EXPERIENCE FROM SOCIAL INSURANCE FUND MANAGEMENT MODELS IN THE WORLD

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Abstract: ***The effective administration of social insurance funds is a critical priority to safeguard workers' rights, encourage broader participation in social insurance schemes, and ensure the long-term sustainability of both the fund and the broader social security system. In the context of Vietnam's dynamic economic integration and development, there is an increasing need to reform and strengthen the social insurance fund management framework, with a focus on achieving sustainability, equity, and operational efficiency. To meet these objectives, it is essential for Vietnam to draw on the experiences of other countries, adopting advanced management practices while tailoring them to its unique socio-economic conditions. Therefore, this study examines five key social insurance fund management models implemented in various nations, including European countries, the United States, Canada, Japan, Poland, and Chile, with the aim of extracting valuable lessons to enhance the effectiveness of Vietnam's social insurance fund management system.***

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1. Introduction

Vietnam's social insurance system has been established and has made significant strides over time. These achievements are evident in the continuous expansion of insurance coverage and the enhanced quality of service delivery. Furthermore, the system is undergoing ongoing refinements, particularly in pension scheme reforms, to ensure the sustainability of the social insurance fund while extending greater support to vulnerable populations. One notable milestone in this process is the enactment of Social Insurance Law No. 41/2024/QH15 (the 2024 Social Insurance Law), which incorporates several critical reforms aimed at enhancing the flexibility and humanitarian focus of social insurance policies. These changes are intended to broaden social insurance participation and ensure long-term benefits for workers, ultimately contributing to the overarching goal of achieving comprehensive social security and equitable insurance access for all citizens.

Despite these advancements, existing research on Vietnam's social insurance system highlights several challenges. Participation rates, particularly in voluntary social insurance, remain low due to high contribution requirements relative to average income levels and limited public awareness of the benefits of social insurance. Additionally, demographic pressures from an aging population and labor market volatility are increasingly straining the financial stability of the social insurance fund. Without effective reforms, the risk of future fund imbalances is likely to intensify. Consequently, Vietnam must implement comprehensive reforms, encompassing the expansion of insurance coverage, the adjustment of contribution and benefit structures, and the enhancement of fund management efficiency.

In the context of these necessary reforms, it is essential for Vietnam to learn from global best practices by examining advanced models of social insurance fund management. This study aims to analyze and compare different models in order to extract valuable lessons and recommend suitable pathways for Vietnam's social insurance system. The models under review include the Pay-as-you-go (PAYG) model, the Fully Funded model, the Mixed System model, the Notional Defined Contribution (NDC) model, and the Public Pension Reserve Fund (PPRF) model.

By evaluating these models, the research seeks to provide evidence-based policy recommendations to strengthen the sustainable management of Vietnam's social insurance fund. The selected case studies feature countries with advanced and stable social insurance management systems, such as Germany, Sweden, Canada, the United States, and Japan, alongside nations that have undergone systemic social insurance reforms, such as Chile and Poland.

2. Advanced Social Insurance Fund Management Models in the World

2.1. Pay-as-you-go (PAYG) Model

The Pay-as-you-go (PAYG) model is one of the most widely implemented frameworks for managing social insurance funds globally. This model operates on the principle of collecting money from the current workforce and employers to fund immediate payouts to retirees and or beneficiaries.

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A distinctive characteristic of the PAYG model is that it does not require a significant accumulation of initial reserves, thereby reducing the financial burden on both governments and workers during the implementation of social insurance systems. This is due to the fact that the model functions on the basis of "working individuals supporting retirees", where contributions collected from active workers are directly allocated to fund current pension and benefit payments. As a result, the PAYG model operates on a continuous contribution-benefit cycle without the need to establish long-term reserves or invest in financial assets such as stocks and bonds, thus mitigating risks associated with market fluctuations. This system is relatively straightforward to implement and it is efficient during periods of young population, with a higher ratio of contributing workers to retirees. Under these circumstances, a consistent flow of contributions can sustain pension payments without necessitating large reserves.

