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### Investment Activities of Vietnam Social Insurance Fund: Current Situation and Recommendations

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#### Abstract

Investing in social insurance funds is currently a necessary activity to preserve and develop social insurance funds. In this article, the author used the method of collecting secondary data from different document sources and descriptive statistical methods, synthesis, analysis, comparison, and contrast methods. The article has

systematized the theoretical basis for investing in social insurance funds; analyzed and evaluated the current status of social insurance fund investment activities in Vietnam and proposed recommendations to improve the effectiveness of social insurance fund investment.

**Keywords:** Investment, Social Insurance Fund, Vietnam

#### 1. Introduction

In Vietnam, social insurance policy has gradually affirmed and promoted its role as a main pillar of the social security system, a replacement guarantee, or partial compensation for workers' income. When they encounter risks in life. The social insurance fund has become the largest security fund, operating on the principle of contribution - benefit and sharing between workers of the same generation and between generations participating in social insurance. In addition to paying benefits to social insurance and health insurance participants, Vietnam Social Insurance is also assigned the function of managing and investing in social insurance and health insurance funds; to ensure the fund's growth, safety, and sustainable development in the long term. The report of Vietnam Social Insurance (Social Insurance) has shown that the investment in the Social Insurance Fund in recent times has been made safely, and effectively and ensures value through growth investment; and contributes significantly to preserving and developing the social insurance fund. The Social Insurance Fund has become a large-scale public financial fund, actively contributing to the development of the capital market in Vietnam, ensuring stable interest rates and liquidity in the government bond market. The Social Insurance Fund has become the country's leading public financial fund, actively contributing to the development of the capital market in Vietnam, ensuring stable interest rates and liquidity in the government bond market...However However, besides the achieved results, Social Insurance Fund investment activities still have many limitations and investment efficiency is not high. The problem is that it is necessary to perfect legal policies, and soon issue and deploy a roadmap for developing fund investment activities following the increasing requirements of the economy and society; the field of social insurance fund investment needs to continue to improve on the principles of safety, sustainability and efficiency. This has also been identified by the Party and State in Resolution No. 28-NQ/TW of the 7th Conference of the Central Executive Committee of the Communist Party of Vietnam, term XII on social insurance policy reform, which is "Diversifying the portfolio and investment structure of the Social Insurance Fund according to the principles of safety, sustainability, and efficiency. Strengthen assessment, financial forecasting, and investment efficiency of social insurance funds; diversify the portfolio and investment structure of the Social Insurance Fund according to the principles of safety, sustainability, and efficiency; Prioritize investing in government bonds, especially long-term government bonds; Research and gradually expand into areas with high profitability, step by step and have a roadmap to invest part of the Fund's idle money through investment trusts in the domestic and international markets; ensure safety and sustainability".

#### 2. Theoretical Basis

**Social Insurance Fund:** The Social Insurance Fund is an independent, centralized financial fund, outside the State budget; is formed from contributions from social insurance participants (which may include employees, employers, and the State in some

cases) and other legal revenue sources. The Social Insurance Fund is a capital mobilization channel for the economy, a tool to carry out the social insurance financial function and social insurance policy of the State. Therefore, effectively using the capital mobilized through this channel by investing a part of the unused social insurance fund is necessary, while avoiding wasting resources; at the same time, it aims to increase revenue and preserve and develop the social insurance fund. In Vietnam, according to the provisions of Clause 5, Article 84, Social Insurance Law 2014, the Social Insurance Fund is invested to preserve and grow the fund; Investment principles and investment portfolios are specified in the Social Insurance Law and guiding documents.

