

# Changing Demographics and Challenges for Old Age Support in Vietnam

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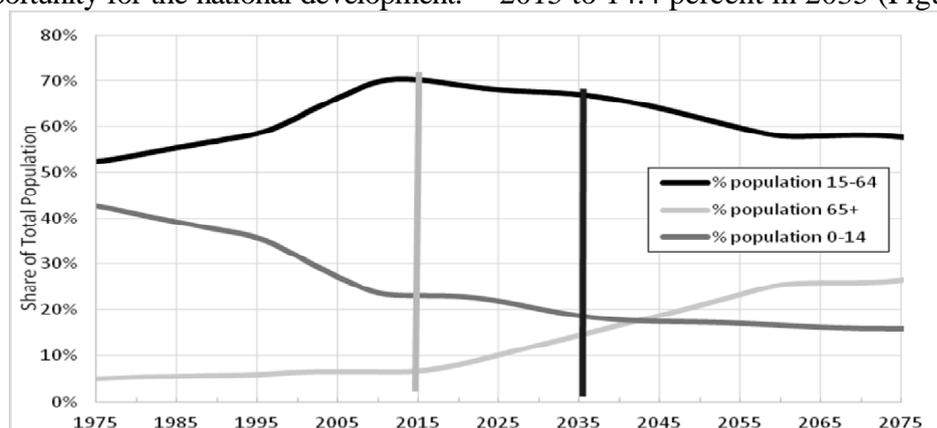
**Abstract:** Vietnam is currently facing a far-reaching evolution in the age structure of its population. The one-off advantage of demography is reaching its limit, and more attention should be paid to employment policies, old age support, social security and pension. The paper analyzes changing demographics and changes for old age support in Vietnam, and suggests some solutions for the issues, notably: a more coherent approach to old-age support, deeper consolidation of delivery systems in the interests of efficiency, transparency and client friendliness, more humane and fiscally sustainable aged and long-term care systems built around a system of home- and community-based care. The role of government will remain paramount both in short and long terms, but non-state providers would gradually be expected to play more of such a role.

**Key words:** Demographics; old age support; challenges; Vietnam.

## 1. Demographic change

Vietnam is currently facing a far-reaching evolution in the age structure of its population. Over the last two decades, Vietnam has cashed in its “demographic dividend” - the economic growth boost generated by a bulge in the share of the population that is of working age. This has been considered a great opportunity for the national development.

However, the dividend is nearly spent as the working age share peaked in 2013 and is now in decline. More importantly, in 2015 Vietnam has reached a turning point in the size of its old age population and will soon become one of the most rapidly aging societies in the world. The share of the population that is over 65 will rise from 6.7 percent in 2015 to 14.4 percent in 2035 (Figure 1).



**Figure 1: Age Structure Change in Vietnam: 1975-2075**

Source: UN Population Projections.

This demographic transformation has a number of consequences for the country. *First*, the decline in the working age population

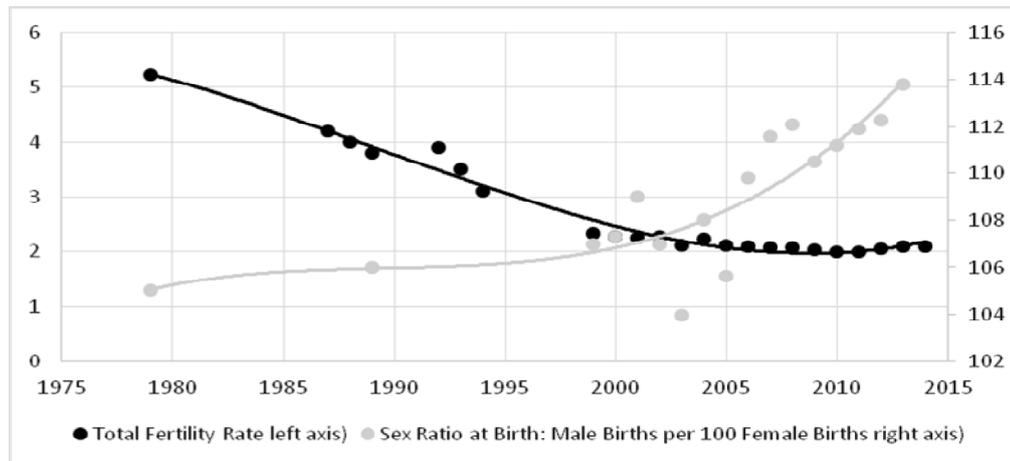
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will mean that a key driver of Vietnam's rapid per capita growth will diminish, making human capital deepening and other sources of productivity growth even more vital for sustaining high growth. *Second*, the country will face serious fiscal challenges driven by the increase burden on the pension and health systems related to the old-age support. *Third*, institutional arrangements for the provision of care to the elderly will quickly become a major concern as they are yet ready.

