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# ► Social Protection in Action: Building Social Protection Floors for All

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## *Cambodia and Viet Nam: Improving women's access to old-age pensions*

### Summary

Cambodia and Viet Nam are making huge efforts to improve social protection during old age, but more needs to be done to include women and design gender-responsive social protection systems that are fair and sustainable.

The pension systems of Cambodia and Viet Nam are in different stages of development. Cambodia has just started the establishment of its pension system. With the support of the ILO, the Government of Cambodia has just launched its first pension scheme for workers in the private and public sectors, which has been delayed to 2022 due to COVID-19. Viet Nam has gradually made progress towards building an old-age pension system through a mix of social insurance and tax-financed pensions.

Despite the progress made, the majority of elderly people cannot expect to receive a pension when they reach the retirement age. Women face more adverse circumstances

that affect their pension entitlements. They usually have lower participation in the labour market, shorter or interrupted careers due to care responsibilities, higher rates of vulnerable employment, and lower incomes than men.

Improving women's access to old-age pensions in Cambodia and Viet Nam contributes to a social protection system that is based on non-discrimination, gender equality and responsiveness to special needs, while it also supports the system's progressive realization, including by setting targets and time frames, both key principles of the Social Protection Floors Recommendation, 2012 (No. 202).

### Main lessons learned

- In Cambodia and Viet Nam, women tend to have lower access to adequate pensions than men. Gender imbalances in the labour market, both in terms of participation rates and earnings, are not sufficiently accounted for in the design of pension systems.

### Social Protection Floors Recommendation, 2012 (No. 202)

SDG 1.3 aims to implement nationally appropriate social protection systems and measures for all, including floors, and by 2030, achieve substantial coverage of the poor and the vulnerable.

Social protection floors (SPFs) guarantee access to essential health care and basic income security for children, persons of working age and older persons. 187 countries have adopted the Social Protection Floors Recommendation, 2012 (No. 202), to achieve universal social protection.

The Recommendation on Social Protection Floors, 2012 (No. 202) stipulates establishing basic social security

guarantees to ensure access to essential healthcare and income security for all, including children, people of working age and older persons.

The Sustainable Development Goal 1.3, part of the UN 2030 agenda, aims to implement nationally appropriate social protection systems and measures for all, including floors, supported by the Universal Social Protection partnership (USP2030).

This brief presents successful country experiences in extending social protection.

- Pension design matters for gender equality. To ensure that men and women benefit equally, systems must better address women's lifecycle risks and their burden of care, helping to prevent the inequalities encountered by women to accumulate in old age.
- To realize the right to old-age income security for all, greater emphasis and resources need to be allocated to the reduction of gender inequalities in old age. Tax-funded elements, including non-contributory pensions, have the potential to address existing gaps across gender and income groups. Mechanisms to recognize and reward care and other kinds of societal contributions (such as unpaid work) can also help to reduce gender inequalities.
- Gender-responsive social protection systems contribute to enhancing women's empowerment and opportunities, with greater positive impacts on their families and communities.

## **A window for the expansion of pensions in Cambodia and Viet Nam**

There is currently a positive momentum in Cambodia and Viet Nam for significant reform and expansion. While Cambodia has just launched, in July 2022, its first contributory pension scheme for private sector workers under the National Social Security Fund, the Vietnamese Government has recently approved the Master Plan on Social Insurance Reform (MPSIR) which reflects its clear commitment to achieve universal social protection coverage. Facing population ageing and persistent informality, these countries are seeking new ways to enhance income security of older persons; this could be a unique opportunity to make the overall social protection system more gender sensitive.

Despite strong commitments, both countries still face challenges in extending pension coverage. Of the population above retirement age (55 years of age in Cambodia and 60 years of age in Viet Nam), only 9.0 per cent in Cambodia and 39.9 per cent in Viet Nam enjoy access to a pension. This is compared to an average of 31.5 per cent for South-East Asia as a whole (ILO 2017). In 2019, only 16 per cent of women in Viet Nam aged 65 and over received a social insurance pension, compared to 27.3 per cent of men. In addition, women's contributory periods are, on average, four years shorter than those of men. As a consequence, the value of men's pensions exceeded women's pensions by an average of 19.8 per cent in 2019 (ILO 2021a).

Although in both countries women account for the majority of all active contributors and have on average more years of service than their male counterparts, persisting gender inequalities in the labour market continue to compromise their pension coverage and benefits.

