

# Elderly people in Vietnam: social protection, informal support and poverty

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This article explores social protection in Vietnam. Vietnam is one of the best-performing countries in terms of combining rapid economic growth, rapidly falling poverty and a commitment to social protection. It is keen not to repeat the mistakes of increased inequality and rural instability that have plagued its neighbour China and deserves more coverage by, and attention from, European policy analysts. This article summarises research on elderly people undertaken for the United Nations Development Programme in Hanoi using data from the Vietnam Household Living Standards Survey. We show that social protection for elderly people in Vietnam is currently patchy, with state transfers tending to reinforce patterns of inequality. These transfers are currently disproportionately captured by those who already relatively well off: those in formal sector employment, the better educated, those living in urban areas and state employees. Those people most likely to be poor, including the minority ethnic population, are among the least likely to be in receipt of state support. Elderly people in this group are largely dependent on income from their own labour and from familial transfers. While the government is committed to extending the coverage of social protection, progress towards a universal and comprehensive system is likely to be slow, given current financial and information constraints and existing commitments to paying the pensions of old cadres now reaching retirement.

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## Introduction

Vietnam is often overshadowed by neighbouring China in many discussions of East Asia. This is a shame because Vietnam represents an essential case study of a developing country for European social policy analysts. It exemplifies a mixture of excellent economic growth, huge reductions in poverty and a firmly held commitment to equity in social policy. Social protection is one of the country's priorities as it attempts to move to being a middle-income country within the next 15 years. Its legacy of communist- and European-inspired social insurance model is, as in other developing countries, proving difficult to reconcile with a large informal economy and strong familial bases of support. Our discussion pulls out one group, elderly people (defined as aged 60 and over), and demonstrates some of the dilemmas facing Vietnam in its ongoing reform of social protection.

Vietnam's record of economic growth with poverty reduction since the early 1990s has been remarkable. From a socialist command economy in which 58% of the population were poor in 1993, the economy has grown on average by 6% per annum so that in 2006 only 16% remained in poverty (World Bank, 2007). Vietnam remains a single-party totalitarian state and the Communist Party, having seen neighbouring China's problems with growing inequality, has made a strong

commitment to continuing growth while paying attention to the problem of rising inequality. This article summarises research undertaken for the United Nations Development Programme in Hanoi, Vietnam (Evans et al, 2007a, 2007b) using the 2004 Vietnam Household Living Standards Survey (VHLSS). The aim of the underlying research is to raise the profile of empirical evidence in understanding the need for social protection and the consequences of current programmes in order to feed into a better informed and more coordinated approach to policy development and evaluation.

One crucial aspect of the commitment to social development and equity is the creation and expansion of a system of social protection that can cover the whole population for a range of crucial needs and life events. The terminology in Vietnam is peculiar and this approach is called 'universal', meaning comprehensive coverage through a range of compulsory and voluntary insurance, private provision and social assistance, rather than a system based on demogants. Of course, Vietnam is still a poor country, with average per capita income in 2006 standing at just US\$ 726 (World Bank, 2007). The legacies of protracted war and of the pure state-socialist model still loom large in social policy. There are considerable numbers of war veterans and war disabled who qualify for assistance and transfers, while the pension commitment to old cadres in the Party, civil service and state-owned enterprises, who worked before the introduction of new contributory social insurance pensions, means that large subsidies from the state budget will have to be made into pension funds for a considerable period of time. However, the post-war population has boomed and the majority of the population is young; only around 10% of the population are aged over 60 and over 60% of the population are of prime working age, that is, 16-59 years old.

How does social protection provide for elderly people in Vietnam? For most elderly people, the most important form of day-to-day provision stems from their own economic activity, alongside benefits from co-residing with adult children (married sons in particular) and informal transfers from family members. While state transfers exist, their coverage is limited and skewed to specific groups, with only a minority in receipt of them.

When we bring together all the evidence and stand back from the overlapping and interweaving provision of informal and formal support for elderly people in Vietnam we find two clear conclusions that fit oddly together. First, households that contain elderly people have, on average, slightly higher incomes than households that do not (Evans et al, 2007b). Second, the risk of poverty in Vietnam, when estimated using multivariate regression, shows an independent additional risk at the margins of 4% if there is an elderly person in the household (Evans et al, 2007a, p 52). The remainder of this article explains how these two apparently contradictory findings come about.

