Executive summary

1. Introduction

The International Labour Organisation (ILO) has provided technical inputs and expertise to the project for Social Security Development and Training in Viet Nam, funded by the Government of the Netherlands. The present actuarial valuation has been carried out as part of this project with the objective of providing financial estimates of the future progress of the national social security scheme. These results serve as a basis for the more general advice developed in the course of the project concerning planning and other aspects of the scheme.

2. The economic and social context

In accordance with the policy characterised as "doi moi", the national economy of Viet Nam has been undergoing a transition, with a gradual opening to international trade and investment and a widening of industrial and entrepreneurial activity. This policy has been relatively successful and the country's economy has grown consistently since 1986. This has been associated with a marked change from the old system of centralised planning to a system in which a much wider range of commercial activity is encouraged with reduced Government control. Consequently, the number of employees in the government sector and in the state-owned enterprises is reducing progressively while, in contrast, the number of those working in the joint-enterprise and wholly private sectors is gradually increasing.

The national social security scheme originally provided retirement and other benefits on leaving service for employees in Government service (including permanent members of the military services). It has become clear that the scheme must modernise to reflect the changing economic climate. Not only is it important to make provision for the growing number of private sector workers, but it has also been realised that the Government can no longer support an "open-ended" obligation to provide these benefits through the State budget.

Accordingly, legislation was passed, in the form of Decree of Government No. 12/CP, which has given the responsibility for administering the national social security as from the beginning of the year 1995 to the newly-founded Viet Nam Social Security Institution (VSI). This institution has a large degree of autonomy and reports directly to the Government, although the Ministry of Labour, Invalids and Social Affairs (MOLISA) retains responsibility for policy matters. VSI now collects contributions and pays benefits under the national social security scheme, although reimbursement is due to VSI from the State budget in respect of payments of all pensions which had begun before 1995.

3. The approach to the actuarial valuation

Until now, there has been no actuarial valuation of the national social security scheme. The main objective of the present study is, therefore, to assess the prospective financial progress of the scheme, and to determine whether the contributions to the scheme will be sufficient, in the long-term, to meet the cost of the benefits which will be due to the retiring members. This analysis must take into account the expected changes in the employment patterns in Viet Nam, and the development of the social security scheme to provide coverage to an increasing number of workers.

In addition, the obligation accepted by the Government to continue to meet the cost of pensions awarded before 1995 represents a heavy cost to the State budget. A further important objective of the valuation is, therefore, to estimate the development of this cost from year to year, in order to provide a basis for the government's own financial planning.
The actuarial valuation is carried out in the form of projections of the annual income and expenditure of the scheme until the year 2040. These projections start from a set of numerical data representing the current financial position and membership of the scheme. It is not, however, possible at present to obtain the relevant data with the degree of detail which would be desirable, mainly because the scheme's records are held manually on paper files at many district offices and cannot readily be compiled on a national basis. The valuation has therefore been made on the basis of rather broad estimates of the patterns of distribution, by age and levels of earnings, of the members. For this reason, the results of this valuation cannot provide a complete basis for detailed recommendations. It is important that for future valuations, the basic data should be gathered in a form which permits a full analysis.

4. The financial assessment of the existing scheme

Under a set of assumptions described in Chapter 4, demographic and economic projections have been made on a "status quo" basis, i.e. assuming that no change will be made to the present legislation concerning the contribution rates and benefits payable. The results of this projection show that the scheme is able to meet its obligations without difficulty at present, provided that the transfers from the State budget to the scheme in respect of pensions awarded before 1995 are made on time and in full. The projection shows, however, that the cost of the benefits apportioned to VSI will eventually increase to the extent that they cannot be met from the contribution income at the current rate of 20 per cent of pensionable earnings. After the year 2030, the projected costs in each year are likely to climb, eventually reaching the equivalent of contributions at a rate of more than 30 per cent of pensionable earnings.

