

## Actual Situation of Salary as the Basis for Paying Social Insurance Premiums of Employees in Enterprises in Vietnam



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**ABSTRACT:** In Vietnam today, the business sector is growing stronger and making an important contribution to the economy. However, in the process of implementing the law on social insurance payment, the compliance level of enterprises with the salary as the basis for payment of social insurance is still low, affecting the legitimate interests of employees and limiting revenue to the social insurance fund. In this article, the author has used a combination of documentary research methods, methods of collecting data from secondary sources, and at the same time used descriptive statistics, synthetic analysis methods and normative research methods to clarify the legal provisions on wages as the basis for payment of social insurance and the actual situation of wages as the basis for payment of social insurance premiums of employees working in various types of enterprises in Vietnam.

**KEYWORDS:** salary as a basis for paying social insurance premiums, employees, enterprises, Vietnam

### 1. INTRODUCTION

In Vietnam, the business sector has the largest contribution to the size and speed of development of the country, accounting for over 60% of the GDP of the entire economy. Implementing the innovation policy, the business sector is growing stronger and attracting a large labor force to work in this area. According to the General Statistics Office, by the end of 2020, the total number of operating enterprises with production and business results in the whole country is 684,260 enterprises, the total number of enterprise employees nationwide is 14,702,546 people. In the process of implementing the law on social insurance, enterprises have made important contributions to ensure the rights of employees and achieve the goal of ensuring social security. Every year, the number of employees and the amount of social insurance contributions of enterprises always account for the largest proportion of the total number of participants in compulsory social insurance and the collection of compulsory social insurance. According to a report by Vietnam Social Security, in 2020, the number of employees in enterprises participating in compulsory social insurance is 10,838,874 people. However, compared with the size of employees working in enterprises, the rate of participation in social insurance for employees is still not high. Along with that, enterprises declare the salary registered to pay social insurance of employees is much lower than the actual income of employees. In 2020, the average salary of employees in enterprises is about 9.547 million VND/month, while the average salary used as the basis for social insurance contributions of enterprise employees is only about 5.1 million VND. Enterprises' failure to strictly comply with the law on salary calculation for social insurance contributions has affected the interests of employees working at enterprises and limited revenue to the social insurance fund. The authors used the method of studying documents, the method of collecting data from secondary sources, and also using the method of analysis and descriptive statistics to clarify the legal provisions on salary as the basis for payment of social insurance and the reality of the salary as the basis for payment of social insurance premiums of enterprises in Vietnam. On that basis, the authors propose a number of recommendations to enhance the compliance of enterprises in Vietnam in terms of income for calculating social insurance contributions.

### 2. THEORETICAL BASIS

The International Labor Organization (ILO) defines a salary as an amount that an employer pays an employee for a certain amount regardless of the actual number of hours worked, usually paid monthly or semi-monthly. Wage is the amount of money paid to labor under a labor contract calculated based on the number of products produced or the actual number of hours worked. Most countries, when designing, contribute to the social insurance fund based on the salary and wages of employees; because this is a regular monthly income of employees. This stems from the following main reasons: (i) Salary as the basis for payment of social insurance premiums to suit the subjects of social insurance. Social insurance protects against the risk of loss or reduction of an

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employee's income due to reduced working capacity or job loss. In other words, income from labor-wage is the subject of insurance of social insurance, the purpose of social insurance is to compensate/replace part of an employee's income that is reduced or lost when facing risks such as sickness, maternity, labor accident, occupational disease, old age or unemployment; (ii) Wages as the basis for payment of social insurance premiums to ensure fairness (the salary and wages in each country must always be determined with a scientific basis, especially a practical basis, to ensure the wages of workers in industries, economic sectors, and economic sectors in a harmonious and reasonable manner); (iii) The salary and wages are easily adjusted to changes in the economy; (iv) Convenience in management and implementation of collection of social insurance (as a general rule, salary is paid monthly, so based on salary level to determine the social insurance premium rate is appropriate to reality because each employee only needs to save a small amount from salary to contribute to the social insurance fund, which is completely feasible and has little impact on their living standards in each month).

In fact, the salaries and wages that employees receive from employers can vary greatly in groups of industries, occupations, qualifications, and working seniority. Therefore, setting a ceiling or floor to determine the salary paid for social insurance is necessary for ensuring fairness among participants, and avoiding too much disparity in the process of social insurance benefits. Usually, countries will set maximum and minimum insurable income. Minimum insurable earnings (independent of personal pay) to ensure a minimum contribution base and avoid ethical issues. According to the recommendations of the ILO, the maximum monthly salary on which social insurance premiums are based should not exceed 10 times the minimum salary (base salary). The insurable income ceiling needs to be higher than the salary of the majority of employees (those with income above the ceiling will be less than 5% of the contributors).