## **Gendered labour markets**

There are a number of inequalities that women face during the course of their lives that tend to accumulate in old age and affect their pension entitlements. Firstly, women have lower participation in the labour market during their working age. In Cambodia and Viet Nam, 69.9 and 61.2 per cent of women, compared to 82.9 per cent and 73.7 per cent of men, respectively, participate in the labour market. Secondly, as a consequence of their heavier burden of care, women are also more likely to have shorter or interrupted careers and higher rates of vulnerable employment than men (ILO 2018b).

Another factor influencing the gender pension gap is the fact that women have lower incomes than men. Globally, women earn, on average, 16 per cent less than men (ILO 2018c). In Viet Nam, private sector female workers earn, on average, 9 per cent less than men (ILO 2018a), while in Cambodia women earn 43.7 per cent less than men (ILO 2017a). In Viet Nam, the average insurable earnings of women working in the private sector were only 11.6 per cent of those attained by men. Such discrepancies are also found in the public sector, albeit less distinct. It is particularly concerning to note that the gap has been increasing over the past five years (ILO 2021b). Particularly in contributory pension systems, all these features affect women's pension coverage as well as the level of their benefits.

In Viet Nam, the high take-up of lump sums in the pension system further affects the accumulation of contribution records, with women being the majority recipients of termination lump sums taken after one year of discontinued insurance. In 2019, about 69 per cent of lump sums were taken by women below the age of 35. This indicates a link between women's broken careers and childbirth, and that other short-term benefits, such as maternity and unemployment insurance, might not be sufficient to support women during this period.

## **Impact of the design of the pension schemes on old-age protection for women**

Governments can do more to ensure that social protection programmes, specifically pensions, are designed,

implemented and monitored by taking the different experiences of men and women into account. Several key design features are relevant for women's entitlement to contributory pension schemes:

## Benefit formulas

A key feature affecting gender outcomes in pensions is the pension formula, that is the rules which specify how benefit levels are calculated. Formulas which closely reflect earnings and contributory histories tend to result in lower benefits for women, unless mechanisms are in place to compensate for labour market disparities between men and women (Arza 2015).

The Vietnamese Government is currently assessing how the pension formula can be designed to better address redistributive objectives and reduce gender inequalities emerging from the labour market. Currently debated measures include instituting an alternative pension formula to support workers with frequent career interruptions, often women, by placing a higher weight on the first years of contribution through the accrual rate (1.75 per cent for the first 15 years, 1.25 per cent for subsequent years).<sup>1</sup> This measure has been introduced in Cambodia's new pension scheme to allow the system to be more meaningful to the average worker (ILO 2017b).<sup>2</sup>

## Minimum eligibility conditions

A gender-relevant design feature in pension systems is the eligibility conditions. Long eligibility periods can present a real obstacle to qualify for a pension, and often act as a deterrent to participate in the system. Women tend to face more difficulties than men to build up long contributory histories. For example, in Viet Nam, insured women at the age of 37 have an average contributory history of just 12.6 years, thus failing to meet the 20 years of required contributions when they leave the formal labour market (ILO 2018a).<sup>3</sup> The Vietnamese Government's recent decision to reduce the qualifying period from 20 to 10 years will benefit those with short working careers, the bulk of whom are women.

## Care credits

Care credits are a way to compensate women and men for recognized periods spent outside the labour market, such as the time dedicated to taking care of others. Such credits are added to the contributory history, for example in the form of an additional pension-qualifying year, as done in Uruguay (Arza 2015). Credits may be granted even for births that happened before participation in the social insurance scheme. Such a measure may encourage women to move from the informal to the formal economy. While care credits are now fairly common in almost all European Member States, where they had a positive impact on women's replacement rates (D'Addio 2012; Fultz 2011), it has not yet been adopted in Viet Nam or Cambodia.

In the case of Viet Nam, the introduction of child-care credits could provide an incentive for women to maintain their contributions in the pension system instead of opting for lump sums, as such credits may help them fulfil the eligibility criteria for receiving an old-age pension in the future. ILO estimates suggest that granting an 18-months credit per child could increase women's pensions by 8.3 per cent in Viet Nam, nearly eliminating the gender gap in the pension value of private sector workers (ILO 2021c).

