

How Does Social Insurance Affect Vietnamese Workers' Wages and Jobs?

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ABSTRACT

Based on the rationale and reality of social insurance in Vietnam, this paper points to the impact of increasing social insurance rate on wages and job of workers. And then, the study discusses and proposes some ideas to contribute to improve social insurance policy in Vietnam more and more reasonable and effective.

KEYWORDS: *Social insurance, Social insurance rate, Real wages, Jobs*

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I. INTRODUCTION

Social insurance is one of the social security policies that every country in the world applies (Mabbett, 1999). Depending on the circumstances of each country, the policies, regimes and insurance rates prescribed for organizations and individuals are different. This article does not elaborate on analysis and comparison of insurance policies and regimes in countries around the world, but only studies one aspect: compulsory social insurance for organizations and individuals. , and the fact that the increase in insurance premiums in Vietnam in recent years will affect the real wages and employment of workers. Since then, discuss and propose a number of recommendations to contribute to solving the relationship between social insurance, wages and jobs in our country is increasingly rational and effective.

II. LITERATURE REVIEW

Social insurance is a replacement guarantee to compensate a part of income for employees when they lose or reduce income due to sickness, maternity, labor accident and occupational disease, disability, unemployment, old age, and survivorship, based on a financial fund contributed by the participants of social insurance, with the protection of the government in accordance with the law, to ensure the safety of life for employees' activities and their families, and contribute to social security (Law No. 58/2014/QH13, 2014).

The first social insurance system was in Prussia (now Germany) in 1850 (Henlock, 2007), spreading to Europe (in the UK; in 1991, Italy in 1919, France in 1918 to the Americas, Latin, USA, Canada after 1930, then formed in Africa, Asia after World War II. According to ILO Convention 102 on social security (1952), social insurance consists of nine regimes: health care, sickness allowance, unemployment, old age, and accident. Some countries may only apply a number of regimes, but at least they must apply: unemployment benefits, old age, labor accident and occupational disease, disability or survivorship allowance (ILO, 1952).

It can be said that social insurance is the main pillar in the social security system in each country, contributing positively to ensuring the safety of life for members and social safety (Agell, 1999). In contrast, the application of social insurance also causes negative effects, one of the effects is the reduction of wages and jobs of workers in the labor market (Feldstein, 2005).

The influence of social insurance on workers' wages and job in vietnam

Organizations and enterprises

It is considered that social insurance premium prescribed for organizations and workers as a tax on wages (Agell, 2002). So how will the equilibrium of the competitive labor market impact and change, in particular, affects the wages and employment of workers when compelling business organizations (called being an employer) must pay social insurance.

The government stipulates that organizations must pay social insurance and health insurance premiums (countries set different social insurance premiums: 13.35% in the US, 21.0% in Germany, 31.1% in Sweden, Italy is 44.3% in Italy, 21.5% in Vietnam). Assuming that organizations do not need to pay social insurance premiums, the equilibrium of the labor market is at point A. There are E_0 workers hired at a wage of w_0 . If the enterprise has to pay a uniformly distributed insurance premium for each worker X Vietnam dong, but the employer only wants to pay a total of w_0 to hire E_0 workers. At this time, they only want to pay a wage of $w_0 - X$ to the employee to hire E_0 and the profit is still the same. Therefore, social insurance premiums have shifted the

labor demand curve parallel to the bottom and brought the labor market to a new equilibrium (at point B). There, the number of hired workers decreases (from E_0 to E_1), and the new equilibrium wage, which is the actual wage rate the worker receives decreases (from w_0 to w_1).