However, despite its advantage in initial capital, the PAYG model is highly dependent on maintaining a favorable ratio of contributors to beneficiaries. As populations age, the number of retirees increases while the working population declines, thereby placing the system at risk of financial imbalance. A decline in the number of contributors places pressure on the fund, and if contributions become insufficient to cover the rising number of beneficiaries, deficits will arise. In response, governments may be forced to increase contribution rates or reduce pension benefits, which could undermine both financial and social stability. If the government resorts to using the state budget to address deficits, it may need to raise taxes or reduce spending in other areas, negatively impacting economic growth and social welfare. Additionally, younger generations in an aging society might face increased contribution requirements alongside the possibility of receiving reduced retirement benefits, which could erode public trust in the system and hinder progress toward achieving universal social security. Furthermore, the PAYG model is susceptible to economic fluctuations. During periods of slow economic growth, revenue for PAYG-managed funds can decline while pension payment demands remain constant or even increase. Since contributions are income-based, economic downturns marked by business closures, rising unemployment, and wage stagnation can result in reduced inflows to the fund. Inflation further exacerbates these challenges, as rising living costs necessitate higher pension payments to retirees while contributions stagnate. Economic instability also limits the government's capacity to provide additional financial support to social insurance funds when needed. To mitigate the challenges posed by an aging population, governments managing PAYG-based social insurance funds often adopt various measures. These may include raising the retirement age to extend contribution periods, implementing hybrid systems that combine PAYG with fully funded schemes and encouraging immigration to increase the labor force and rebalance the contributor-beneficiary ratio. Nevertheless, enhancing labor productivity remains a fundamental solution as higher incomes lead to increased contributions, thereby strengthening the fund's financial stability.

Many European nations, including Germany, France and Italy use the PAYG model to manage their social insurance funds. France's social security system is recognized as one of the most comprehensive and advanced globally, offering a wide range of social benefits including pensions, unemployment support, and healthcare. The country's social insurance fund is managed through the PAYG model, wherein contributions from employees and employers are allocated to cover pension payments and other benefits for current retirees.

A key factor that contributes to the stability of France's social insurance fund is the retirement age, which is currently set at 62, although variations exist depending on factors such as the duration of contributions and specific occupational conditions. Individuals who have completed the required contribution period can retire at 62 without facing pension reductions, while those with insufficient contribution years may need to work additional years to qualify for full benefits. Contribution rates, which are determined as a fixed percentage of salaries, are subject to periodic adjustments based on economic conditions and government policy. Employers also contribute a similar amount.

However, like many other nations, France faces significant challenges associated with population aging, which has disrupted the balance between contributors and beneficiaries. To address these challenges, the French government has introduced reforms, including gradually raising the retirement age and adjusting contribution rates to counteract the effects of population aging.

Italy also employs the PAYG model to manage its social insurance fund. Despite having a well-established social insurance system, Italy faces similar challenges related to an aging population, leading to potential imbalances between contributors and beneficiaries. To ensure long-term sustainability, the Italian government has implemented several key reforms. One notable measure is the incremental increase in the retirement age, which has been rising by one month annually since 2012 and is expected to reach 67 by 2029. The government also incentivizes older workers to remain employed beyond the standard retirement age by offering higher pension benefits for extended work periods and implementing policies to support older workers in the labor market. Additionally, contribution and benefit levels have been adjusted flexibly to reflect changing economic and demographic conditions in order to maintain a sustainable balance between contributors and beneficiaries.

Germany, another country that employs the PAYG model, faces similar demographic challenges despite its robust social insurance system. As a result, the German government has taken measures such as increasing the retirement age and periodically adjusting contribution and benefit levels to ensure the continued stability and sustainability of the social insurance fund.

2.2. Fully Funded Model

The fully funded model is a social insurance fund management approach designed to secure workers' retirement benefits. Unlike the Pay-as-you-go (PAYG) system, contributions made under this model are not immediately used to pay current beneficiaries. Instead, they are accumulated over time and invested to generate returns. When contributors retire, they receive benefits derived from the funds they have built up throughout their working years.

In this model, social insurance contributions are professionally managed and invested in financial assets such as stocks, bonds, real estate, and other investment instruments. The goal is to increase the fund's value through investment returns, ensuring that it grows over time and retains its purchasing power, thus safeguarding workers' future benefits.

A key advantage of this model is the reduction of dependency on the future generation to cover retirees' benefits. Each worker receives retirement payments from their own accumulated savings rather than relying on current contributors. The model's reliance on investment returns further enhances the fund's financial stability by growing it over time. In addition, because contributions are systematically accumulated and invested, the fully funded approach strengthens the long-term financial foundation of the social insurance system.

However, implementing the fully funded model presents some challenges. A substantial initial fund is required to create a sufficient capital base for effective investments and returns, which can be an obstacle for low-income or developing economies. Moreover, the success of this model depends on the efficiency of fund management. Poor investment decisions could lead to deficits, thereby undermining workers' benefits.

Investment-related expenses must also be taken into account. Managing a fully funded social insurance fund incurs costs, including fees for professional fund management services and financial transactions. These expenses are deducted directly from the fund, which can impact its overall value if not carefully managed.

