Role of Social Insurance in Assurance of Social Security in Vietnam

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Abstract: Social insurance is considered one of the key pillars of a social security system in many countries. It means the guarantee to fully or partially offset labourers' income lost or reduced due to their sickness, maternity, occupational accidents and diseases, unemployment, retirement or death, on the basis of their contributions to the social insurance fund. The programme, financed by contributions from employers and employees as well as by government revenue, consists of both voluntary and compulsory insurance and unemployment insurance. The author points out a number of issues characterising social insurance in Vietnam, including a low rate of enrolment, low level of payment, cumbersome formalities for beneficiaries, and employer's non-payment of social insurance for their workers. The Government should encourage and create conditions for private agencies, organisations and individuals to participate in social insurance. It should adopt preferential policies of investment in the social insurance fund and other necessary measures to preserve and develop the fund. In the short run, information, education and communication on social insurance should be enhanced to both providers and beneficiaries. Workers in the informal sector should be prioritised and supported to join social insurance. Strict punishments will be handed out to any firm reneging on paying insurance for its workers.

Keywords: Social insurance, social insurance fund, enrolment, enforcement of policies.

1. Introduction

Social security is an important indication of a country's level and quality of development. By looking at the organisation and activities for the assurance of social security in a country, one can realise its development level and social administration. More importantly, social security policies also contribute to social equity for those who do not take part in economic activities and those who lack access to resources and protection from the risks, difficulties and hazards that are not caused by their own actions. Social security can be regarded as the main component in the social policy system of nations across the world; it is the assurance of the income and basic necessities for individuals, families and communities when they face reduced or loss in income as a result of job or working capacity loss. However, it should be noted that social security is not only for hunger and poverty eradication; neither is it purely measures for raising the income or providing allowances for disadvantaged families. Some households, though not classified as poor ones, are vulnerable against natural disasters and socio-economic changes, which directly affect their lives. These include near-poor households, low-income workers, migrant workers, labourers in the informal sector, people with disabilities, homeless children, the helpless elderly, etc. Most of these people do not have the capacity to withstand natural disaster risks and socio-economic changes. Not only do they easily fall into poverty and hunger, have unstable income, but also suffer directly from illnesses, poor health, lack of education, vocation, land for production, capital and social connections, and from families being shattered, etc. Risks of illness, accidents, natural disasters, lean years, livestock epidemics can turn into huge shocks for poor households and the vulnerable groups, endangering their lives and social security.

Although each country opts for a different model, coverage and connotation of social security and social insurance remains nevertheless the main pillar of the social security system of most countries. The main purpose of social insurance is to ensure an adequate living standard for all members of the society in the face of risks and abnormal economic, social and environmental impacts. In Vietnam today, social security policies include three main pillars: an active labour market policy as a risk prevention strategy, social insurance as a risk mitigation strategy, and social allowance as a risk response strategy [1].

By nature, social insurance is a social policy in which every individual has to make savings in order to prevent, offset and respond to damage and risks that may arise in the future. Social insurance helps generate an alternative source of income in case the regular income is reduced or fully lost, helping ensure stability in the worker's life. Among the components of the social security system, social insurance is the most important pillar. To avoid confusion, it should be noted that social insurance does not only consist of pensions but also accident insurance, unemployment insurance, maternity insurance, etc. Social insurance is different from social allowance in the sense that the policy on insurance relies on the mechanism of financial autonomy in which the beneficiaries must have their share of contribution, meanwhile, in the government's social assistance policy, the beneficiaries need not make direct contributions.

If properly implemented, social insurance policies will help ensure stability in the workers' lives when they are retired or have lost their working capacity. The State will be able to cut on its spending for the elderly and the unemployed through the cost-sharing between generations and strata of people. As a result, social equity will be enhanced and social cohesion will be ensured. Enforcement of social insurance policies is aimed to stabilising workers' lives, to provide them with assistance when they encounter risks, and especially, to ensure that they benefit from a stable income after a lifetime of working. Given these reasons, businesses and even the State budget are contributing a share of their income to the social insurance fund. Workers can receive the amount from the fund to take care of themselves upon retirement or when encountering accidents, diseases and risks.