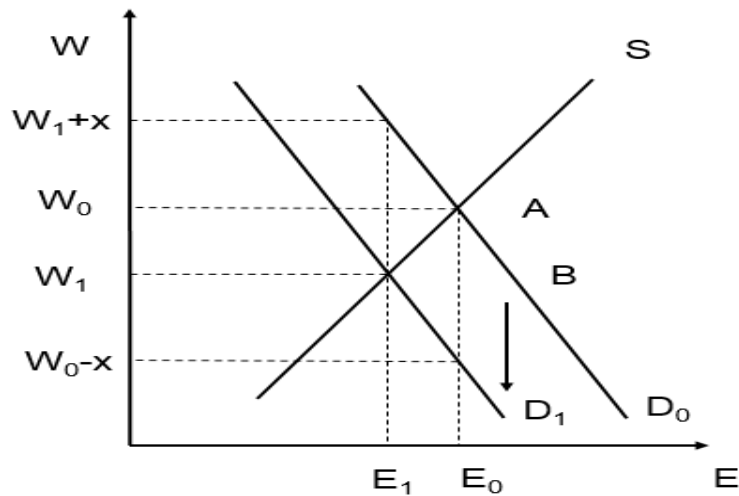


Figure 1. The impact of social insurance premiums on labor demand

Workers

The government regulates that workers must also pay social insurance, health insurance, and unemployment insurance (actually 10.5% of the basic salary in Vietnam). Like the above example, if not paying insurance, the market equilibrium is at point A, where the worker is willing to provide E_0 hours when the wage is w_0 . Suppose the average premium is y per hour they work, but worker still want to receive a wage of w_0 as their initial equilibrium. Therefore, the worker will demand that the employer pay $w_0 + y$. This will move the supply curve upward, adding y units. The equilibrium in the labor market has moved to a new equilibrium position (point B). There, worker received w_1 wages and the total number of workers decreased from E_0 to E_1 . And because the worker has to pay an amount of money y for an hour of labor, the worker's salary is also reduced, in fact only received as $w_1 - y < w_0$ initially.

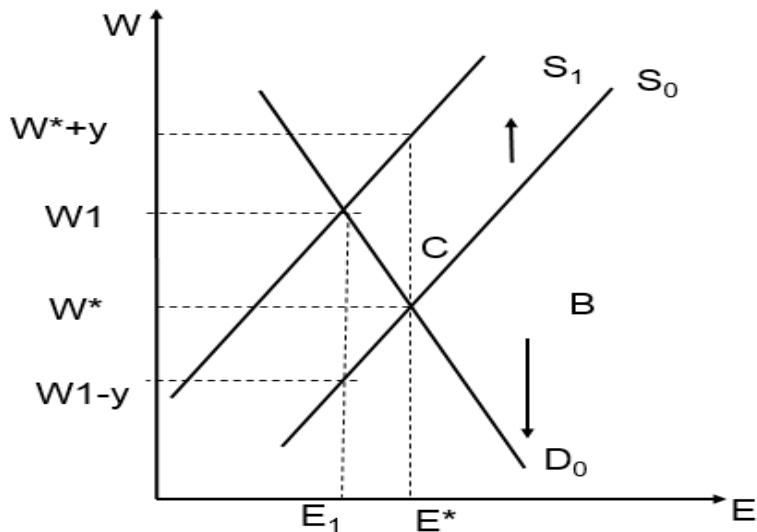


Figure 2. The impact of social insurance premiums on labor supply

III. METHODOLOGY

The study is done primarily by qualitative research. The research is based on the theory of social insurance, and the theory of the effect of social insurance on wages and jobs. The authors summarize data on the level of social insurance contributions in the past years in Vietnam, and then draw discussion, conclusion and some recommendations.

IV. THE RATE AND LEVEL OF PAYMENT OF INSURANCE PREMIUMS IN VIETNAM

The rate and deduction rate for social insurance

In recent years, the level of compulsory social insurance for employers (organizations, enterprises) and employees has been adjusted from time to time and actual situation of economic development, but the Great is the upward trend. According to Decision 595/QĐ-BHXH signed on April 14, 2017, (effective from May 1, 2017, applied from January 1, 2018 to now - 2020):

For organizations and enterprises, the rate of payment of insurance premiums to the social insurance fund is 17% (3% for the sickness and maternity fund, 14% for the retirement and survivorship fund). In addition to the above 17%, enterprises also have to pay labor accident and occupational disease insurance which is 0.5% of employees' social insurance premium (According to Article 22 of Decision 595). Particularly, the rates of health insurance (health insurance) and unemployment insurance (UI) are 3% and 1% (Article 14, Article 18). In total, organizations and businesses must pay 21.5% of the costs of the business. (see table 2.1 below). Apart from the above-mentioned compulsory insurance premiums, the enterprise must pay additional trade union fee to the District Labor Union. Union fee level = 2% of salary fund as a basis for social insurance payment for employees. (According to Decree 191/2013 / ND-CP). (2% of this union fee, employees do not have to pay, but if they join the union will have to pay union dues.

Table 1. The rate of deduction for insurance premiums implemented from 2018 to 2020

Unit: %

Subjects of insurance payment	Social insurance	Labor accident and occupational disease insurance	Health insurance	Unemployment insurance	Total
	2018 - 2020	2018 - 2020	2018 - 2020	2018 - 2020	2018 - 2020
Enterprise	17	0,5	3	1	21,5
Worker	8	0	1,5	1	10,5
Total	25	0,5	4,5	2	32

For workers, the social insurance premium rate is determined according to the following formula:

$$\text{Social insurance premium rate} = \text{Proportion of social insurance premium payment} \times \text{The monthly salary rate of social insurance premium}$$

Inside: The rate of social insurance contributions for employees applied from January 1, 2018 to now (2020) has not changed with the total rate of employees' payment of 10.5% (presented in table 1 above), However, the monthly salary paid for insurance has changed (increased over time). Specifically:

Monthly salary paid for insurance

According to Article 6, Decision No. 595/QĐ-BHXH, applied from January 1, 2018, the monthly salary level for calculating insurance premiums is prescribed as follows:

For administrative and non-business sector: The monthly salary paid for compulsory social insurance is the salary based on rank and position allowances, extra-seniority allowances, seniority allowances. This salary is calculated on the base salary. (including the reserved difference coefficient as prescribed by the salary law) and there is a change from July 1, 2017 to now (2020) is presented in table 2 below. (Before July 1, 2017, the base salary was VND 1,210,000 / month (as stipulated in Decree 47/2016 / ND-CP of the Government - applied from May 1, 2016). From July 1, 2017 to the previous, the base salary increased by 7.44%, similarly, the base salary increased by 6.92% after July 1, 2018 and after July 1, 2019 is 7.19%

Table 2. Base salary (common minimum wage) from 2017 to 2020

	Unit: VND			% (+/-)		
	From 01/07/2017	From 01/07/2018	From 01/07/2019	2017/2016	2018/2017	2019/2018
Base salary	1.300.000	1.390.000	1.490.000	7,44	6,92	7,19

For the corporate sector: From January 1, 2018, the monthly salary on which compulsory social insurance premiums based is the salary, salary allowances and other additional payments as prescribed in Article 4 of Circular No. 47/2015 / TT-BLĐTBXH. Including items:

Salary: salary is calculated according to the time of the job or title according to the wage scale and payroll formulated by the employer in accordance with the labor law agreed upon by the two parties. For an employee receiving a salary based on a product or a fixed salary, the salary is based on time to determine the unit price of product or piece rate.

Salary allowances, including wage allowances agreed upon by the two parties, specifically:

+ Salary allowances to make up for difficult working conditions, complex jobs, limited living conditions, unsatisfactory level of labor attraction, etc. that is agreed upon in the labor contract. not included or incomplete.

+ Salary allowances associated with the work process and performance of the employee.

Allowances must be added to compulsory insurance: position allowances and titles; responsibility allowances; heavy, toxic and dangerous allowances; seniority allowances; regional allowances; mobile allowances; Attractive allowance and similar nature allowances.

And other additional payments: the additional amounts agreed by the two parties to determine whether or not the specific amount of money together with the regular or irregular pay agreement associated with the work process, the results perform work of workers.

From 2018, the monthly salary paid for compulsory social insurance shall not be lower than the regional minimum wage for the same period. The regional minimum wage has changed from 2018 to the present (2020) as shown in table 3 below:

Table 3. Regional minimum wage from 2018 to 2020

Region	Regional minimum wage from 01/01/2018(thousand VND/month)	2018/2017		Regional minimum wage from 01/01/2019 (thousand VND/month)	2019/2018		Regional minimum wage from 01/01/2020 (thousand VND/month)	2020/2019	
		+ Thousand VND	(+) %		+ Thousand VND	(+) %		+ thousand VND	(+) %
Region 1	3980	230	6,13	4180	200	5,02	4420	240	5,74
Region 2	3530	210	6,32	3710	180	5,09	3920	210	5,66
Region 3	3090	190	6,55	3250	160	5,17	3430	180	5,53
Region 4	2760	180	6,97	2920	160	5,79	3070	150	5,13
Legal grounds	ND 141/2017/ND-CP			ND 157/2018/ND-CP			ND 90/2019/ND-CP		

From Table 3above, the regional minimum wage is constantly changing over the three years 2018-2020, all in 4 regions in 2018 increased by over 6% compared to 2017, on average, all in 4 regions increased 6.49% compared to 2017. In 2019 and 2020, the minimum wage in all 4 regions increased by more than 5% over the previous year, if the average for the four regions in 2019 increased by 5.26% and 5.51% compared to the previous year. Moreover, from 2018, the law also specifies the minimum and maximum monthly salary used to calculate the regional premium for each type of employee working under different conditions.

+ Minimum monthly salary used to calculate social insurance premium:

- Not lower than the regional minimum wage for people doing simple jobs or titles under normal working conditions.

- At least 7% higher than the regional minimum wage for employees working for a job or a job title that requires vocational training

- At least 5% higher for people working in jobs or titles with hard, hazardous and dangerous working conditions; 7% for workers or titles with extremely heavy, hazardous or dangerous working conditions compared to the salary of a job or a title of equivalent complexity in normal working conditions. Specifically, from July 1, 2019 to June 30, 2020, the minimum monthly salary used to calculate the regional and each employee's premium payment is shown in Table as follows:

Table 4. The minimum monthly salary under different conditions

Region	People working in normal conditions	People who have passed an apprenticeship or vocational training	People who have passed an apprenticeship or vocational training working in heavy, hazardous or dangerous conditions	People who have passed an apprenticeship or vocational training in extremely heavy, hazardous or dangerous conditions
Region I	4.420.000	4.729.400	4.965.870	5.060.458
Region II	3.920.000	4.194.400	4.404.120	4.488.008
Region III	3.430.000	3.670.100	3.853.605	3.927.007
Region IV	3.070.000	3.284.900	3.449.145	3.514.843

The maximum monthly salary used to calculate the social insurance premium: stipulating the maximum monthly salary used to calculate the social insurance and health insurance premium must not be higher than 20 times the common minimum salary and unemployment insurance premium cannot be higher than 20 times the maximum salary Minor region. Thus, from 01/01/2020: Maximum monthly salary used to calculate social insurance and health insurance premium = 20 x 1.49 = 29.8 million VND / month. The maximum monthly

salary used to calculate the unemployment insurance premium does not exceed 20 times the regional minimum wage for each subject mentioned in Table 2.4 above.

However, from July 1, 2020, the base salary (the common minimum wage increased to VND 1,600,000 / month), so the minimum and maximum monthly salaries are used to calculate the insurance premium for each type. The number of employees also increased. Compared to 2019, the minimum, maximum and contribution rates for social insurance are shown as follows:

Table 5. The minimum level of social insurance premium payment and the increase compared to 2019
Unit: VND/month

Region	2019	2020	Increase
People working in normal conditions			
Region I	334.400	353.600	19.200
Region II	296.800	313.600	16.800
Region III	260.000	274.400	14.400
Region IV	233.600	245.600	12.000
People who have passed an apprenticeship or vocational training			
Region I	357.808	378.352	20.544
Region II	317.576	335.552	17.976
Region III	278.200	293.608	15.408
Region IV	249.952	262.792	12.840
People who have passed an apprenticeship or vocational training working in heavy, hazardous or dangerous conditions			
Region I	375.698,4	397.269,6	21.571,2
Region II	333.454,8	352.329,6	18.874,8
Region III	292.110	308.288,4	16.178,4
Region IV	262.449,6	275.931,6	13.482
People who have passed an apprenticeship or vocational training in extremely heavy, hazardous or dangerous conditions			
Region I	382.854,6	404.836,6	21.982
Region II	339.806,3	359.040,6	19.234,3
Region III	297.674	314.160,6	16.486,6
Region IV	267.448,6	281.187,4	13.738,8

Table 6. The maximum level of social insurance premium payment and the increase compared to 2019
Unit: VND / month

2019	2020		Increase	
	From 01/01	From 01/7	From 01/01	From 01/7
2.384.000	2.384.000	2.560.000	0	176.000

In summary, there are two factors that affect the employee's monthly social insurance premiums. It is the contribution rate and the monthly salary used to calculate the insurance premium. Only from 2018 to the present, while the social insurance contribution rate has not changed, the minimum and maximum monthly salary used to calculate the social insurance premium changes, namely increases, making the monthly insurance premium of workers increased.

V. Discussion And Recommendation

Discussion

From the theory of social insurance and the social insurance in Vietnam mentioned above, some opinions can be discussed as follows:

Firstly, when applying the social insurance payment for employees or employers, the employees' wages and jobs are reduced by a certain amount, the extent of this decrease depends on the conditions. environment and closing rates.

Secondly, in the past 3 years in Vietnam, although the rate of social insurance contributions has not changed, the basic salary (the common minimum wage) and the regional minimum wage for workers in the different working conditions tend to increase (over 5% compared to the previous year). Since then, the social insurance premium of the employees has increased.

Thirdly, although the real wages and employment of employees are affected by many subjective and objective factors, the increase in insurance premiums will certainly reduce the real wages and employment of employees. workers in the market

Fourthly, changing the labor law when increasing the retirement age (men from 60 to 62, women from 55 to 58) makes the labor force in working age increase even more pressure and make wages and the employment of workers is further reduced, the number of unemployed will increase if not creating better jobs.

Recommendation

Although the provision for employees and employers to pay social insurance makes workers' wages and jobs is lower because of the superiority of social insurance in particular and social security In general, we still have to apply for social insurance. It is required by law. Therefore, some recommendations are as follows:

Firstly, it is necessary to have close coordination between state management units on social insurance and salary and employment functions to propose reasonable social insurance policies to limit the decline in wages and employment affecting other socio-economic issues.

Secondly, it is necessary to have regular field surveys to study the fluctuation of wages and jobs under the impact of increasing insurance premiums for people in different regions in order to propose the policies, social insurance regime and reasonable wages and jobs.

Thirdly, on the basis of regular research on this interaction (combining other fields and factors) to identify appropriate social insurance regimes (especially the calculation of insurance premiums: deduction rates payment, base salary, regional minimum wage, etc.) for each regions, fields which help to maintain socio-economic stability.

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