As a part of the demographic changes, Vietnam's fertility has declined dramatically over the last decades. The total fertility rate (TFR) was approximately 5 in 1980 but dropped rapidly over the following two decades until it reached replacement rate (2.1) in 2005. The decline was the result of a combination of factors [1] (Dang Nguyen Anh, 2014). One set of driving factors has been the changing demand for children. As in other countries that have gone through a period of rapid development, the changing economic environment has reduced the number of children desired by a typical couple. With declines in child mortality, having a large number of children is no longer necessary for a family to ensure that some children survive to adult age to care for their parents. Additionally, as economic opportunities have improved overall, the value of parents' time - particularly for women - has increased, making the childcare commitment required for a large family less attractive. *Finally*, as the family incomes have increased, they have wanted to invest more in each child (for higher "quality"

children in economic terms), which increases the cost of each child and further discourages a large number of children.

A second factor has been government policy in the form of the "1-or-2 child policy". The family planning program has its origins in policies targeting reduced population growth introduced first in 1961. A policy decision in 1989 stipulated 1-2 children per family and 3-5 years birth spacing, and strong recommendations for later age at marriage. This approach was reiterated by a decision in 1993 which targeted 1-2 children per family to stabilize the population size, with the slogan "stop at two children for a good education and rearing." The program introduced under these decisions consisted of campaigns to encourage families to have no more than two children and free provision of contraceptives, particularly intrauterine devices (IUDs). Although the program was said to be routed in a principal of volunteerism, local implementation sometimes had coercive elements. More recently, the policy has been less rigorously enforced and become relaxed for many non-state employees. It is mainly relevant for government employees and party members. As a result, fertility appears to have increased slightly in recent years. The TFR is estimated to have reached a low point of 2.0 in 2010 and 2011 but rose to 2.1 in 2014. This slight increase may have been related to changes (2011) in the messaging of the government's family planning program, which may have been perceived as a loosening of the two-child limit (Figure 2).



**Figure 2:** Total Fertility Rate and Sex Ratio at Birth over time in Vietnam

*Source:* 1989, 1999 and 2009: Population and Housing Census; other years: Population Change and Family Planning Surveys.

The sex ratio at birth (SRB) has increased dramatically since 1999. Vietnam’s level of the SRB, measured as the number of male births per 100 female births, was in the normal range of 105-106 in 1979 and 1989. However starting in 1999, the SRB has risen rapidly, reaching nearly 114 in 2013, placing it along with India and China among the current countries with the highest SRBs of the world. This imbalance will result in a large number of surplus males starting in approximately 20 years, which may result in an increased level of social evils, prostitution, violence, and trafficking in women and girls.

The high sex ratio at birth is a result of a combination of factors. These include the traditional high value placed by Vietnamese families on son preference, the ready availability of sex identification of fetuses through modern ultrasound technology, which makes possible sex-selective abortion. One of the main drivers of son preference is the fact that sons traditionally have the main responsibility for taking care of parents in old age. The two-child policy is also likely to be a

contributing factor for the high SRB as most couples wish to have at least a son for continuity of their lineage.