To stimulate economic growth there is a need for market forces, but to ensure stability and sustainable development there is a need for social security and social insurance. In this process, the key role of the State is essential. The strong political determination of the Party and the State together with the country's enhanced economic potential are the crucial foundations to foster a better social welfare and security. Vietnam's socio-economic development strategy for the period of 2011-2020 clearly states: "*To develop the social security system in a diverse and increasingly extensive and effective manner. To create equal opportunities for the access to basic services and social welfare*." Resolution No. 21/NQ-TW of the Politburo also set the following ambitious targets: by 2020, 50% of labourers will be taking part in social insurance and 35% will be joining unemployment insurance schemes.

2. The necessity of social insurance policies

Though begun very early and having become very popular in the world today, social insurance has remained nevertheless a controversial policy. In many places and instances, social insurance has not been properly understood and even confused with other types of social welfare, causing significant challenges to its expansion and development.

There are two reasons for which social insurance policies are necessary. Firstly, there are many people in society who have a lavish spending habit in their youth and then face sickness and become necessitous in their elderly years, creating a burden for their families and society. Therefore, the State must interfere and even call for people to practice thrift for their own benefits in the future. Secondly, social insurance also aims to redistribute social income to help the poor and disadvantaged groups such as women, children, minority groups, and people with disabilities, etc. to compensate for part of the loss they incur in life. This is in fact the principle of social insurance - "the good fortune of the many compensates for the misfortune of the few" that is exercised in different forms, especially in resource sharing.

Social insurance policies help stabilise and enhance the quality of life, to ensure an equal social status of labourers from different economic sectors, and to boost production. Social insurance is an effective tool employed by the State to help redistribute the national income in a fair manner and reduce government spending, ensuring sustainable social welfare. Most notably, social insurance also contributes to strengthening the ties between the employee, the employer and the State. All these three are contributing to the social insurance fund. The employee becomes more responsible with his/her work. The employer who contributes to the social insurance fund is more aware of his/her responsibility towards the employee. Meanwhile, the State contributes to the fund as well as manages its operations in order to ensure fairness and equality between the beneficiaries. The connectivity among the State – employer – employee will help enhance the socio-economic stability.

However, the idea of compulsory social insurance has met with much criticism. First of all, compulsory payment for social insurance may create a burden to workers, causing difficulties to them right at present while the benefits brought about by social insurance in the future are uncertain. Although in theory, both the employer and employee have to contribute and make payment for social insurance, in practice, the former tends to deduct the contribution from the latter's salary, meaning the actual salary is lower than the salary that could have been paid to the latter. Insurance costs may force businesses to cut down jobs, leading to higher unemployment rates and price surges. Furthermore, inflation and currency devaluation can endanger significantly the benefits of the contributing employees. Compulsory social insurance programmes also create a management apparatus that is bureaucratic and inefficient, which practices excessive collection and abuses the social insurance fund. Insurance payment in the future is usually uncertain while at present, the worker is already faced with macroeconomic instability, serious public debt crisis and the risk of the social insurance fund going bust. This is the reality seen in many countries that has resulted in the failure of social insurance programmes.

3. The status of social insurance in Vietnam

In Vietnam, social insurance has been expanded to cover a broader participant base. However, it has yet to help minimise the risks and compensate properly for the damage incurred. The operations of the social insurance fund remain unsustainable with limited insurance products, complex payment procedures, and low compensation schemes that have resulted in a low participation rate with the participants coming mostly from the public sector. In practice, the retirement age is usually lower than the one required by law (usually at 51 years old compared to 55 for women, and 57 years old compared to 60 for men). This reality has led to an earlier insurance book closure and payment to the workers, and consequently, to a bigger financial burden for the social insurance programme nowadays. In Vietnam, social insurance is implemented in two forms: compulsory insurance and voluntary insurance, in addition to unemployment insurance. In 2016, Vietnam had a population of over 93 million people, of whom approx. 50 million were in the working age. However, only 12.5 million were contributors to the social insurance fund (accounting for 24% of the labour force), who mostly came from the state administrative and economic sector. According to the Vietnam Social Insurance (2015), 195,000 people were participating in voluntary insurance schemes. Farmers and young workers are yet to take part actively in this form of insurance. In terms of pensions, only 2 million people (equivalent to over 22% of the over 60-year-old population) were recipients of pension which was modest and could barely help cover monthly expenses. It was estimated that by the end of the year, there would be around 11 million people joining unemployment insurance, a very low figure given the actual number of workers. The modest statistical data suggest a change in substance of social insurance programmes.

