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Vietnam's Social Insurance Dilemma and Workers' Precarious Conditions

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A gas station employee pumps gasoline into the petrol tank of a customer's motorcycle in Hanoi on 10 March 2022. Photo: Nhac NGUYEN/AFP.

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EXECUTIVE SUMMARY

- The growing trend of young employees choosing to withdraw their social insurance premiums early has been a major challenge to Vietnam's social insurance system. Those who choose to do so give up their pensions and the accompanying free public health insurance when they retire in the future.

- Factors such as employees' livelihood, job prospects, perception of social insurance benefits, and lack of trust in the state's management of the social insurance fund all have an impact on their decision to withdraw their social insurance premiums.

- The COVID-19 pandemic has revealed the precarious living and working conditions of many factory workers in the export sectors, evidenced by the surging number of claims for social insurance withdrawals. With their low and unstable incomes, many of these workers view their social insurance premiums as a form of savings, and have no choice but to seek early access to this money during times of financial hardship.

- The government is revising the social insurance law to keep people in the social insurance system for longer; however, the potential effects of the revision remain unclear. Changes to the social insurance system should go hand in hand with labour relations reforms and improved social policies that empower workers and support their livelihood.

EARLY WITHDRAWAL OF SOCIAL INSURANCE PREMIUMS

Article 3.1 of Vietnam's 2014 Law on Social Insurance defines social insurance as "the guarantee to fully or partially offset an employee's income that is reduced or lost due to their sickness, maternity, workplace accident, occupational disease, retirement or death".[1] All employees with labour contracts are entitled to the compulsory social insurance scheme, whereby employers and employees must contribute a certain amount to employees' insurance premiums. Social insurance, which is the largest component of these premiums, mainly covers pensions and maternity benefits. Employees are also entitled to unemployment and health insurance. The contribution is calculated based on the individual employee's basic wage and other forms of regular monthly payments. All participants' social insurance premiums are centrally managed through the state's social insurance fund.

To be eligible for the pension, an employee must contribute to the social insurance fund for at least 20 years. People who have contributed to the scheme for less than 20 years do not qualify for the pension, but are entitled to access their social insurance benefits as a lump sum. The law stipulates certain conditions in which employees can withdraw their social insurance premiums early, including when they (1) move overseas, (2) are diagnosed with a life-threatening illness, and (3) resign and cease contributions to the social insurance fund for a period of one year. According to official statistics, the third condition has been cited in more than 98 per cent of all social insurance withdrawal requests.[2]

In 2014, the Vietnamese government attempted to implement an amendment to the social insurance law which would have required employees to wait until retirement (at age 55 for women and 60 for men) to receive their pension. This change, intended to provide welfare protection for employees in the long run, was met with protests from thousands of workers in industrial regions in southern Vietnam.[3] Following dialogues with workers and legislative debates, the government reversed the amendment and allowed employees to withdraw their social insurance premiums one year after they quit their jobs, as before.

Subsequent to this, the number of people choosing to withdraw their social insurance premiums has been steadily increasing. From 2016 to 2021, the system welcomed an additional 4.23 million participants, but it also had 4.06 million people leaving.[4] On average, the number of lodgements for social insurance withdrawal increased by about 9 per cent each year.[5] In 2021, a record number of more than 960,000 people lodged their claims for social insurance withdrawals. Those who claimed such money were mostly aged below 40 and work in non-state sectors.[6] Fifty-five per cent of the claims were made by women.

As pension is a key pillar of social insurance benefits, the growing opt-out rate from social insurance potentially puts a greater burden on the state to provide care and support for people who have no source of income in their old age. This growing trend poses a key challenge to Vietnam's social insurance system.

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EXPLAINING THE TREND

Several factors, such as employees' livelihood, job prospects, perception of social insurance benefits, and lack of trust in the state's management of the social insurance fund, have contributed to this trend.