Many countries around the world have used an individual's gross income as a reference for calculating social insurance. For example, in Canada, insurable income is determined to include base salary, bonuses, salary allowances (e.g. car, clothing, transportation, equipment and per diem allowances are considered taxable income), and taxable benefits (e.g. personal medical care). In Indonesia, insurable income includes base salary, holiday allowance, bonus, and taxable social security benefits. Items that count towards insurable income in Timor Leste are base salary, other fixed monthly earnings, for example, thirteenth-month salary, night shift, shift or away from home allowance and special occupation allowance. In Vietnam, in the context of population aging and low fertility rate forecast, early retirement with increasing life expectancy is and will be a great burden for the retirement and survivorship fund. Besides measures such as reducing the replacement rate (entitlement), and extending the working time by raising the retirement age, the measure of increasing the contribution level through changes in the law related to insurable income is one of the urgent solutions to ensure a sustainable fund balance in the long term.

### **3. METHODS**

The authors used theoretical research methods from documents to systematize the theoretical basis of salary as the basis for paying social insurance premiums and the provisions of the law on salary as the basis for paying social insurance contributions of employees in the enterprise. At the same time, the authors use the method of collecting data from secondary sources of different agencies and organizations, focusing mainly on the following sources: the Vietnam Business White Paper of the General Statistics Office on the situation of enterprises and labor, the annual report on the management and use of the social insurance fund of the Vietnam Social Security; the system of legal documents on social insurance being applied in Vietnam and other sources to the research topic. From the secondary data, the authors use descriptive statistical methods to analyze the current situation of salary as a basis for paying social insurance contributions of employees in the enterprise. The method of meta-analysis is used to analyze, compare and contrast legal regulations, results and limitations in the implementation of the law on wages as the basis for enterprises' social insurance contributions in Vietnam.

### **4. RESULTS**

#### **4.1. Legal regulations on salary as the basis for paying social insurance contributions of employees in enterprises in Vietnam**

The salary used as the basis for payment of compulsory social insurance for employees working in enterprises in Vietnam shall comply with the provisions of the Law on Social Insurance No. 58/2014/QH13 issued on November 20, 2014, effective from January 1, 2016; Circular No. 59/2015/TT-BLĐTBXH dated December 29, 2015, of the Minister of Ministry of Labour - Invalids and Social Affairs detailing and guiding the implementation of a number of articles of the Law on Social Insurance regarding compulsory social insurance; Circular No. 06/2021/TT-BLĐTBXH issued on July 7, 2021, providing for amendments and supplements to a number of articles of Circular No. 59/2015/TT-BLĐTBXH.

From January 1, 2016, to December 31, 2017: The monthly salary used as the basis for payment of compulsory social insurance is the salary and salary allowance stated in the labor contract. Salary allowances for which social insurance contributions

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are calculated are salary allowances to compensate for factors such as working conditions, job complexity, living conditions, and level of labor attraction that the salary agreed upon in the labor contract has not been taken into account or is incompletely calculated such as allowances for positions and titles; responsibility allowance; heavy, toxic and dangerous allowances; seniority allowances; regional allowances; mobile allowance; attraction allowances and allowances of similar nature (as specified in Point a, Clause 2, Article 4 of Circular No. 47/2015/TT-BLĐTBXH).

From January 1, 2018, to December 31, 2020: The monthly salary used as the basis for payment of compulsory social insurance is the salary, salary allowance as prescribed above and other additional amounts besides salary which are additional amounts that can be determined at a specific amount along with the agreed salary in the labor contract and paid regularly in each salary payment period (as prescribed in Point a Clause 3 Article 4 of Circular No. 47/2015/TT-BLĐTBXH/TT-BLĐTBXH/TT-BLĐT).

From January 1, 2021, onwards, the monthly salary used as the basis for payment of compulsory social insurance is the salary, salary allowance and other additional amounts specified at Point a, Item b1 Point b and Item c1 Point c Clause 5 Article 3 of Circular No. 10/2020/TT-BLĐTBXH dated November 12, 2020 of the Ministry of Labor - Invalids and Social Affairs.