Over a long period of time, social insurance was not regarded as an urgent task. Authorities of various levels and the public were neglectful of social insurance; hence, the “culture of social insurance” was unpopular to the public. Although the Law on Social Insurance has provided for compulsory and voluntary social insurance schemes, the demand and capacity of over 70% of the population, who live in rural areas, to join the schemes have remained limited. Most people are not entitled to pensions, are unemployed and lack access to basic social services. Furthermore, the existing social insurance is yet able to cover the informal economic sector which houses a vast number of unskilled workers and which provides for the livelihood of low-income earners. This is where the prevalence of uninsured and uncontracted workers is high. The labourers have to work under poor conditions and hazardous environment while being paid a low and unstable salary, and most of them are working without what is required by law – entering into a contract.

Communication activities remain poor amidst low public awareness on the importance and role of voluntary social insurance. The existing policy has proven to be inadequate, requiring for a minimum contribution of 20 years in order to be eligible for pension, thus, male workers above 45 years old and female workers above 40 joining social insurance will not be able to receive pensions when retired. Moreover, it is also the difference between voluntary social insurance scheme (2 categories) and compulsory social insurance scheme (5 categories) that has discouraged people from joining social insurance. Also, the agency in charge of financial management and operation of social insurance has been changed multiple times in recent years being split and merged. It has also been fragmented and unreasonably organised. The public, and even management officials, still fail to properly determine and differentiate between social insurance and social preferential treatment. Social assistance/relief programmes are not closely managed, which requires the completion of policies on social security and social insurance that are suitable with the characteristics and demands of the society in the new development phase.

The heated and pending issue with social insurance in the recent years is the fact that many companies and employers are avoiding, delaying and owing payments to the social insurance fund, which has affected by large the effectiveness of social insurance policies. While in 2009, the total debt or overdue amounts of compulsory social insurance contribution was VND 2 trillion, in the first half of 2015 alone, social insurance collection was only 40% of the year’s plan, while the total outstanding debts reached already VND 10 trillion [8]. Also according to the VCCI, nearly 50% of businesses are currently evading social insurance contribution, and that has already excluded a large number of enterprises with outstanding social insurance debts. Meanwhile, according to reports by the Vietnam Social Insurance agency, as of now, Vietnam has over 47,315 economic entities and organisations that owe social insurance contribution for nearly 674,000 workers, with a total debt of VND 11.562 trillion.

The above situation is a serious violation of social insurance regulations by certain employers, causing losses to a large number of workers as well as infringing the latter's rights to enjoy social insurance benefits. This is one of the causes of the spontaneous work stoppage by workers in industrial zones. The companies are recruiting and using workforce but are not paying social insurance for them. In different ways, many companies now owe billions of Vietnamese Dong in social insurance, spanning many years. In Hanoi area alone, in 2014, there were 166 business entities with social insurance debt of up to VND 127 billion (the smallest debt was VND 200 million) for at least 3 months. Most of these companies are in the fields of construction and garment and textile, with hundreds of thousands of workers.

Private enterprises usually register for social insurance only for their office staff, leadership or "indirect labour" while ignoring social insurance payment for workers and other "direct labour". They argue that the staff frequently switch jobs, causing them a fluctuating pool of workers and hence, they want to avoid paying social insurance for these workers. Some companies even register for smaller numbers of workers than the actual case, "forgetting" those outside the social insurance list. "Tactics" such as extended probation period, verbal contract or repeated contracts with the duration of less than 3 months have been widely used to circumvent social insurance regulations. In 2012, a survey carried out at Hoang Phat Group (Ninh Binh), the largest social insurance debtor in the province with VND 1.726 trillion, revealed that the company only paid social insurance for 312 workers among a total of 1,400 in place. Apart from that, it did deduct social insurance from the workers' monthly salary and used the amount for other purposes.