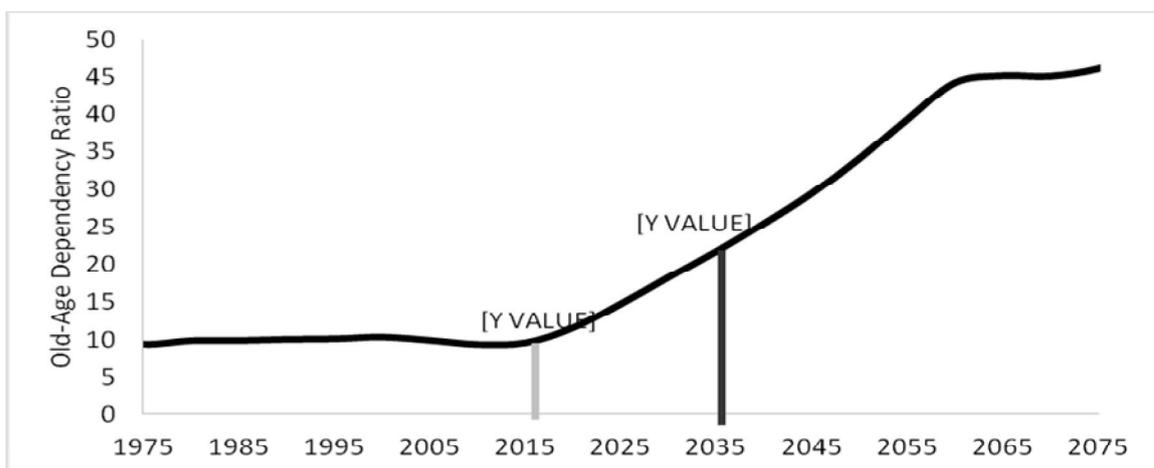
The government is now drafting a new Population Law regarding the population issues in the next decades. One possibility under consideration is a further loosening of the two-child limit, which has generated interest in the likely consequences of such a policy change. Although the impact is highly uncertain, the slight increase in TFR that took place 2012-14, possibly as result of a perceived policy shift, making the population managers afraid that a full elimination of the policy may well result in higher fertility. However this change would most likely be modest and fertility decline trend is irreversible [1]. The broader economic dynamics of fertility change are probably more important determining factors than the two-child policy. In an increasingly prosperous Vietnam, the high opportunity cost of time and the desire to invest greatly in each child have reduced desired family size and adopt fertility control.

It is likely that to some extent removing

the two-child policy will reduce the sex ratio at birth. Given the option to have a larger number of children, couples with strong preferences for sons may be less likely to abort a first or second child if their sex are female. Easing of the two-child policy, however, will most likely not reverse the sex ratio trend completely and quickly. Existing government legislation to prohibit sex identification of fetuses in order to reduce sex-selective abortions have not proven effective. Surveys have shown that very large majorities of women in the later stages of pregnancy know the sex of their fetuses. The current imbalance in the SRB will probably only change substantially as parental preferences evolve. Government policy may be able to speed this evolution through various measures. One way is through public campaigns that emphasizes the value of daughters and promotes gender equity. A second approach is to ensure that the government provides sufficient old-age support to lessen the concern of parents worried about having a male offspring to support them in their later years.

## 2. Challenges for old-age support and social pension

An overarching question in social protection reform is the appropriate role of the state and citizens in providing social protection support of different forms – what is the emerging social assistance in Vietnam and how is it likely to evolve over the coming two decades? For social insurance as well as health care, profound changes will be driven by the extremely rapid aging of the population. Vietnam is at the inflection point, as large numbers of people leave the work force and the old age population swells. A common measure of the age structure of a population is the old age dependency ratio (OADR) - the number of people over age 65 for every 100 people age 15 - 64. As depicted in Figure 3, the OADR has been roughly constant for decades, but it will climb steeply from 9.6 in 2015 to 21.8 in 2035 and continue to rocket in the following decades. Expanding social insurance coverage is both vital and challenging in light of the society's rapid aging in Vietnam.



**Figure 3:** Old Age Dependency 2075 Ratio in Vietnam: 1975-2075

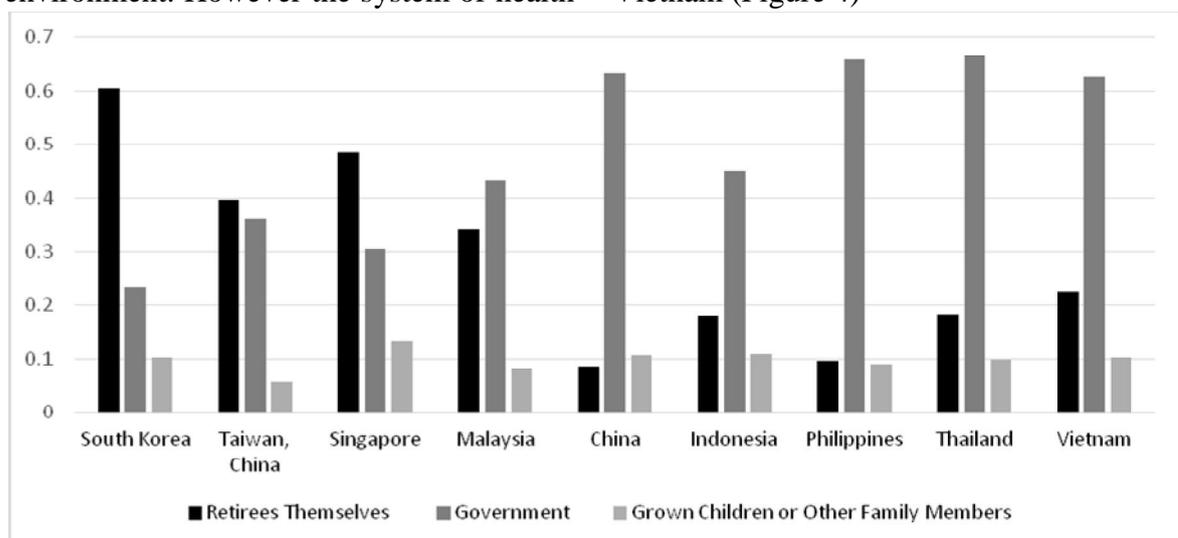
*Source:* United Nations World Population Prospects (2015).