## Retirement ages

In Cambodia, the statutory retirement age for men is 60, while women can retire five years earlier at the age of 55. In Viet Nam, the Government increased the retirement ages of men (to 62) and women (to 60) in 2019, thereby also narrowing the gap between them. ILO estimates show that the new regulations in Viet Nam will lead to a decrease in the gender gap in replacement rates of one to two per cent, which, although a positive development, will not be sufficient to fully overcome the gap. While the younger age of retirement for women allows them to stop working earlier, they will also receive lower monthly pension benefits because they have fewer years of work to accumulate contributions.

Through its ongoing reform process, Viet Nam had an opportunity to address this disparity but ultimately

<sup>1</sup> The rate at which pension builds up as member service is completed in a defined benefit pension plan. It is equal to the income replacement rate divided by the number of contributory years.

<sup>2</sup> Annex 1 of Sub-Decree No. 32 SD/E dated 4 March 2021 concerning Social Security Scheme on Pension for Persons Defined by the Provisions of the Labour Law.

<sup>3</sup> Female workers in Cambodia and Viet Nam tend to leave the formal labour market around the age of 40 because the sectors in which they usually work tend to fire workers at that age for productivity reasons.

maintained a gap<sup>4</sup> based on the argument that early retirement was a way to compensate women for the additional burden of care they face over the course of their lives. In reality, however, by playing into traditional norms of gender roles, such policies reinforce inequality rather than reducing it.

## Benefit indexation

Benefit indexation is another factor that can greatly affect gender equality, given that women face higher risks of benefit depreciation over their longer lifespans. Cambodia has agreed to index their new pensions to price inflation, while Viet Nam is discussing a mechanism which also accounts for wage growth. While these are important steps, regular indexation has not yet been considered for non-contributory pensions.

## Multi-tiered child benefits

The identified linkage between childbirth and early withdrawal from the pension system could be addressed through the introduction of new short-term benefits such as multi-tiered family/child benefits, which may help to close gender gaps in Viet Nam's labour market and its pension system. Such benefits actively promote women's formal employment and access to social protection benefits. For example, child benefits provide an incentive for women to maintain their contributions in the pension system, rather than withdrawing a lump sum. In addition, providing a multi-tiered child benefit incentivises the inclusion of women into the Vietnam Social Security (VSS) system and encourages women to continue their contribution payments, thereby growing their contributory years and eligibility to access an old-age pension, while also giving them access to a range of other VSS benefits across the lifecycle (ILO 2021a).

## Type of affiliation

Given the strong link between gender and informality, efforts to extend contributory coverage to informally employed workers have the potential to greatly benefit women. In this context, attempts to extend coverage through voluntary affiliations of self-employed workers have rarely been effectively implemented. In Viet Nam, for example, only 1.3 per cent of all workers have signed up for voluntary participation in the contributory system although in theory, all self-employed workers and unpaid family workers, the majority of whom are

women, are eligible (ILO 2018a). This could be due to the low attractiveness of the voluntary insurance, especially for women, as it provides only long-term benefits, while women covered under the compulsory social insurance enjoy maternity benefits and other short-term benefits. International experiences show that introducing mandatory participation has had more impact on increasing coverage.

## Non-contributory pensions

Given the labour market context outlined above, the limitations of contributory pension systems to offer adequate protection for their populations have increasingly led many countries to recognize the role of State funding in the provision of old-age protection, and to introduce tax-funded pension schemes and/or tax-funded elements in their contributory pension schemes. As labour markets evolve, it is fair to consider whether Cambodia and Viet Nam could further strengthen these elements to cover a substantial portion of the populations.

While both Viet Nam and Cambodia have stated their intention to reach universal coverage in their respective strategies and resolutions, the contributory model continues to be the only one embedded in national legislation.<sup>5</sup> This is the case even in Viet Nam, where the social pension for all older persons above the age of 80 has been in place since 2002. In both cases, the lack of legislation for non-contributory pensions has limited the State's role in financing minimum income security in old age.

Tax-funded schemes, particularly universal pensions, are the most effective way – at least in the short-term – to provide a basic level of protection to women and men who did not have the opportunity to build up sufficient entitlements in the contributory systems. Such non-contributory programmes can play a key role in ensuring women's access to at least a basic pension. Simulations show that the pension-tested,<sup>6</sup> multi-tier model which Viet Nam intends to roll-out is likely to benefit women as they are most likely to lack contributory pensions. It is estimated that around 65 per cent of the recipients would be older women. The social pension can have progressive distributional impacts across gender and income groups: the relative increase in per capita incomes resulting from a social pension is higher among women and the poorest, than among men and the rich (Kidd et al 2019).