For joint-ventures and state-owned enterprises, the most commonly used "tactic" is declaring on paper a salary that is lower than the actual amount paid to employees, sometimes using even the minimum salary. Under the current policy, the salary to be used as basis for social insurance contribution is the salary, remuneration that are stipulated in the labour contract. With this in mind, many employers have sought to minimise their social insurance contribution by stipulating in the labour contract a salary that is slightly above the minimum salary and labelling the rest as allowances and benefits. Thus, when it comes to social insurance contribution, the provided salary, rather than the full income of the workers, will be used as the basis for calculation. This has put the employees at a disadvantage when their social insurance benefits are computed. At some enterprises, when the actual salary is too low, the employee and employer verbally agree not to pay for social insurance but use that amount for salary. That sounds mutually beneficial as the employee can receive more money every month while the employer can avoid paying their share of social insurance. However, in the long run, the practice will bring about negative consequences: the State will incur a loss of revenue while the employees will be at a disadvantage when labour risks occur and most importantly, will not be able to benefit from social insurance in the future.

The above-mentioned behaviours used by companies are, in essence, appropriation of the workers' money and even of the State budget as the companies' contribution to social insurance is already counted in the product costs and distribution fees, therefore, the State revenue will be reduced accordingly. If social insurance evasion is regarded as an act of appropriation of funds, then the above-mentioned practices can be criminally prosecuted instead of being referred to only as outstanding debts.

Over a long period of time, social insurance in Vietnam was focused on civil servants, armed forces and people who rendered services to the revolution, not yet extended to all the labourers in society. The aims of social insurance such as timeliness, quality, efficiency and equality have not yet been achieved, leading to reduced confidence and participation of the public. Social insurance participation remains low. It is a well-known fact that both workers and their owners are not keen on social insurance and not willing to contribute to the social insurance fund over an extended period of time to serve future benefits. What are the causes of such perception? We can name a few below:

First of all, the public is currently lacking confidence in the macroeconomic stability. From 1986 until now, Vietnam has experienced multiple periods of high inflation, even hyperinflation. Inflation and abrupt changes in policies on social insurance have led to a loss of confidence of social insurance contributors on the benefits they can get back in the future. That is why alternative savings means such as gold, US dollars, land, and real estate are still preferred by the public as a risk response strategy.

Secondly, as Vietnam is undergoing economic transition, labour migration from rural to urban areas has been intense. However, most of the migrants are engaged in short-term and seasonal jobs, with low income and in the informal economic sector. As a result, there is a limited demand for social insurance contribution, and unwillingness to make regular and long-term payments. This poses a challenge for today and also an additional objective that social insurance programmes need to cover more persons in the years to come.

Thirdly, the organisational structure of the social insurance fund is not yet encouraging the private sector's participation, with the lack of transparency, complicated procedures, limited sanctioning measures, and unfairness in contribution between the public and private sectors as well as discriminatory policies against the private sector.

Fourthly, Vietnam has a tradition of the old relying on the young, the retired depending on their children and grandchildren. Therefore, the need for social insurance benefits is not as urgent as in Western societies. It is only when the risks occur that people realise the need for insurance. The perception needs to be changed through convincing and the communications of "real people in real stories".

4. Conclusion

Realising sustainable development depends greatly on the enactment and implementation of social security programmes. The more developed a country, the higher the need for the perfection of its social security system. This explains the differences in the development levels among nations and regions across the world. Social insurance can be regarded as the main element of a country's social security system, the assurance for the income and other basic necessities of individuals, families and communities when they face with a reduced or total loss of income as a result of unemployment, loss of working capacity; for the elderly, the helpless, people with disabilities, orphans, migrant workers, the disadvantaged, social welfare beneficiaries, etc.