There are two forces behind aging process. The first force is declining fertility. As aforementioned, people are having fewer babies, and this decreases the relative number of the young. The fertility of Vietnam is at the replacement level (2.1). Fertility rates are well beneath replacement in urban Vietnam. They are near in almost every rural province. The second force is rising life expectancy. People are living longer in Vietnam, and this increases the relative number of the old. Life expectancy today is 75 years for females and 73 years for males (VNICDS, 2014).

The rapidly aging population also generated a critical need for long-term care. The rising tide of non-communicable diseases associated with aging process are the major medical challenge to be addressed. Chronic illness and injuries account for 70 percent of the disease burden in many old-age societies. Specific health interventions must be delivered within the context of a broader institutional and policy environment. However the system of health

service delivery suffers from several key shortcomings. Substantial reforms to the current model are obviously needed, and there is little time to lose because rapid aging and rising incomes will lead to a greater increase in the demand for health services in the years ahead. This is partly driven by the demographic change characterized by a low fertility and rapid aging, as well as influenced by the poor system of health provisions in Vietnam.

The above process is likely to be driven by increased wealth combined with greater income volatility, urbanization, and greater mobility of people, all of which change the expectations of people from the state, especially among younger generations. The traditional role of the family in retirement security is receding. The assumption of the family as the permanent primary source of support is increasingly open to question, with the majority of adult people in Asia expecting governments to be their primary source of support in old age, including Vietnam (Figure 4)



**Figure 4:** Changing Attitudes on Primary Source of Support in Old Age  
 Source: GAI (2015). Question “Who ideally should be most responsible for providing income to retired people?”

It is undeniable, however, that the primary financier and main provider would likely remain the state for both social insurance and social safety nets. What the government needs to focus on is the regulatory and contracting framework for participation of for-profit and not-for-profit private sector and civil organizations in ways that ensure basic service standards, fiduciary compliance, performance monitoring, and transparency. Social protection is an area where collaboration with other partners such as unions, employer associations, business, civic groups is vital.

Vietnam's pension coverage target is very ambitious and is unlikely to be reached by the year 2020 under the current policy and financing approach. Essentially, Vietnam is "losing the race" between pension coverage expansion and rapid aging. First, looking at the country's recent modest performance in expansion of contributory scheme participation suggests that a target closer to 30 percent is likely to be realistic by 2030, and even that will need continued improvements in program administration. The bigger question is whether the existing combination of a purely contributory model for the formal pension scheme and a low coverage social pension approach will ever be sufficient to achieve significant coverage beyond the formal sector. Aging or retirement can be a time of considerable insecurity for many adults in today's Vietnam. Global experience suggests this is unlikely and that Vietnam risks stagnating its pension coverage expansion at around 30 percent of the labor force in contributory scheme and a further 20 percent of elderly in social pensions of some form.

Looking to the future, two strategic questions emerge for social security development. *First*, how will Vietnam create a social security system geared towards the risks faced by all people in society, as opposed to the current system which serves largely those at the top (wealthy) and bottom (poor) of the distribution? And what financing strategies can make this a reality? *Second*, how will Vietnam assure adequate financial protection for its growing old age population that is fiscally sustainable and resilient under financial crises?

Coverage of contributory pensions in Vietnam remains very low in terms of coverage, the top 20 percent are in formal pension schemes and a small bottom segment is covered by targeted social pensions, but the majority of the population do not have any pension until age 80. Figure 6 below shows the global relationship between share of working age population in contributory pension schemes and GDP per capita. While Vietnam is around where one might expect given its income level, it now faces a major challenge to expand coverage and follow the trajectory of successful more developed countries in Asia such as Japan, South Korea. Vietnam recognizes this challenge, and has set the goal of 50 percent pension coverage by 2020, but it does not as yet have a viable strategy how to reach that goal and beyond.