## Economic activity and household formation

Being elderly and being retired are not synonymous in most developing countries, including Vietnam. The large informal sector means that economic activity in household businesses and agricultural production is still the major source of income for Vietnamese families. This means that elderly people both continue to be economically active until quite late in life and also play a large role in household duties that enable others to be more economically productive. When we consider the total hours of household work undertaken alongside hours of economic activity, elderly people perform 40% of all hours in household work and 20% of all household work hours when they co-reside with their adult children. If these households also contain grandchildren, the contribution of elderly members is 26% of total hours of household work and over 10% of household hours on economic activity (Evans et al, 2007b).

Underlying these important contributions to economic and social welfare is the fact that elderly people continue to be economically active during old age. Sixty % of men aged 70 and 35% of 75-year-olds work. The steep fall, from 50% to 30%, between the ages of 70 and 75 is mostly due to lower levels of agricultural work, with formal waged employment falling over the same age range from just 6% to only 2%. Elderly women have largely similar employment rates at the onset of old age at 60, but these fall more gradually with age compared with men. However, elderly women work longer hours in general, both in economic and household activity. Economic activity is also linked to co-residence, of course, with independent elderly people having higher rates of economic activity, 60% to 70% overall, compared with those living with their adult children, under 50% and falling to 34% % for women where there are grandchildren (Evans et al, 2007b).

Informal support for elderly people thus revolves around their economic activity and contribution to familial and household finances and activity. Familial support and benefits from economies of scale, through living together and sharing costs and income and the ability to share caring and other tasks, is obviously crucial for elderly people's welfare. Giang and Pfau report that the decade since 1993 has been characterised by a growing tendency to for elderly people to live alone or with their married partners, rising from 14% to 20%, with around 70% of elderly people continuing to live with their adult children and a decline in those living in other arrangements (Giang and Pfau, 2007b). These trends hide differences that relate to economic growth, as the elderly population is more likely to be rural and the growth in elderly-only households, particularly in some regions, is explained in part by out-migration of younger family members. Single elderly households are more likely to comprise women because of their greater longevity and the fact that single elderly men are more likely to live with family (Giang and Pfau, 2007b).

Levels of physical co-residence understate familial support as many families living in separate households also live in the same village or area, and a high frequency of visits are characteristic, with daily contact reported by 60% of adult children who live

near elderly parents and weekly contact characterising the majority of the remainder (Hirschman and Vu, 1996).

### Informal transfers

Informal sharing of money, food, and other goods is the norm in Vietnamese households, and for elderly people such informal support makes up a major component of their income. Cash support from non-resident family members, regular remittances and lump-sum transfers are also received by the majority of elderly people and far outstrip the numbers in receipt of formal state transfers (Cox, 2004). Analysis shows that over 90% of elderly people lived in households that received informal transfers, and that 96% of households that only contained elderly people received such aid. The lowest coverage of informal transfers, both for the elderly and more generally, is seen in minority ethnic populations (Evans et al, 2007b).

The VHLSS survey data in 2006 did not enable us to distinguish between one-off cash sums and more regular remittances. This distinction is important in Vietnam because of the culture of informal gifts of money during the New Year (Tet) festival and at weddings and funerals as well as the more general informal system of cash loans and gifts. The Vietnamese diaspora abroad also sends considerable amounts in international remittances.

On average, elderly people received just less than one million Vietnamese Dong, equivalent to 63US\$, in 2003/04 in informal cash transfers and around 60% of this is in the form of domestic remittances from others in Vietnam. Domestic remittances are ubiquitous but international remittances are more likely to be received in the South of Vietnam, particularly in the region around Ho Chi Minh City (Saigon), which is probably the result of post-war out-migration from that area in the 1970s. International remittances are also highly correlated with high spending on healthcare, suggesting that they are used by a few to pay for expensive medical treatments.