However, the capacity of non-contributory pensions to fulfil their potential depends on the level of coverage and benefit

<sup>4</sup> Retirement ages will be increased to 60 and 62 for women and men, respectively.

<sup>5</sup> The Government of Cambodia is currently working on a revision of the 2002 Social Security Law which encompasses the new general scheme for private and public sector formal workers, but not the non-contributory pension endorsed in the 2016 National Social Protection Strategy.

<sup>6</sup> A pension-tested benefit is only available to those who are not covered by any other pension scheme.



values offered (Arza 2015). In most cases, non-contributory pensions provide a very modest level of benefits, insufficient to ensure adequate protection in old age or fully compensate for the lack of contributory coverage. The social pension in Viet Nam, currently set at 360,000 Vietnamese dong per month, corresponds to just 7.0 per cent of GDP per capita (equivalent to 18 per cent and 24 per cent of the national urban and rural poverty lines, respectively), making it one of the lowest-value pensions across low-income and middle-income countries (Kidd et al. 2019). Moreover, because non-contributory pensions continue to be framed as components of an independent “social assistance” system, they remain narrowly targeted and detached from the contributory system – often excluding the “missing middle” (people in the informal economy, not among the most vulnerable).

Universal or pension-tested benefits can foster old-age income security for everyone more effectively than means-tested benefits. Since the latter are often based on an assessment of household income or assets, they only provide few married women with a pension in their own right. Moreover, means-tested benefits tend to impose burdensome and often stigmatizing requirements on people, particularly women (Cookson 2018). In Cambodia, the Government’s current intention to introduce a means-tested pension as part of a broader household benefit called *Family Package* would mean that most older persons would not have access to any pension (Ramírez López, 2018).

The ILO has estimated that a universal pension covering all older persons aged 60 and above would cost as little as 0.9 per cent of GDP in Cambodia. A universal pension covering all older persons aged 65 and above would cost 0.47 per cent of GDP in Viet Nam. Although means-tested schemes are estimated to cost less (for example, 0.01 per cent of GDP in 2017 to 0.06 per cent in 2026 in Cambodia), their administration is much more complex, requiring capacities that many low-income and middle-income countries lack. Ultimately, a move away from selective schemes to universal approaches requires greater investment from the Central Government in financing at least minimum income security in old age for all. This would mean a shift in thinking on the part of both local and Central Government authorities that public financing is necessary to achieve coverage and incentivise participation. In addition, countries need to find new ways of increasing fiscal space, such as reprioritizing public expenditures, increasing tax revenues or contributory revenues (Ortiz et al. 2017).

## Way forward

The provision of adequate social protection during old age is not only a matter of rights, but also important for ensuring the sustainability of the social protection system and transforming the lives of women in a future world of work which leaves no one behind (Commission on the Status of Women 2019; SPIAC-B 2019).

While the envisaged measures in Cambodia and Viet Nam are likely to have an impact on gender equality in old age, greater efforts are needed to ensure their participation. The design of contributory pension systems should take the diversity of women’s lives into account. Further measures could include mechanisms to compensate for gender inequalities in paid work, earnings and unpaid work (such as contribution credits). Developing and strengthening multi-tier pension systems, comprising a combination of social insurance and non-contributory pensions, can help ensure that all people have access to adequate pensions in old age.

Furthermore, addressing gender inequality in pension systems requires comprehensive, holistic policy responses in different areas, including gender-responsive pension system design, labour market policies, better reconciliation of work and family life as well as access to culturally- and gender-responsive public care services of high quality.

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This policy brief was prepared by Betina Ramírez López and Quynh Anh Nguyen. It was reviewed by Christina Behrendt, Nuno Cunha and Nguyen Hai Dat, Social Protection Department, International Labour Organization (ILO).

The Editor of the Social Protection in Action series is Valérie Schmitt, Deputy Director, ILO Social Protection Department.

### Contact information

**International Labour Organization  
Social Protection Department**  
Route des Morillons 4  
CH-1211 Geneva 22  
Switzerland

T: +41 22 799 7239  
E: [socpro@ilo.org](mailto:socpro@ilo.org)  
W: [www.ilo.org](http://www.ilo.org)  
[www.social-protection.org](http://www.social-protection.org)