**Principles of investment in social insurance funds:** Investment activities from social insurance funds must ensure safety, efficiency, and recovery of investment capital (Article 91, Law on Social Insurance No. 58/2014/QH13)

1. **Safety principle:** The top principle of social insurance fund investment activities is to ensure safety to ensure the benefits of millions of workers participating in social insurance. The social insurance fund is mainly used to pay social insurance benefits to employees when they encounter risks according to regulations. Therefore, the social insurance fund must always have the necessary amount of money to meet the needs. Therefore, social insurance funds must be invested in areas and fields with the least risk.
2. **Principles for ensuring investment efficiency of the social insurance fund:** Investment efficiency is understood as the profitability from the investment results of the social insurance fund (profit of investment). Although the operating objective of the social insurance fund is non-profit, to ensure that the social insurance fund is highly safe and can pay beneficiaries not only now, but also in the future, the fund must not only preserve value but must also grow to meet this requirement. Profits earned from social insurance fund investment activities must continue to be reinvested and partly to offset increases in social insurance costs. For investment activities to be profitable, social insurance investors must carefully consider and evaluate the projects they intend to invest in, assess possible risks to limit possible losses, or decide whether to continue investing or not.
3. **Principle of convenience in capital recovery (liquidity):** One of the principles set forth in social insurance fund investment activities is that the investment portion of the social insurance fund must have high liquidity, and the investments must be high. Investors must be completely proactive and convenient if capital must be recovered. When investing, the social insurance fund must comply with one of the criteria for selecting investment assets, which is high flexibility, that is, the ability to convert from investment assets to liquid assets quickly and without having to pay any debt. Huge costs. This principle is to ensure that the social insurance fund can make timely payments to beneficiaries.
4. **Principle of serving public interests:** When establishing investment projects, social insurance investors must harmoniously comply with two goals: Profit and public benefits. This principle comes from the operational objective of social insurance, which is to aim at social security, contributing to improving the quality of

people's lives. Therefore, investing the idle portion of the social insurance fund is not only purely economic but also highly social. Investment projects must first serve the direct benefits of the majority of people participating in social insurance and other public benefits, and indirectly serve workers; such as creating jobs, improving housing, improving health care services for the population, improving social infrastructure systems...

### 3. Methods

In this article, the author used the method of collecting secondary data from different sources (annual reports on the management and use of social insurance funds of Vietnam Social Insurance; Legal documents as a basis for implementing social insurance fund investment activities in Vietnam). After collecting data, the author used descriptive statistical methods, synthesis, analysis, comparison, contrast, and systematic approaches; aims to systematize the theoretical basis for investment in social insurance funds; Analyze and evaluate the current status of social insurance fund investment activities in Vietnam and propose recommendations to improve the effectiveness of social insurance fund investment.

### 4. Results

#### 4.1 Legal regulations on social insurance fund investment activities in Vietnam

Social insurance fund investment activities in Vietnam are currently regulated according to Social Insurance Law No. 58/2014/QH13 and Decree No. 30/2016/ND-CP. Investment activities from the social insurance fund are carried out through the following forms in the following order of priority: (i) Buying Government bonds; (ii) Lending to the state budget; (iii) Deposit money; Buy bonds, promissory notes, bills, and certificates of deposit at commercial banks with good operating quality according to the credit rating of the State Bank of Vietnam; (iv) Lending loans to the Vietnam Development Bank and the Bank for Social Policies in the form of purchasing Government-guaranteed bonds issued by these banks; (v) Invest in important projects as decided by the Prime Minister. The specific investment implementation method is as follows:

**Purchasing Government bonds:** Government bonds purchased include treasury bills, treasury bonds, and national construction bonds issued by the Ministry of Finance in the domestic market and the following forms: Bonds from the State Treasury following the law on bond issuance in the domestic market; Buy Government bonds from organizations and individuals in accordance with the law on Government bond transactions. The bond purchase level is decided by the General Director of Vietnam Social Insurance based on the fund investment plan approved by the Board of Management of Vietnam Social Insurance. The investment term for buying bonds depends on the term of each specific type of Government bond prescribed. Payment of principal and interest of Government bonds upon maturity shall comply with the provisions of law on the issuance of Government bonds in the domestic market.