Currently, the monthly salary for which compulsory social insurance is paid does not include other regimes and benefits such as bonuses as prescribed in Article 104 of the Labor Code No. 45/2019/QH14, initiative bonuses; Mid-shift meals; allowances for petrol, phone, travel, housing, child care, child rearing; support when the employee has a dead relative, the employee has a married relative, the employee's birthday, allowances for employees in difficult circumstances when suffering from a labor accident, occupational disease and other support and allowances specified in a separate item in the labor contract specified in Item c2 point c clause 5 Article 3 of Circular No. 10/2020/TT-BLĐTBXH.

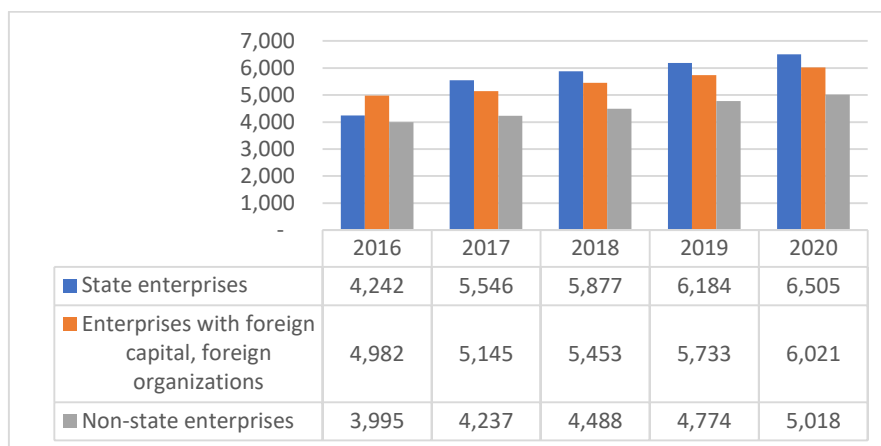
The monthly salary based on the compulsory social insurance premium, decided by the unit, is not lower than the regional minimum wage at the time of payment for employees who do the simplest jobs or titles under normal working conditions. Specifically: Employees who perform jobs or titles that require trained or apprenticed workers (including those trained by enterprises themselves) must be at least 7% higher than the regional minimum wage; Employees who perform jobs or titles with heavy, hazardous, or dangerous working conditions must be at least 5% higher; jobs or titles with particularly heavy, hazardous or dangerous working conditions must be at least 7% higher than the salary of jobs or titles of equivalent complexity, working under normal working conditions.

If the prescribed monthly salary for payment of compulsory social insurance is higher than 20 months' basic salary, the monthly salary for which compulsory social insurance is based is equal to 20 months' basic salary.

### **4.2. Actual situation of average salary as the basis for paying social insurance contributions of employees in enterprises in Vietnam**

According to statistics on Vietnam Social Insurance, the salary as the basis for paying social insurance contributions of employees in enterprises tends to increase for all types of enterprises. Figure 1 shows the details of salary as the basis for closing each type of enterprise in recent years. It can be seen that, basically, different types of enterprises have different salaries as the basis for paying social insurance contributions to employees, however, the difference is not much. In particular, the salary as the basis for paying social insurance contributions of employees in state-owned enterprises is the highest (in 2021, reaching about 6.591 million VND/month), the lowest is the salary used as the basis for paying social insurance contributions of employees in non-state enterprises (in 2021, reaching about 5.101 million VND/month). The average salary as the basis for paying social insurance contributions of employees tends to increase due to a number of factors such as: the State adjusting to increase the base salary, the regional minimum wage, employees are adjusted to increase their salary periodically, increase labor productivity; the social insurance agency implements the management of social insurance collection more effectively; the awareness of complying with the law on social insurance of enterprises and employees is getting better and better, etc.

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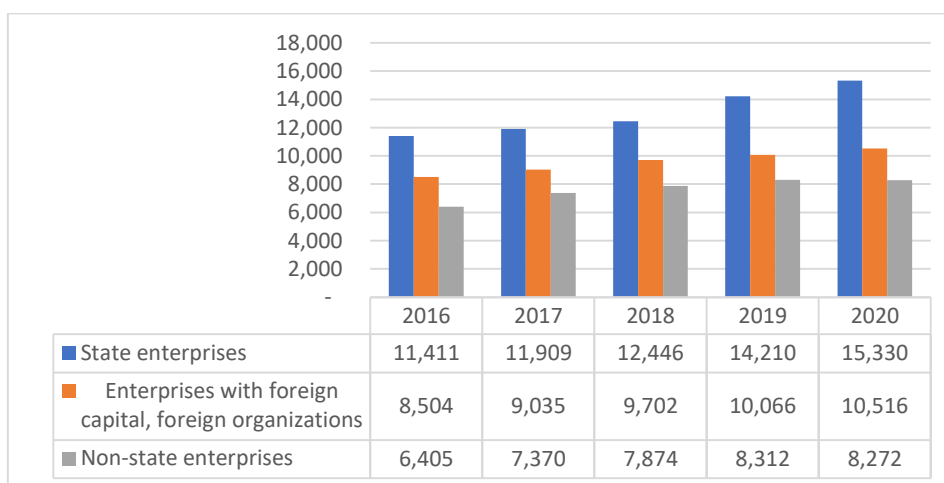