Although official statistics are unavailable, media reports and previous research suggest that many who apply for social insurance withdrawals are factory workers employed in key export sectors such as garment, footwear, and other processing industries.[7] These workers, especially those with low incomes, need the money from the social insurance fund to help them overcome their financial hardship. A survey by Vietnam's Institute of Workers and Trade Unions showed that 30 per cent of workers have no savings and often need to borrow money to pay for household expenses.[8] As a result, many low-income workers have come to view their social insurance premiums as a form of savings, and are more likely to seek early access to it when their income is reduced or when extra household expenses arise.[9] In most of the cases, the withdrawn funds are used to settle household debts and pay for children's care and education, medical bills, and housing. Some workers, who are either exhausted from years of factory work or have lost their jobs, may use the money to help them start anew, switch to informal work, or invest in a family business or small-scale trading activities.[10]

Besides the individual living circumstances of workers, weak government regulation and lack of transparency in the management of the social insurance fund also explain why people choose to leave the social insurance system.[11] Reports of persistent legal evasion and violations of workers' social insurance rights are common, with the most serious issue being employers failing to submit their and their employees' contributions to the state's social insurance fund, despite deducting employees' contributions from their monthly wages.[12] For many years, the state-managed social insurance fund has had a deficit, reaching a record high of more than VND13 trillion (US$554 million) in 2016.[13] Sceptical of the state's capacity to manage their social insurance money and to provide insurance and pension payments in the long run, workers who face financial difficulties prefer to withdraw their social insurance premiums and forgo their pension.

Following its failure in 2014 to pass a legal amendment that would prevent employees from withdrawing social insurance premiums early, the government has sought to raise awareness on the disadvantages of early withdrawal and the benefits of pension. Employees who choose to take out their social insurance premiums early are portrayed by government officials as "only thinking about their short-term needs".[14] Plenty of news articles have included the catchphrase "short-term benefits, long-term disadvantages" (*lợi trước mắt, thiệt lâu dài*) to refer to the consequences of early withdrawal and its threat to employees' future welfare.[15]

The media discourse on this matter has slightly shifted following the outbreak of COVID-19, coming to recognise how many workers' precarious conditions had pushed them to withdraw their social insurance premiums. This was especially evident in 2022 when there were long queues of workers waiting outside social insurance offices in Ho Chi Minh City since dawn to lodge their claims.[16] Many had lost their jobs during the pandemic and had to resort to informal work to make ends meet. Even though the act of early withdrawal is still viewed in a negative

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light, the media discourse has demonstrated sympathy towards those who have no choice but to count on their social insurance money to cope with their financial burdens.[17] A union official suggested that more than 80 per cent of those who withdrew their social insurance premiums had no emergency savings for difficult times.[18]

Indeed, employment in some of Vietnam's key export sectors has become increasingly precarious in recent years. As the country pursues an export-oriented policy, hundreds of thousands of jobs have been created each year in the garment, footwear, and other processing industries. This has allowed many people from rural areas to move to industrialising regions and cities, earning an income that can help them and their families escape poverty. However, these sectors are exposed to global market fluctuations and disruptions, which can lead to supplier factories closing down or cutting costs and reducing their labour force. Before the COVID-19 pandemic, there were cases of foreign-owned factories suddenly closing down and their foreign bosses fleeing Vietnam, leaving their workers unpaid and without their social insurance payments.[19] With weak bargaining power,[20] workers are increasingly vulnerable to reduced workplace benefits, short-term contracts, casualisation, and redundancies.[21] Certain groups, such as pregnant workers, those caring for young children, and elderly workers, are even more susceptible to discrimination due to assumptions about their declining productivity.[22]

In terms of living conditions, numerous reports have raised concerns about workers' economic struggles.[23] The minimum wage in high-growth regions, such as Ha Noi and Ho Chi Minh City, currently stands at approximately US$200 a month, a 6 per cent increase from the 2020 minimum wage.[24] However, a former leader of the Vietnam General Confederation of Labour, the only trade union in Vietnam, suggested that the minimum wage still falls short of the minimum living needs of workers by 15 per cent.[25] In actuality, workers usually earn more than the minimum wage, but this discrepancy mostly comes from excessive overtime. In 2021, it was estimated that the average income in Ho Chi Minh City still fell short of a liveable income by 12 per cent.[26] The living conditions of rural-to-urban migrant workers are particularly difficult as they face extra costs such as rent and higher utility bills, while facing barriers in accessing services like healthcare, childcare, and their children's schooling in the provinces and cities they move to.[27] Disruptions and uncertainties caused by the COVID-19 pandemic have made workers' lives even more precarious.[28]

Although the Vietnamese economy has shown positive signs of recovery after the pandemic, many jobs in the export sectors, especially garment and footwear industries, have been severely impacted by weak consumer demand in key export destinations such as the United States and Europe.[29] This has led to the closure and downsizing of numerous factories in southern Vietnam, resulting in an estimated loss of 34,000 jobs and a reduction in working hours for 600,000 workers, leading to a decrease in their income.[30] If affected workers are unable to secure employment or a stable income within a year, it is likely that many of them will consider withdrawing their social insurance premiums to alleviate their financial stress.