**Lending to the state budget:** The loan level is decided by the General Director of Vietnam Social Insurance; Based on the borrowing needs of the state budget and the fund investment plan approved by the Vietnam Social Insurance Management Council. The loan term is calculated from the

loan date to the debt collection date; the specific loan term of each loan is agreed upon by Vietnam Social Insurance and the Ministry of Finance but must not exceed 10 years. The loan interest rate is equal to the interest rate for issuing Government bonds with the same term at the latest time within 03 months before the loan time. In case 03 months before the loan date, Government bonds with the same term are not issued; Vietnam Social Insurance and the Ministry of Finance agree on the loan interest rate. Based on reference to the interest rate for trading Government bonds with a remaining term equivalent to the loan term or the interest rate for issuing Government bonds with a term close to the loan term at the most recent time.

Deposit money at commercial banks with good operating quality according to the credit rating of the State Bank of Vietnam: Deposit levels at commercial banks are decided by the General Director of Vietnam Social Insurance; Based on the fund investment plan approved by the Vietnam Social Insurance Management Council. The deposit term is calculated from the deposit date to the withdrawal date. The specific term is selected by Vietnam Social Insurance based on each type of deposit term of the commercial bank but must not exceed 03 years. The deposit interest rate is based on the commercial bank's term deposit interest rate; but must ensure that it is not lower than the average interest rate on deposits of the same term at the time of deposit of four branches in Hanoi city of four commercial banks: Vietnam Joint Stock Commercial Bank for Industry and Trade, Joint Stock Commercial Bank for Foreign Trade of Vietnam, Joint Stock Commercial Bank for Investment and Development of Vietnam, Vietnam Bank for Agriculture and Rural Development. The selection of four branches of four corresponding commercial banks specified in this Clause is decided by the General Director of Vietnam Social Insurance. Payment of principal and interest is carried out following the provisions of law on term deposit transactions at credit institutions.

Buy bonds, promissory notes, bills, and certificates of deposit issued by commercial banks with good operating quality according to the credit rating of the State Bank of Vietnam: The purchase of bonds, promissory notes, bills, and certificates of deposit issued by commercial banks must belong to the fund investment plan approved by the Vietnam Social Insurance Management Board. The investment term for purchasing bonds, promissory notes, treasury bills, and certificates of deposit depends on the term of each type of valuable paper issued by commercial banks but must not exceed 05 years. The interest rate for purchasing bonds, promissory notes, bills, and certificates of deposit is based on the interest rate for issuing bonds, promissory notes, bills, and certificates of deposit issued by commercial banks; but must ensure that it is not lower than the interest rate of Government bonds with the same term at the latest time within 03 months before the time of purchase. In case 03 months before the time of purchase, no Government bonds

with the same term were issued; the interest rate for purchasing bonds, promissory notes, bills, and certificates of deposit shall comply with the interest rate for depositing money at commercial banks according to regulations.

Buy Government-guaranteed bonds issued by the Vietnam Development Bank and the Bank for Social Policies: The level of purchasing bonds guaranteed by the Government is decided by the General Director of Vietnam Social Insurance based on the fund investment plan approved by the Board of Management of Vietnam Social Insurance and the proportion of investment capital according to provisions of law. The investment term for buying bonds depends on the term of each type of bond guaranteed by the Government but must not exceed 5 years.

Invest in important projects as decided by the Prime Minister: The invested project is an important project that uses part of public investment capital according to the provisions of law on public investment and has been decided on investment policies by the Prime Minister; including Objectives, scale, total investment, capital structure, location, time, and implementation progress. The level of investment capital in each project is based on the investor's needs, the fund investment plan approved by the Vietnam Social Insurance Board of Management, and the prescribed investment capital ratio. The investment term depends on each project but must not exceed 5 years. In case the principal payment is due, the investor concentrates resources on expanding the production and business project or has not timely gathered capital for payment due to objective reasons, the investor must have a written document. If you request an extension of the payment time, the General Director of Vietnam Social Insurance shall consider and decide to extend part or all of the principal amount for a maximum period of no more than 03 years, depending on each specific case. The investment interest rate must be guaranteed not to be lower than the interest rate for issuing Government bonds with the same term at the latest within 03 months before the time of investment, excluding relevant fees (if any).

