

Vietnam adds private pension as silver tide rises

Communist nation's share of elderly to triple, but public reserves called robust

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HO CHI MINH CITY -- When communist Vietnam recently introduced private retirement funds, it was taking a step not only closer to capitalism, but also toward changing a young pension system that some worry may buckle if citizens get old before getting rich.

Last year marked the first time workers could put part of their paychecks into private retirement accounts, on top of the share contributed to the state pension. But analysts say bigger, systemic change is needed to enable retirement for all, even as the International Labor Organization says the state fund is robust.

The country, like its social contract, is very much in flux. Vietnam is tackling how to keep pensions funded in the long term and where the money will come from.

Private wealth is low, workers withdrew pension funds in the coronavirus pandemic, and families are less likely to live with grandparents now -- all of this in one of the world's 10 fastest-aging societies and a key factory alternative to China.

The threat of unfunded liabilities looms around the globe, says Dominic Scriven, founder and chairman of Dragon Capital, which sells the new pension product. This threat means young workers may have to support pensioners at the cost of their own retirement prospects.

"It's a travesty of injustice to future generations," Scriven said in an interview.

Under the private funds, similar to 401(k)s, both employer and employee make contributions, which are invested in a mix of stocks and government bonds, minus a management fee. The capital accounts are exposed to some market volatility and compete with life insurance products.

But managed accounts aren't a safety net for those who are at the bottom or in the gray, or informal, economy. More important than private savings is the long-term health of a universal public pension, according to Pham Thi Thu Lan, deputy director at the Institute for Workers and Trade Unions.

"In my opinion, [the focus] should be public funds because in the realistic system, it is difficult for the bottom to get enough to save for retirement," she told Nikkei Asia.

Concern that the well could run dry has cropped up in many countries lately, from Chile, where anxiety over private pensions rocketed a leftist to power in December, to China, where retirement reserves recently contracted for the first time ever.

In Vietnam these anxieties play out in warped markets for gold, property and stocks. Demand for these assets is distorted because retail investors do not trust putting their savings in the state pension, said labor economist Phung Duc Tung.

Officials recognize as much. More than a decade after Vietnam first let employees contribute more to public pensions than the required amount, takeup remains low, according to

Vietnam Social Security. The agency said in a December web post that "policy shortcomings have caused employees to hesitate to participate in ... voluntary social insurance."

But fears of insolvency are "misguided," ILO Vietnam social protection program manager Andre Gama said. His office's actuarial analysis shows a stable state fund for the next half-century, he said, adding he was not allowed to share the details of the analysis.

He said Vietnam must bring more citizens into the system and may have to spread benefits more widely.

Retirees would seem to be the envy of the neighborhood, receiving payouts worth 75% of their prior wages -- the fifth-highest among 70 countries in the Allianz Global Pension Report 2020.

But Vietnam's system covers just 40% of the elderly, which explains why women keep working longer there than in all but five other countries, the report shows.

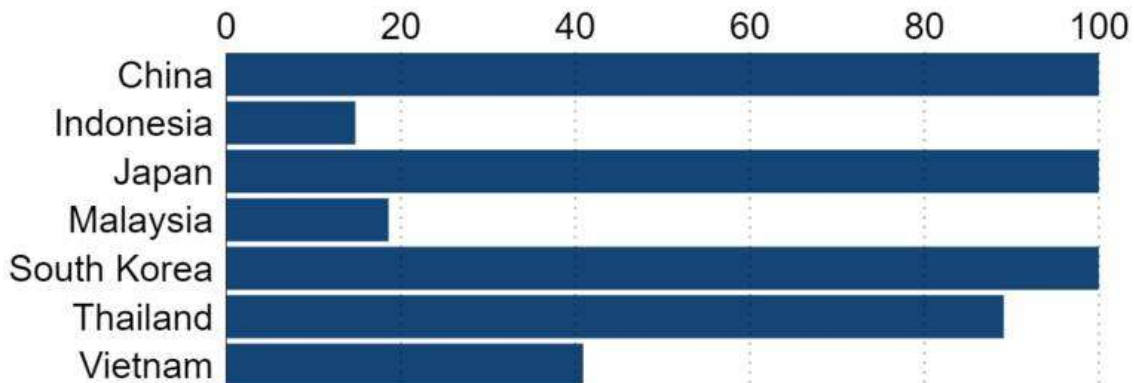
Two growing pains could compound Vietnam's burden.

First, as in much of Asia, there is the decline of three-generation households, which historically supported people into their twilight years.

Second, the old-age dependency ratio will triple between 2020 and 2050, Allianz said. The ratio, 33%, will be well below those of Thailand, Taiwan and Singapore, but the pace of change will be among the world's 10 fastest. That means Vietnam will have to adapt quickly to the coming silver tide.

Pension coverage of people age 65+

Measured in % in 2020



Source: Allianz

How the Southeast Asian country of 98 million adapts has implications for an economy that produces much of the planet's electronics and clothing. In 2015, factory workers went on strike against a law barring them from withdrawing pension funds early -- rare for its show of widespread defiance in the one-party state and for forcing officials to walk back a policy.

Now Vietnamese are withdrawing lump sums again, this time to cope with COVID-19, which slammed supply chains and left millions jobless.

Vietnam should allow not just the single, current public fund manager, but several like Australia does, said Tung, who is director of the Mekong Development Research Institute. Several agencies should compete for funds and publish their performance transparently, he said, because people find the current management and investment inefficient.

Citizens also need to build up a nest egg, Tung said, so they don't outlive their savings.

"The savings rate is reduced in the young generation because they start thinking more about consumption than saving," he said by phone.

Vietnam's savings peaked at 30% of gross domestic product in 2012 but have since fallen below the global average, to 25% in 2020, World Bank data shows.

Encouraging more savings is among the global best practices in the Allianz report. Others include having a high percent of people in the public system; incentives to delay withdrawals; and lifelong learning mixed with semiretirement.

Tung said Vietnamese people worry about pension viability because the population is aging quickly.

But Gama said reserves are strong, based on data about fund inflows and outflows, economic forecasts, participation rates, demographics and other calculations. Since the modern pension system just began in 1995, he believes locals will gain confidence as they become more familiar with it.

"Overall we do think the government of Vietnam and the Vietnamese people should feel encouraged," he said in an interview.