Summary of the status quo valuation results (in trillion VND)

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>2000</th>
<th>2010</th>
<th>2020</th>
<th>2030</th>
<th>2040</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>7.9</td>
<td>11.6</td>
<td>23.4</td>
<td>35.1</td>
<td>49.6</td>
<td>74.0</td>
</tr>
<tr>
<td>Expenditure</td>
<td>5.9</td>
<td>8.7</td>
<td>17.9</td>
<td>33.4</td>
<td>63.0</td>
<td>128.4</td>
</tr>
<tr>
<td>Surplus</td>
<td>2.0</td>
<td>2.8</td>
<td>5.5</td>
<td>1.8</td>
<td>-13.5</td>
<td>0</td>
</tr>
<tr>
<td>Reserve</td>
<td>4.9</td>
<td>12.6</td>
<td>59.0</td>
<td>100.2</td>
<td>47.6</td>
<td>-</td>
</tr>
<tr>
<td>Government support</td>
<td>5.1</td>
<td>7.0</td>
<td>10.3</td>
<td>10.0</td>
<td>6.6</td>
<td>See below</td>
</tr>
<tr>
<td>PAYG rate</td>
<td>37.4%</td>
<td>34.9%</td>
<td>25.1%</td>
<td>24.0%</td>
<td>25.0%</td>
<td>30.3%</td>
</tr>
</tbody>
</table>

Note: “PAYG rate” – Pay-as-you-go” contribution rate

The projection indicates that the proportion of the scheme's benefit obligations apportioned to the State budget will be greater than that attributed to VSI for a period of about 20 years, and that the amounts payable in Vietnamese Dong will in fact increase over that period, assuming that cost-of-living increases are granted to all pensions. Over a period of a further 20 years, the cost to the State budget will reduce to eventually reach a negligible amount. If, however, the expected financial imbalances in the future are not corrected, then the developing deficit may, in the last resort, fall to be met by the State; the projections show that such a liability may amount to around VND 56.7 trillion by the year 2040 (see the Table above).

In addition to the projections based on the "standard" assumption on the future rate of return on investment, alternative projections have been made, using "variant" assumptions. These estimates show that the results of the main calculation are quite robust, and that conclusions may be drawn with a considerable degree of confidence.
5. Rationalisation and amendment of the Scheme

It will be necessary in due course to amend the scheme to some extent, so as to either increase the level of income or to decrease the expenditure. There are a number of possible ways in which this could be achieved. Taking into consideration the limitations of the available data, the following measures have been considered:

- A reduction in the "accrual rate" for pension benefits, to 1.5 per cent of pensionable (reference) earnings per year of contributory service;
- A change in the normal age of retirement for female members to 60 years, which would conform with that for the male members.

A number of other changes are suggested which would rationalise and improve the overall structure of the scheme. These measures include:

- A possible limit on the members' earnings which are taken into account for the calculation of pensions or contributions -for instance, to 2.5 times the national average level of earnings amongst private-sector employees;
- The calculation of pensions based on earnings averaged over the whole period of an employee's contributory membership of the scheme, up to the normal pension date;
- The removal of the restriction on payment of maternity allowances to an individual female member's first two confinements;
- A review of the provisions for the payment of pensions to workers who become disabled;
- A review of the extent to which employees made redundant (in particular on the closure of state-owned enterprises) may keep their rights in the scheme.

In addition, it will be advisable to review the calculation of the adjustment to pensions for those members who retire before the normal pensionable age or continue to be at work after that age in certain circumstances.

Furthermore, the financial prospects of the scheme may be improved by ensuring the highest possible degree of efficiency in the scheme's administration. This should include measures to ensure that employers comply with their obligations to register employees and pay contributions. There may also be scope for administrative savings if some functions, at least, can be shared with the Viet Nam Health Insurance Institution (VHI).

6. Conclusions and recommendations

The national social security scheme is still in a state of transition to the new administrative structure, under VSI. It is not appropriate, therefore, to press for major changes to the structure of the scheme until this transition has been completed and consolidated. In the long-term, however, changes will be necessary to balance the income and expenditure of VSI. It is therefore recommended that VSI should begin a review, in conjunction with representatives of the employers and employee members of the scheme, to determine the degree to which the possible changes listed earlier would be acceptable.
The relatively simple changes which would rationalise the structure of the scheme, and noted in the previous section, should be put in place as soon as possible.

A number of measures should be taken to ensure that the scheme will operate as efficiently as possible. The following are of particular importance:

- VSI should review its administrative systems, particularly those concerned with inspection of workplaces and collection of contributions, to ensure the efficient administration of the scheme.

- VSI should develop, without delay, the record keeping systems which will enable detailed financial and membership data to be collected on a national basis.

- VSI should develop, also without delay, accounting systems which conform with generally accepted principles and will enable the financial progress of the scheme to be monitored on a consistent year to year basis;

- VSI should seek to invest its fund more effectively than has been possible until now. This will require negotiation with the Ministry of Finance, to seek a relaxation of the restrictive investment regulations which apply to funds of public institutions, and which largely impede to have capital gains by way of interest and dividends on the investment of assets.