PROPOSED CHANGES TO SOCIAL INSURANCE LAW

Early withdrawal of social insurance premiums is currently a critical issue in the Vietnamese government's reform agenda regarding the social insurance law. The government has proposed several measures to limit early withdrawals and encourage more employees to accumulate their contributions towards their pension. The first proposal reduces the amount of money that a person can withdraw early: only their own contribution would be available, while the employer's contributions would remain with the state.[31] In case an individual is unable to re-join the social insurance system in the future, the employer's contributions would be used to partially cover their pension. This proposal seeks to discourage early withdrawals and keep people in the social insurance system for longer. However, it does not take into account the precarious situation of many factory workers who have come to view social insurance money as *their* savings, and who may be desperate to access the money to sustain themselves and their families. Even though this proposal does not strip employees of their right to withdraw social insurance money, as was the case with the overturned legal amendment in 2014, it could still be met with resistance from workers if passed into law. The draft law,[32] circulated for public consultation in March 2023, includes this proposal while retaining the current regulation as an alternative.

The second proposal lowers the eligibility requirement for the pension.[33] Evaluating the potential effects of this proposal is more complicated, considering that workers' circumstances vary. Currently, an employee is eligible for the pension if they have contributed to the social insurance fund for at least 20 years and have reached the legal retirement age (55 for women and 60 for men). This proposal lowers the minimum requirements from 20 years to 15 years, and eventually to 10 years in the long term, with the intention of making pensions more attainable.

To those employees who join the social insurance system at a later age, this proposal would give them a better chance of being eligible for the pension. It also acknowledges the reality that the total employment time of factory workers in certain manufacturing sectors is often not long. For instance, companies in the garment and footwear industries have been known to find ways to lay off elderly workers (meaning those over 35 years old),[34] leaving them disadvantaged in the labour market and struggling to find new employment. Because it is difficult for workers in these industries to accumulate 20 years of social insurance contribution, lowering the minimum requirements for social insurance contribution would enable more people to access the pension, and make pensions more appealing overall.

This proposal nonetheless overlooks other issues concerning workers' circumstances and their lack of trust in the social insurance system. Many workers choose not to wait for the pension not just because of the requirement regarding the minimum years of contribution, but also because they must wait until their retirement to access their money. A typical female worker in the garment industry, for example, can start working in her early 20s, if not before. If she keeps on working and contributing to the social insurance fund, she will reach the minimum years required for the pension in her 40s, yet she has to wait until she is 55 to receive the pension. In reality, many workers do not plan to work in the factory until their retirement, as their health and productivity tend to get worse after years of intensive and hard labour. A union

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official at Pou Yuen, the largest footwear company in Ho Chi Minh City, has observed that about 500 to 600 senior workers, especially those who are 40 years old and above, quit every year.[35] According to the current regulation, once an employee's social insurance contributions have exceeded the threshold of pension eligibility, they are not able to withdraw social insurance premiums as a lump sum and have to wait until their retirement to receive the pension. At Pou Yuen, some workers have resigned from their jobs a few months before the total period of their contributions would have reached 20 years, in order to avoid having their social insurance premiums "locked" in the system.

The draft law reduces the minimum period of pension eligibility from 20 years to 15 years. However, employees would still be able to withdraw social insurance premiums if the total period of their contributions is less than 20 years. This means that those who have accumulated from 15 to 20 years of contributions are eligible for the pension *and* still able to withdraw their social insurance premiums if they wish to. It is unclear whether the legal amendment will keep people, especially factory workers, in the system for longer. Given that violations of social insurance law are still common, and factory workers generally remain sceptical of the state's ability to manage the social insurance fund, workers with precarious conditions would still choose to withdraw their social insurance premiums when necessary.

Since industrial workers are the key targets and beneficiaries of social insurance law, it is important that any future reforms take into account their views and circumstances, particularly their precarious working and living conditions. Strengthening law enforcement and ensuring better protection of workers' social insurance rights will be crucial to raising workers' trust in the state's management of the social insurance fund. Future reforms of the social insurance system should be coupled with improved social policies and labour relations reforms that support workers' livelihoods and grant them a greater voice in the collective bargaining process.

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