
<td></td>
<td>1.5</td>
<td>3.7</td>
<td>6.0</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td>83.8</td>
<td>95.0</td>
<td>138.0</td>
<td>181.0</td>
<td>218.7</td>
<td>435.1</td>
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<tr>
<td><strong>Imputed interest rate (%)</strong></td>
<td>11.8</td>
<td>9.4</td>
<td>9.1</td>
<td>9.8</td>
<td>10.0</td>
<td>8.5</td>
</tr>
</tbody>
</table>

*Source: Vietnam Social Insurance*
Social Insurance Fund (SIF) Investment Portfolio Composition 2008-2015 (%)

Source: Vietnam Social Insurance
Social Insurance Fund (SIF) Sustainability Projections

Source: Vietnam Social Insurance
Social Insurance Fund (SIF) Sustainability: Implications for the Future

• Serious concerns about the sustainability of the Fund
• Some options have been proposed but not convincing: increase retirement age; changing pension allowance formula, increase SI contribution premium
• SIF management issue