**Figure 1. Salary as the basis for paying social insurance premiums of employees in the enterprise (unit: thousand VND/month)**

Source: Report on annual work results of Viet Nam Social Security

Although the salary as the basis for paying social insurance contributions of employees in the enterprise increased, it has not yet reached the level corresponding to the average salary of employees. The social insurance agency only controls the nominal salary stated in the labor contract instead of the actual salary that the employee receives from the employer. The difference between the average salary and wages as a basis for social insurance contributions and the average salary and wages according to the statistics of the General Statistics Office is an example and in fact, this difference is even higher.

The statistics of the General Statistics Office of Vietnam on the average income of employees in enterprises in Figure 2 show that the average salary of employees working in all types of enterprises increases over the years. At the same time, there are marked working differences in the average wages of employees in different types of enterprises. the average monthly income of employees in state-owned enterprises reached the highest (in 2020, reaching 15.330 million VND/month), followed by the salary of employees in foreign-invested enterprises (in 2020, reaching 10.516 million VND/month), the lowest salary of workers in non-state enterprises (in 2020, reaching 8.272 million VND/month).



**Figure 2. Average salary of employees in the enterprise (unit: thousand VND/month)**

Source: The White Book on Vietnamese Enterprises, General Statistics Office of Vietnam

Comparing the salary paid for social insurance and the actual salary of employees, it can be seen that the salary paid for social insurance in the enterprise sector is much lower than the actual salary of employees. Chart 3 shows the percentage of the salary as the basis for social insurance contributions compared to the average salary of employees in different types of enterprises. This ratio is the lowest for state-owned enterprises, and the ratio is quite similar for foreign-owned and non-state-owned enterprises. Specifically:

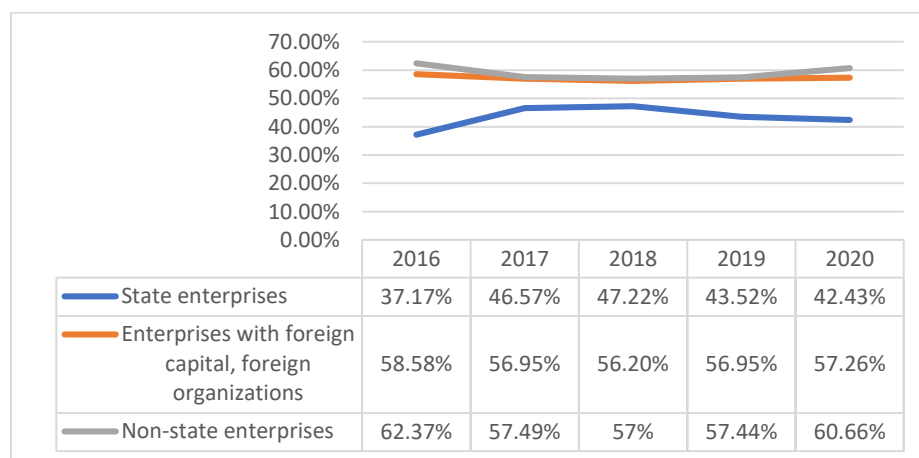
For state-owned enterprises: This is the group of enterprises with the highest average salary of employees of all types of enterprises, but the salary as a basis for social insurance contributions compared to the actual salary is very low and disproportionate. In the period 2016 - 2020, the percentage of salary used as a basis for social insurance contributions compared

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to the average salary of employees in this type of enterprise has the most fluctuations and tends to increase gradually over the years (2016, this rate is 37.1 percent; 2020, this rate is 42.43 percent). On average, in the period 2016-2020, the percentage of salary used as a basis for social insurance premium payment compared to the average salary of employees is just over 43%.