### Formal transfers

The situation of elderly peoples' gains from social protection in Vietnam is not clear-cut. The majority of elderly people obtain some help from transfers from payments towards the costs of healthcare. Given that the elderly in general are most at risk of ill health and that the risk of ill health rises with age once elderly, this leads both to greater ad-hoc uptake of healthcare and to their selective voluntary enrolment into state-run health insurance schemes that have been expanded in recent years by the Vietnamese government (World Bank, 2007). Such adverse selection is often abetted by younger members of the family paying the voluntary contributions for elderly members. The income effects of such transfers are not clear. The net result of these payments from healthcare subsidies does lead to gains in access to healthcare but formal and informal user charges result in a net reduction in disposable income as a result.

As elderly people predominantly live in households with working-age children and often with their grandchildren, they also gain indirectly from all forms of transfers into the household, such as education subsidies and short-term social insurance benefits paid during periods of maternity leave or sickness to any working-age children that fall into formal social insurance systems (a small minority). The net result of this is that over two thirds of older Vietnamese people live in households that receive social protection transfers but many of these transfers are for healthcare costs and do not directly relate to the needs of the elderly people themselves. On the other hand, when we turn to specific forms of social protection for elderly people, retirement pensions and categorical social assistance, such transfers are pooled into household level income and consumption patterns. This additionally means that, for instance, 29% of all children in Vietnam live with elderly people and thus those who receive pensions and social assistance will be helping indirectly to pay for children's school fees and other needs.

Turning to specific provision for the elderly, social insurance retirement pensions, funded through compulsory social insurance payments for those in formal waged employment, are received in only 22% of households containing elderly people. As we argued earlier, the recipients of these are a cohort of ex-state employees in the communist government and state-owned enterprises and their pensions are earnings-related at the point of retirement. This means that the level of such pensions is very high, and, while they are received by only a minority, they have *on average* a large aggregate impact – over 30US\$ per year – on elderly people's incomes. Fourteen per cent of elderly live in households that receive some form of social assistance funded by general taxation. The majority of these reflect rewards for 'meritorious behaviour' during the wars of liberation and independence and are linked to war disablement or survivorship. A small cadre of 'lucky' elderly people lives in households receiving both war and retirement pensions. Two thirds of elderly people receive no direct social protection in regard to old age. There is a social assistance safety net, funded in the main from general revenues, but also from local funds and augmented by schemes funded from donor aid. However, the coverage of elderly people is meagre and categorical means-tested social assistance applies only to those aged over 90 and those who are severely disabled.

The skewed distribution of pensions depending on individual circumstances, in general rewarding those with higher lifetime incomes than their peers, is made more unequal by current living circumstances, as independent elderly households are more likely to receive pensions and thus the net income is worth more as it is shared across fewer household members. Elderly people living with adult children both with and without grandchildren are less likely to receive pensions and those who do share them across a bigger household pool.

The dilemma of elderly people having higher income but increased likelihood of poverty is thus the result of the interplay between formal and informal social protection. Elderly people in Vietnam are on average slightly better off than younger people, in that households that contain elderly people have higher average per capita incomes. However, informal welfare provision, through a combination of

co-residence and remittances, compounds the underlying skewed distribution of entitlement to formal social protection. Thus average incomes hide the fact that the majority of elderly people have no entitlement, continue to work in fairly low productive employment and share the pooled income from the more productive labour of their adult children. The net effect is thus a higher risk of poverty if a household contains an elderly person.

### **The reform of social protection and the future of elderly people in Vietnam**

What does all this mean for the future of social protection in Vietnam? Social protection is a priority for the government, but current approaches are hindered by a very fractured and uncoordinated approach (World Bank, 2007). Laying a clear foundation for the future of social protection is under discussion (Justino, 2005). However, these discussions do not form a public debate on social protection. Public debate has a low priority in single-party socialist politics and the Communist Party cadres and insiders hold most sway and impose most inertia. Discussions within the Communist Party and within government (effectively between ministries) are largely about operational scope, funding and influence, and public debate about overall direction is most apparent in differences between donors, particularly between the groups that coalesce around the banks (World Bank and Asian Development Bank especially) and United Nations agencies. However, across all these groups it is clear that funding and sustainability remain key concerns both for current healthcare and health insurance, and for future pensions. At the same time, there is some recognition that levels of current coverage often hide large inadequacies in the system and that healthcare provision is currently ill matched to both the prevalence and costs of ill health (Evans et al, 2008). The evidence base, however, is currently poor and this article demonstrates how evidence is beginning to grow and should, we hope, influence discussion and development of social protection. There is no ingrained institutional culture of 'evidence-based policy' in Vietnam and finance and the evidence base that exist are mostly hidden within the technical discussion papers and mission reports of donor-funded research.