Countries with a focus on long-term financial sustainability and accumulated fund management principles often adopt variations of the fully funded model based on their unique economic and social structures. Chile, for instance, pioneered the adoption of this model in 1981 through a system based on individual retirement accounts. In this model, workers contribute to personal accounts managed by professional fund management companies.

In the United States, social insurance fund management also follows the fully funded approach. Workers can either manage their own retirement funds or entrust professional financial institutions to invest on their behalf. Popular retirement investment vehicles, such as 401(k) plans and Individual Retirement Accounts (IRAs), allow workers to grow their savings by investing in stocks, bonds, and other financial instruments. This system not only safeguards retirement benefits but also fosters a culture of long-term saving and investment.

Singapore's Central Provident Fund (CPF) operates on a similar principle. CPF is a mandatory savings scheme requiring contributions from both employees and employers. These funds are then prudently invested in low-risk assets, such as government bonds, real estate, and stable stocks. Due to disciplined management and effective investment strategies, the CPF has consistently delivered sustainable benefits for retirees while maintaining financial stability.

Thus, the fully funded model represents a sophisticated approach to social insurance fund management. Its key strengths lie in providing stable retirement benefits and utilizing investment returns to enhance the fund's value. Nevertheless, its successful implementation depends on securing substantial initial capital and employing effective, low-risk investment strategies to minimize financial vulnerabilities. With careful planning and sound investment management, the fully funded model can contribute significantly to the development of a sustainable and resilient social insurance system.

2.3. Mixed System Model

The Mixed System represents an advanced approach to social insurance fund management, mixing elements of both the Pay-As-You-Go (PAYG) and Fully Funded models. Under this hybrid framework, a portion of the fund is allocated for immediate pension payments in line with the PAYG model, while the remainder is invested to generate long-term returns following the Fully Funded approach.

This dual strategy is designed to reduce the financial pressure associated with an aging population while maximizing the advantages of each model. By leveraging the PAYG method to secure short-term liquidity and the Fully Funded model to strengthen long-term resources, the Mixed System balance the current obligations and future growth. However, administering this model is complex, requiring sophisticated coordination between government regulatory bodies and financial institutions to ensure seamless fund management. Transparent regulations, financial oversight mechanisms, and effective risk management practices are essential to protect workers' rights and maintain the stability of the social insurance fund.

Countries including Sweden and Canada have successfully implemented the Mixed System, creating resilient and adaptable social insurance frameworks that cater to workers' present and future needs.

In Sweden, the Mixed System is particularly successful in promoting equity between generations of workers. The PAYG component ensures that retirement benefits for current pensioners are funded by active workers' contributions, thereby maintaining consistent cash flow and financial stability. This setup ensures the distribution of financial risks across generations, mitigating the impact of demographic shifts, such as an aging population. Simultaneously, the Fully Funded portion allows a segment of the pension fund to be invested in various financial assets, including stocks and bonds, which enhances the overall value of the pension fund, potentially increasing the benefits that retirees receive.

The system's design balances short-term stability with long-term growth, fostering cooperation between generations and ensuring the benefit of both current and future workers. By reducing the burden on any single generation, Sweden's model effectively maintains fairness and sustainability in its social insurance fund management.

Canada has also successfully adopted the Mixed System to address the challenges posed by an aging population. By integrating PAYG and Fully Funded elements, Canada has built a flexible and enduring social insurance system that helps alleviate financial pressures on the fund as the demographic structure shifts toward an older population. This approach strengthens the system's resilience, ensuring that retirement benefits remain secure while preserving financial sustainability over the long term.

2.4. Notional Defined Contribution (NDC) Model

The Notional Defined Contribution (NDC) model is a pension fund management system in which each worker maintains an individual account. Retirement benefits are determined based on the total contributions made to the account during the worker's career and the projected length of their retirement. This model promotes transparency and fairness by allowing workers to monitor their contributions and understand how their pension benefits will be calculated. As a result, it increases confidence in the pension system while raising awareness of the importance of contributing consistently to the social insurance fund. Moreover, the transparency associated with this model mitigates financial risks as workers can easily observe how the fund is managed and allocated.

However, the NDC model also presents some challenges. Unlike systems that rely on investments, the NDC model does not capitalize on investment opportunities to grow the fund's value. Additionally, the sustainability and effectiveness of the model may be influenced by government policies and administrative capacity. Workers may also experience pressure to increase their contributions to achieve their desired retirement income.