For enterprises with foreign capital: This is the group of enterprises with the second-highest average salary of employees in all types of enterprises. In the period of 2016 - 2020, the percentage of salary used as a basis for social insurance contributions to the average salary of employees in this type of enterprise remains relatively stable, with small fluctuations (in 2016, this rate is 58.58%; in 2020, this rate is 57.26%). On average, in the period 2016 - 2020, the percentage of salary used as a basis for social insurance premium payment compared to the average salary of employees is approximately more than 57%.

For non-state enterprises: the average salary of employees in non-state enterprises is the lowest among all types of enterprises. The percentage of salary used as a basis for social insurance contributions compared to the average salary of employees in this type of enterprise has changed over the years in a hammock, tends to decrease in the first years and tends to increase gradually in the following years (in 2016, this rate is 62.37%; 2018, this rate is 57%; 2020, the rate is 60.66%). On average, in the period 2016 - 2020, the percentage of salary used as a basis for social insurance premium payment compared to the average salary of employees is only approximately 59%.



**Figure 3. Percentage of salary as the basis for payment of social insurance premiums compared to the average salary of employees**

**Source:** The author's team calculated from the data of the General Statistics Office and Viet Nam Social Security

The relatively large difference between the actual salary and the salary used as a basis for paying social insurance contributions of employees in enterprises is evidence that enterprises have incompletely declared wages, and the level of compliance with the law on income for calculating social insurance contributions is not high. Enterprises have found many ways to "evade the law", in order to reduce the payment of social insurance premiums for employees, such as: declaring salary reductions as a basis for calculating social insurance contributions, converting those amounts into bonuses and allowances to avoid paying and declaring the salary fund lower than the actual salary paid to employees. This situation significantly affects the revenue of the social insurance fund and reduces the benefits of employees, especially long-term regimes (because the monthly salary on which social insurance premiums are based is the basis for determining the level of social insurance benefits for employees when they are at risk according to regulations).

The main reasons leading to the low level of compliance with wages as a basis for enterprises' social insurance contributions are: (i) The lack of understanding and sense of compliance with the labor law, the social insurance law of a part of enterprises and employees in enterprises is still low, the sense of social responsibility of enterprises is not high; the determination of the total wage and salary fund as a basis for paying social insurance premiums at enterprises depends a lot on the consciousness of employees and employers because they can agree with each other on many incomes that are not included in the salary as a basis for paying social insurance premiums; (ii) The state management of social insurance is still limited; the authorities have not managed well the labor force and employees' income, leading to the evasion of the insurance payment responsibility of enterprises; the inspection and examination of the labor sector and the social insurance agency have not been carried out regularly due to limited human resources; (iii) Sanctions to deter and punish acts of violating the responsibility to pay social insurance

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premiums for employees have not been implemented strictly and drastically to force businesses to comply with the law on social insurance in general and fulfill their responsibility to participate/pay for social insurance in particular.

Therefore, in order to ensure compliance with the law on income for calculation of social insurance contributions, it is necessary to promote propaganda about the obligations and benefits that enterprises enjoy when fully fulfilling their responsibility to pay social insurance contributions, strengthen propaganda to raise awareness of the implementation of social insurance among employees; focus on measures to support and encourage enterprises in fulfilling their responsibility to pay social insurance premiums; continue to perfect sanctions for handling violations of the law on social insurance; strengthen inspection, supervision, and strictly handle cases where enterprises fail to comply with the law on income for calculation of social insurance contributions.

### 5. CONCLUSION

In Vietnam, the business sector plays an important role and contributes to promoting the development of the economy - society. However, in the implementation of the law on social insurance contributions of enterprises, there are still many shortcomings, in which the issue of insufficient declaration of salary as a basis for payment of social insurance is an "emerging" problem. The article mentions salary as the basis for paying social insurance premiums of employees in enterprises in Vietnam. The authors used a combination of documentary research methods, data collection methods from secondary sources, and statistical analysis methods to clarify the legal provisions on wages as the basis for paying social insurance premiums and the actual situation of wages as the basis for paying social insurance premiums of employees in various types of enterprises in Vietnam. Future researchers can use modern research methods, combining qualitative research methods and quantitative research methods to be able to expand the research for a more comprehensive, complete and in-depth analysis of this topic; serve as a basis and orientation for policymakers to appropriately adjust the legal regulations on salary as a basis for payment of social insurance premiums, propose and implement measures in organizing the implementation of social insurance in order to improve the compliance with the law on income for calculation of social insurance contributions by employees, enterprises and subjects participating in social insurance in general.

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