The current position of support for elderly people is clearly the outcome of cohorts of entitlement, either from formal employment or from the war, combined with an overlapping, cross-sectional pattern of coverage for healthcare provision that is based on current need and income. If we take the position of the cohorts, in some regards, pensions for those in formal employment are replacing their ability to earn in household agricultural production in their old age. As Vietnam moves towards greater levels of formal employment, arising from rapid economic development, larger cohorts will build up entitlements over time. Regression analysis confirms this by clearly showing that the probability of receiving social protection is associated with formal employment, public sector employment, higher levels of education, urban residence and underlying factors that are clearly proxies for economic development, such as region and minority ethnic status (with high levels of geographical segregation

of hill-tribe and other ethnic minorities) (Evans et al, 2007b). All the evidence points to an urban, northern, educated elite dominating current pension receipt but to the potential, with continuing economic development, for future pensions to be more widespread.

How can the position of poor, elderly people in Vietnam be improved? The debate on pensions in developing countries has been dominated in the 1990s by the issue of private, funded arrangements versus pay-as-you-go state systems. However, more recent developments in the World Bank are again seeing the crucial importance of categorical social assistance provision alongside informal support, as well as the three 'pillars' of pension from private funds, social insurance and basic retirement pensions (Holzman and Hinz, 2005). There is increasing interest in private pensions in Vietnam, but currently financial markets are probably too underdeveloped to ensure success (Castel, 2007). With an already large financial commitment to paying the pensions of old cadres who are retiring with no social insurance record, the option for additionally funding transitional assistance for private pension development, alongside current commitments, is probably poor. Voluntary social insurance is also an option and is believed to be popular (Bales and Castel, 2006). These long-term concerns need to be prioritised now because Vietnam's population will age dramatically over the next 20 years or so as the post-war population boom reaches pensionable age. But all of these options ignore the current cohort of elderly people without entitlement to pensions. The major issue for today's elderly people is thus the development of appropriate social assistance and social pension provision.

Vietnam has characteristics common to many developing countries, with 'economic systems in such as a sizeable informal sector, incomplete financial markets, segmented labour markets, high income inequality, low coverage rates of public social security, and a large family transfer system' (Trang and Jung, 2007, p 5). While coverage of social insurance pensions will increase, their ability to expand to cover the majority of the elderly population will be constrained by the combination of uneven development across Vietnam, poor levels of compliance with and enforcement of contributions, and the continued prevalence of household-based informal economic production in agriculture and trade. Trang and Jung have made a clear case for expanding social assistance provision for elderly people in Vietnam and other developing countries. The options for Vietnam have been more fully explored by Giang and Pfau in their micro-simulation of a variety of options for social pensions targeted by age and other categorical ways of proxy means testing. Reductions of 60% of the poverty gap for the elderly could occur from a scheme costing just one per cent of GDP (Giang and Pfau, 2008).

Progress on improving social assistance for elderly people is likely to be slow and incremental on current evidence. In 2007, age limits for a means-tested categorical social assistance scheme were lowered from 90 to 85. Support for those who qualify, however, is based on the lowest of four operational poverty lines and this piecemeal progress shows how far financial constraints alongside lack of information and data are holding back a true comprehensive and universal approach to supporting older people in Vietnam.

Vietnam stands out among developing countries in having a commitment to universal coverage of social protection but does so through a combination of generous social insurance pensions for the few, fairly generous pension provision for war veterans and under-funded provision for the remainder. This pattern of social protection provision certainly echoes some of the history of early forms of social protection in industrialised countries but the underlying commitment is one of modern-day European social policy. How Vietnam resolves these differences will be an important lesson both for other developing countries and for European social policy analysts.

### Note

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