**4.2 Situation of social insurance fund investment activities in Vietnam**

According to the report of Vietnam Social Insurance, the investment in the Social Insurance Fund in recent times has been carried out safely, effectively, under regulations, and ensuring value through growth investment. Fund investment work in recent times has been carried out by Vietnam Social Security by investment portfolio regulations. In particular, focuses on investing in government bonds (about 85% of total investment); and other forms of investment such as depositing money, and buying certificates of deposit bonds at commercial banks with good operating quality assessed by the State Bank. The results of the fund's growth investment activities are shown in the following data table:

**Table 1:** Status of social insurance fund investment implementation

Unit: Billion VND

S. No	Investment portfolio	Balance due December 31, 2021	2022		
			New investments	Recall	Balance until December 31, 2022 (estimated)
<b>1</b>	<b>Government bonds</b>	<b>854,568.1</b>	<b>130,718.0</b>	<b>59,000.0</b>	<b>926,286.1</b>
1.1	Government bonds receive debt	22,090.0	-	-	22,090.0
1.2	Government bond bidding	360,178.1	130,718.0		490,896.1

1.3	Individual government bonds	173,300.0	-	2,000.0	171,300.0
1.4	Government bonds converted	299,000.0	-	57,000.0	242,000.0
<b>2</b>	<b>Commercial Bank</b>	<b>128,815.2</b>	<b>168,700.0</b>	<b>91,507.3</b>	<b>206,007.9</b>
2.1	Send money	120,500.0	168,700.0	86,500.0	202,700.0
2.2	Loan (old)	315.2	-	7.3	307.9
2.3	Bonds, bank certificates of deposit	8,000.0	-	5,000.0	3,000.0
	<b>Total</b>	<b>983,383.3</b>	<b>299,418.0</b>	<b>150,507.3</b>	<b>1,132,294.0</b>

Source: Vietnam Social Security

The annual fund investment balance increases in absolute terms. As of December 31, 2022, the fund's investment balance is estimated to reach VND 1,132,294 billion. Of which, purchasing Government bonds reached 926,286.1 billion VND, accounting for 81.8% of the total investment balance of the social insurance fund. Investment in commercial banks reached 206,007.9 billion VND, accounting for about 18.2% of the total investment balance of the social insurance fund. Thus, Vietnam Social Security

has been implemented correctly according to the investment plan approved by the Management Board of Vietnam Social Insurance. By the end of 2022, the total profit earned from fund investment activities in the year is estimated at VND 42,452.4 billion; the average investment interest grows positively every year and is higher than the growth rate of the consumer price index (CPI). Specific fund investment results are as follows:

**Table 2:** Investment results of social insurance fund

Unit: Billion VND

S. No	Content	2020	2021	2022 (estimated)
1	The previous year's investment amount carried over	813,663.0	897,715.1	983,383.3
2	Investment amount incurred during the year	304,821.4	246,852.8	299,418.0
3	Amount recovered during the year	220,769.3	161,500.0	150,507.3
4	The amount of profit earned during the year	47,592.7	43,278.7	42,452.4
5	Average investment interest rate (%/year)	5.02	4.39	4.19

Source: Vietnam Social Security

Along with the achieved results of social insurance fund investment activities, the fund size and total annual residual assets increased rapidly. Through investing in government bonds, the commercial banking system, and important national projects, the social insurance fund has actively contributed to the country's socio-economic development. The Social Insurance Fund has become a large-scale public financial fund, actively contributing to the development of the capital market in Vietnam, ensuring stable interest rates

and liquidity in the government bond market. By 2022, the total balance of the social insurance fund will increase nearly 2 times compared to 2016 (the year starting to implement the Social Insurance Law No. 58/2014/QH13) with an increase in fund size of about 18%/year. The Social Insurance Fund has become the country's leading public financial fund, actively contributing to the development of the capital market in Vietnam, ensuring stable interest rates and liquidity in the government bond market...