One successful example of NDC model implementation is Poland. Before transitioning to this system, Poland's pension fund faced serious financial and administrative issues, raising concerns about its ability to meet future retirement obligations. In the early 2000s, Poland began adopting the NDC model by enhancing technological infrastructure, training administrative personnel, and educating the public on the model's advantages. These efforts helped improve transparency, fairness, and stability in the national pension system. Although some challenges remain, the NDC model has strengthened Poland's pension benefits and created a foundation for the long-term sustainability of its social insurance fund. This demonstrates the flexibility and innovation that modern pension management can offer.

2.5. Public Pension Reserve Fund (PPRF) Model:

The Public Pension Reserve Fund (PPRF) model is a pension fund management approach where the government oversees and invests the social insurance fund in secure assets such as government bonds, real estate, and large-cap stocks. The primary objective is to generate investment returns that help establish a strong financial base for the national pension system.

By managing social insurance funds under the PPRF model, the government can accumulate significant capital, as both worker and employer contributions are pooled together. This capital can be strategically invested in diversified assets to maximize returns while promoting the long-term stability of the pension fund. Investments typically include low-risk assets including government bonds and shares of well-established corporations, which offer steady returns and reduce the impact of market volatility. This, in turn, enhances financial security for retirees. Furthermore, the government's transparent oversight of the fund increases public trust and supports the sustainable development of the national pension system.

Despite its benefits, the PPRF model has its drawbacks. One major challenge lies in the government's management capacity. Inefficiencies, lack of transparency or poor financial oversight could lead to waste, financial losses, or even corruption. Additionally, excessive reliance on political decision-making may reduce the fund's investment efficiency and expose it to unexpected risks.

Japan's experience with the PPRF model illustrates its potential for success. The country's pension system is managed by the Government Pension Investment Fund (GPIF), one of the largest pension funds globally with assets valued at billions of dollars. Japan's effective implementation of the PPRF model is credited to a prudent investment strategy, portfolio diversification, and strict government oversight. GPIF invests in various stable assets such as government bonds, real estate and equities to optimize returns while minimizing risk. Transparent fund management and professional expertise have enabled GPIF to maintain a stable and sustainable pension system, ensuring that workers receive financial security upon retirement.

3. Lessons for Vietnam

Currently, Vietnam manages its social insurance fund under a Pay-As-You-Go (PAYG) system combined with partial investment. This model operates on a "contribute-and-benefit" principle, where contributions from the current workforce are used to pay pensions for retirees. However, with the country's rapidly aging population, the number of active workers contributing to the fund is decreasing, while the number of retirees continues to rise. This demographic shift is creating considerable financial pressure on the social insurance fund. As a result, Vietnam must explore and gradually transition to more advanced, globally proven fund management models. This transition should focus on several key goals:

- Diversifying revenue sources and reducing pressure on the social insurance fund as the population age: To achieve this, Vietnam could consider adopting a mixed system or a fully funded model. These models balance contributions with investments in secure assets to enhance financial stability and reduce reliance on contributions alone.

- Investing in safe and diversified assets: Vietnam should expand its investment portfolio to include government bonds, shares of big enterprises, real estate, and other alternative assets. This strategy would mitigate risks and ensure stable returns, strengthening the financial sustainability of the social insurance fund.

- Enhancing transparency and management efficiency: Strict monitoring mechanisms should be implemented to ensure transparent management and investment practices. Public disclosure of investment activities and fund management will build trust and consensus among workers and stakeholders.

- Strengthening fund management skills: Vietnam should focus on training and developing a highly skilled workforce in fund management. This includes equipping social insurance fund managers with in-depth financial and investment knowledge to ensure effective and sustainable fund operations.

- Applying advanced technology in social insurance fund management: Leveraging modern technology can enhance efficiency, optimize operations and improve accessibility for workers, businesses, and government agencies. Digital transformation in social insurance management will increase transparency, simplify processes and encourage greater participation in the system.

4. Conclusion

Vietnam is currently facing] significant challenges in managing its social insurance system, including limited coverage and concerns over long-term sustainability due to an aging population. Therefore, it is crucial for Vietnam to learn from advanced social insurance management models implemented in developed countries to enhance the efficiency, fairness and resilience of its own system.

This article highlights how various nations have successfully adopted different strategies to improve their social insurance fund management. These strategies include reforming revenue and expenditure policies, expanding system participation, and enhancing transparency. By learning from these experiences, Vietnam can work toward developing an efficient and sustainable social insurance system that better accommodates its aging population and aligns with its broader socio-economic development goals.

However, any transition to new management models must be carried out with flexibility and tailored to Vietnam's specific circumstances. This process requires thorough research, careful policy adjustments and efforts to raise public awareness about the importance and benefits of participating in the social insurance system. Only with a strong social insurance system can Vietnam ensure long-term social security, contribute to sustainable economic development, and improve citizens' quality of life.

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