The pension coverage expansion target that Vietnam has set are ambitious. Without publicly financed subsidies for the informal sector, it would not be achieved. Public subsidies will almost certainly be necessary to induce informal sector workers to join contributory schemes voluntarily (as with

health insurance contributions for the near poor in Vietnam). Other countries like China, Thailand and South Korea demonstrate that innovation in the current approach in Vietnam will be needed to achieve substantial coverage expansion. The approaches that have worked elsewhere – often in combination – are: (i) to provide a match on contributions for informal workers to incentivize their participation in contributory schemes; and/or (ii) to lower the age for access to social pensions significantly, perhaps in a phased manner. These could become universal for those without a formal sector pension from around age 65.

In the long run, to achieve major coverage expansion would require further parametric reforms of the existing pension system. The formal sector pension scheme, despite reforms in 2014, is not financially sustainable. It will begin to incur deficits from the 2020s and exhaust all accumulations beyond 2030. Even at current coverage levels, the country cannot afford *both* the current unreformed system and the subsidies that will be needed to expand coverage to informal workers. The reforms should include gradual increases in official retirement age, removing incentives for early retirement, further reduction in the annual accrual rate while broadening the base for collections to full wages, reduction in special categories, and other measures.

### **3. Conclusion**

A cross cutting issue in today's Vietnam is reorienting policies to adapt effectively with the country's changing demographics. The diminishing "demographic dividend", dramatic decline in fertility, rising longevity, increased mobility of people and urbanization, and especially rapid aging all have combined

to create a new demographic landscape for Vietnam over the next decades. The working age population will start to shrink as aging process accelerates. There will be fewer children to educate and rear, whereas demand for different types of health services will escalate. This will in turn create new needs (for old age protection and long-term care for example), greater pressure in human resource development and the labor market for a higher productivity, and new challenges in governance to ensure livable and inclusive.

As Vietnamese society ages rapidly, the demand for formal aged and long-term care (ALTC) that goes beyond traditional family support will grow rapidly. ALTC systems in Vietnam remains nascent, but a growing number of countries are grappling with the appropriate and sustainable role of the state. There is significant demand for ALTC of different forms, ranging from low-level social support to support in self-care activities of daily living. While there is a need for greater public support, it is equally clear that the state cannot "do it all" and the expressed preferences of older people in the EAP region are typically for care at home or in community ("aging in place").

Among non-family social protection actors, the role of government will remain paramount both in short and long terms, but non-state providers would gradually be expected to play more of such a role. Although there is no clear evidence from international experience that either public or private provision is "better" – what matters most is strong accountability and efficiency. There will be some entry of the private and not-for-profit sectors over time required in such areas as voluntary pensions, potentially active labor programs, and social

work, etc. There may be specific roles for communities and private sector in social service delivery, such as validation of targeting decisions, payment system development, applications of informatics technology in service delivery and so on.

While there will be a segment of older people who require residential care, more humane and fiscally sustainable ALTC systems should be built around a system of home and community-based care. The framework is the “continuum of care”, whereby the large majority of older people in need of care receive it at (through outreach services), those with somewhat higher needs access community-based care, and only a small and very frail portion require residential care. In China, for example the national policy aimed that around 90 percent of people should be cared for at home, 7 percent in the community and 3 percent in residential care.

There is need for a more coherent approach to old-age support. Rather than multiple fragmented programs with overlapping target groups and objectives, it would be desirable to provide a more coherent package of support. Fragmentation leads to high costs and poor delivery of programs. A more consolidated and social pension scheme could better leverage human development outcomes, and be scalable to respond to economic crises.

In terms of greater policy coherence of social protection programs, there is a need to deepen the consolidation of delivery systems in the interests of efficiency, transparency and client friendliness. This will require significant investment in payment systems, improved outreach and case management mechanisms. Greater harmonization

of delivery platforms and information systems will in particular help deal with an increasingly mobile society. Institutionally, the continuum of care provides a bridge from social welfare services to care in the health system at higher levels of need. It is also important to distinguish financing from provision. While the state may provide financing for ALTC at different levels (for all but the poor, usually with co-payment), there is likely to be a major potential role for the private sector in provision of ALTC. But this will in turn place new demands on the state for standard setting, monitoring, and regulation of quality and market rules of the game. Human resource development in the caring industry should be prepared from now.

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