**Table 3:** Status of balance of social insurance funds

S. No	Fund type	2020 balance	2021 balance	2022 balance (estimated)
1	Sickness and maternity fund	13,419	18,276	26,745
2	Fund for labor accidents and occupational diseases	54,190	58,545	62,564
3	Retirement and survivorship fund	795,020	885,987	988,426
4	Unemployment insurance fund	90,654	63,071	59,368

Source: Vietnam Social Security

### 4.3 Discussion

It can be seen that investment activities in the Vietnam Social Insurance Fund in recent times have achieved certain results, contributing significantly to the preservation and development of the Social Insurance Fund. However, besides the achieved results, social insurance fund investment activities still have limitations. Due to the characteristics of the social security fund, investment forms are strictly regulated, and the fund's investment portfolio is not diverse, focusing mainly on buying Government bonds (85%) and depositing money, buying bonds, certificates of deposit at commercial banks (15%). With such an investment portfolio and structure, although social insurance fund investment activities are considered safe, the investment efficiency in recent times has not been as high as expected. Investing in government bonds, depositing money, or buying certificates of deposit at banks are highly safe

forms of investment, guaranteed according to the law, but can hardly bring about high growth efficiency. In the context of rapid population aging, the need to ensure social security is increasing, requiring the Social Insurance Fund to be managed, used, and invested more effectively, ensuring stability, more balanced and sustainable in the long term, meeting current and future policy payment responsibilities. Resolution No. 28-NQ/TW of the 7th Plenum of the 12th Central Committee on Social Insurance Policy reform emphasized diversifying the portfolio and investment structure of the Social Insurance Fund according to the principles of safety, sustainability, and efficiency.

### 5. Recommendations

Investing to preserve and grow the fund is currently a necessary activity to help the social insurance fund have sufficient financial potential; to meet the payment needs of

social insurance beneficiaries. The field of social insurance fund investment needs to continue to improve on the principles of safety, sustainability, and efficiency. Based on the analysis of the current state of investment efficiency in the Social Insurance Fund, the author proposes several recommendations as follows:

First, diversify the portfolio and investment structure of the social insurance fund according to the principles of safety, sustainability, and efficiency; Prioritize investing in Government bonds, especially long-term Government bonds; Research gradually expands into highly profitable fields; step by step and have a roadmap to invest part of the Fund's idle money through investment trusts in the domestic and international markets.

Second, the investment activities of the Social Insurance Fund need more flexible mechanisms and policies. Current regulations need to be considered and amended, with detailed regulations for each type of long-term and short-term investment capital, investment limits for each category; and specific decentralization of investment decision authority. It is necessary to allow Social Insurance to expand the Social Insurance Fund investment portfolio to ensure both safety and profitability. On the other hand, it is necessary to specifically regulate investment ratios in investment portfolios so that fund investment activities are synchronized.

Third, it is necessary to strengthen the assessment, financial forecasting, and investment efficiency of Social Insurance funds; Build a team of qualified human resources in charge of investment management of the Social Insurance Fund, coordinate with professional and reputable investment organizations to meet practical requirements. At the same time, research to gradually expand into highly profitable fields, gradually and have a roadmap to invest part of the fund's idle money through investment trusts in the domestic and international markets; to ensure safety and sustainability. To solve this problem, some international and domestic experts believe that it is necessary to give more freedom with strict supervision in investing pension funds to the organization with this task, Vietnam Social Insurance. Along with that, it is necessary to strengthen supervision and closer support from experts, to improve investment capacity and the ability to use external managers; improve risk management; and improve management capacity for Vietnam Social Insurance.

In addition, the Government needs to soon amend the Social Insurance Law to suit the new development context, including content on investment in social insurance funds. Currently, falling rates of return on government bonds and the impact of inflation on real returns have raised the need to ensure the best results for Vietnam, to match today's coverage levels. Increase your retirement income aspirations most effectively. Vietnam Social Security is facing a long-term problem of falling Government bond yields, which have been only slightly above inflation over the past 10 years and below inflation in some recent years. Therefore, if changes to important contents in the Social Insurance Law are not implemented following expectations, it will eventually lead to larger and more politically challenging problems. It is necessary to improve legal policies, and promptly issue and deploy a roadmap for developing fund investment activities following the increasing requirements of the country's economy and society.

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