Not only advanced economies need social insurance. On the contrary, in less developed countries, the demand for the establishment of a proper social insurance system is even greater as people there are facing more risks while having less ability for self-protection or access to social assurance services. Vietnam is laying the foundation for building up its social insurance system in order to ensure proper living standards for its people, especially for the poor and ethnic minority groups. While focusing on hunger and poverty eradication, assisting people in overcoming the damage caused by natural disasters, the policies also aim to minimise the negative impacts of global financial crises and economic depressions on local production and living standards.

Nevertheless, upon a closer look, Vietnam's social insurance system has revealed many shortcomings. The characteristics of the system include low participation, low benefits and low efficiency. While the demand for and awareness of social insurance by the authorities, businesses and the public remain limited, companies and employers have found ways to circumvent the law, avoiding social insurance contribution and illegally the appropriating social insurance fund. The insurance schemes have yet to tackle the diverse needs of the people and the quality of the services is poor, causing hassle to the people. Vietnam's social insurance system is now facing the urgent need to rapidly complete the related policy and regulations, in terms of the number and type of insurance, the maintenance and mobilisation of contributions for the fund, etc. to support well all salaried workers (as well as free workers, contracted workers, rural workers), meeting the diverse needs of the insured, particularly in the context of the market economy and international integration.

The issues raised in this article show that social insurance is the responsibility and one of the top priorities for Vietnam today. Its aim is to ensure that all citizens can enjoy a medium living standard, or at least the minimum one, so that they do not get impoverished, even when faced with abnormal risks. This is an important measurement tool for the realisation of the Party's goal, which illustrates the social role and responsibility of the State and business community today because social insurance is investment for development. The lessons and limitations of social insurance in the past years need to be considered and reflected upon in order to devise appropriate measures in the upcoming years.

On 11 November 2015, the Government issued Decree No. 115/2015/ND-CP (Decree 115) detailing some articles of the Social Insurance Law on compulsory social insurance. The impacts of Decree 115, which took effect on 1 January 2016, will need to be assessed over time. As of now, in order to enhance the effectiveness of policies on social insurance, we need to restore the confidence of the public and businesses on insurance schemes. The demand for social insurance will increase if the public can join insurance services conveniently and easily, and when their interests are ensured. In parallel to service quality-enhancing measures, it is also needed to reach out to other economic sectors and social partners in order to broaden the coverage of social insurance, ensuring the sustainability of this social security pillar.

To that end, the following short-term and medium-term solutions need to be applied:

Firstly, to enhance transparency in the management and use of the social insurance fund, minimising operational risks and costs. If the fund is managed with publicity and transparently, businesses and workers will feel more secure and willing to contribute to social insurance. Flexible options that allow for one-off receipt of social allowances and insurance will address better the interests of the workers and will raise the awareness of social insurance contribution. First of all, there is a need to develop and facilitate the access to social insurance for workers from the informal sector.

Secondly, to review and reduce the number of administrative procedures that are obstacles to the contribution to and benefiting from social insurance, especially in healthcare insurance. Requirements on healthcare insurance cards purchase and use are now going against social security goals, failing to meet the needs of the people and the common trend for social development. Administrative reform in medical examination and treatment is much needed.

Thirdly, as social insurance debt collection remains one of the biggest challenges for the social insurance sector, the Government needs to impose legal regulations for handling such issues. To protect the legitimate rights and interests of the workers, the Government should consider to criminally prosecuting businesses and employers that ignore their responsibilities and violate social insurance regulations, affecting severely the social security policy of the Party and the State.

Fourthly, to develop and reform the social insurance mechanism for the people, establish ad-hoc assistance funds to allow flexibility for localities, and provide basic services with regard to information, housing, education, and healthcare for the poor. Offered many choices, the workers and businesses will easily change their perception and have more motivation to join social insurance.

Fifthly, to enhance the ability of the public to join social insurance via improving the quality of insurance and the awareness of social security; expand to include other economic sectors and social partners in order to broaden the coverage of social insurance, ensuring the sustainability of this social security pillar.

Sixthly, to allow the private sector to invest in the establishment of social insurance funds to help expand coverage and ensure the sustainability of the fund. This is a medium-term solution that allows workers to participate in private insurance funds instead of the mandatory state-run one, creating effective competition among service providers and more choices and benefits for workers.

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