Research Report

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Title of Research:

POVERTY INCIDENCE OF THE VIETNAMESE ELDERLY IN THE FACE OF ECONOMIC TRANSITION: DETERMINANTS AND POLICY IMPLICATIONS

Purpose of Research:

Rapid declines in fertility rates and mortality rates along with substantial improvements in healthcare systems have resulted in the growth of elderly populations around the world, and this trend is expected to continue in the coming years. Particularly for the developing countries that will grow old before becoming rich, population aging in the coming decades poses various policy challenges for governments hoping to protect their elderly. Under such demographic changes, as well as profound social and economic changes stemming from modernization and urbanization, the weakening of family bonds also suggests an urgent task for the old-age security in developing countries, where the social security systems are underdeveloped with limited coverage (Schwarz, 2003; UN-DESA, 2007).

As one of the fastest growing economies in the world, Vietnam is indeed experiencing similar changes, and may be facing 'getting old before getting rich' (Giang, 2009). The above-mentioned population projections indicate that the elderly population in Vietnam as a percentage of the total population will increase significantly from 8.7 percent in 2010 to 26.6 percent in 2050. Moreover, swift economic transformation since the renovation programs in 1986, known as *Doi moi*, has had significant impacts on all areas of society, resulting in substantial improvements in living standards for many people across the country. Though, many groups of elderly persons are still living in poor rural or disadvantaged areas (Le et al., 2005). Only a small percentage of the elderly in Vietnam are receiving public pensions, and others provide for themselves and/or receive support from family members (MOLISA, 2005; Giang and Pfau, 2007a,b; Giang, 2009). Another worrying issue is that Vietnam has experienced a continuous decline in the number of elderly living as dependents, and a continuous increase in the number of elderly living alone or in households with only elderly people (Giang and Pfau, 2007a; Giang, 2009). Any reduction in family support caused by the aforementioned trends will leave the elderly subject to further financial vulnerability. As such, researchers and policy-makers must understand the situation and challenges faced by the elderly population. This research is motivated by a desire to understand important determinants of elderly poverty in Vietnam to guide the selection of appropriate policy measures to combat elderly poverty.

The present paper will also consider which types of elderly households are most vulnerable to poverty, but it will use various sets of household survey data for the time of economic transformation, i.e. 1992 to 2004. The paper will first describe the current status of elderly poverty in Vietnam and then explore the possible factors underlying the circumstances of the elderly poor, using use a number of individual and household characteristics of the elderly. We will discuss the policy implications accordingly to our findings.

Contents/Methodology of Research:

We will first provide the current poverty status of the elderly and their households delineated by various characteristics. We will then identify the determinants of this poverty incidence. Individual characteristics include age, gender, marital status, ethnicity and working status, while household characteristics of relevance include residential regions, household living arrangements, household composition, household head characteristics, as well as receipts of social security benefits and remittances. Finally, based on the estimated results, we will discuss policy recommendations for reducing poverty for the elderly and their households.

Measuring poverty

We will use the official poverty line defined by the GSO to estimate poverty rates for elderly households. The poverty line is measured by average per capita expenditure for the household. Therefore, the elderly poverty rate is defined as the percentage of the elderly whose average household per capita expenditure is lower than the official poverty line. Table 2 presents the poverty line defined by the GSO overtime.

Following Giang and Pfau (2009c), we will introduce construct two respective probit models for urban and rural elderly people, in order to identify the determinants of their poverty incidence. Variables representing the individual and household characteristics of the elderly will be considered with the official poverty threshold.

An elderly person i (i = 1, 2,…, N, where N is the total number of elderly people) is considered to be poor (p_i = 1) if their household's average per-capita expenditure is below the official poverty line. The probability of being poor can be estimated with a probit model as follows:

$$P(p_i = 1) = \beta_i X_i + e_i,$$

where X_i represents a collection of relevant household and individual characteristics of the elderly, β_i are the respective coefficients, and ei is the error term.

In addition, for each dummy variable, one subgroup will be chosen as the reference group. For instance, the variable 'age' includes three subgroups, 60–69, 70–79, and 80 years and over. The 60–69 year group will be used as the reference group. A negative and statistically significant coefficient shows that the comparative group is less likely to be poor than the reference group, whereas a positive and statistically significant coefficient indicates that the comparative group is more likely to be poor than the reference group.

Variables

In both probit models, the variables representing individual characteristics of the elderly include:

Age: The elderly will be divided into three groups, including young elderly (aged 60–69 years), older elderly (aged 70–79 years) and oldest elderly (aged 80 years and over). We will use the youngest elderly as the reference group, and we expect positive coefficients as among the elderly, poverty tends to rise with age.

Gender: We will use women as the reference group, and we expect a negative coefficient to the extent that men have lower poverty rates than do women.

Marital status: We will compare married elderly to non-married elderly. The latter includes widowed, divorced, separated and never-married elderly. The non-married elderly will be the reference group. After otherwise controlling for household size, we expect this coefficient to be negative as married couples will to tend enjoy better economic circumstances.

Working status: We will compare working and non-working elderly people, in which the latter will be the reference group. The coefficient for working status is difficult to predict, as it might be negative to the extent that labor earnings help to reduce poverty, but it also might be positive if elderly are forced to work because they otherwise face difficult economic circumstances.

In addition, we will use the following variables representing household characteristics of the elderly in our probit model:

Living arrangements: We divide the elderly households into three groups: (i) households with only elderly (including elderly living alone and elderly living with other elderly people); (ii) households where the elderly are living with their children; and (iii) households where the elderly are not living with their children but are living with other non-elderly people. This latter group includes a variety of other possibilities, such as elderly living with grandchildren, nieces or nephews, other relatives or even non-relatives. The first group will be the reference group.

Residential regions: We will include eight economic regions in Vietnam, including Red River Delta, Northeast, Northwest, North Central Coast, South Central Coast, Central Highlands, Southeast, and Mekong River Delta. The Northwest will be the reference region.

Household composition: We will use three variables for this category, including: (i) the percentage of the elderly household's members who are under 15 years old; (ii) the percentage of the elderly household's members who are of working age (15–59 years old); and (iii) the logarithm of the elderly household size, which is measured by the number of household members.

Head of household: We will consider two variables related to the household head, including: (i) elderly households headed by a woman, in which the households that are not headed by a woman will be the reference group; and (ii) elderly households headed by a working person, in which the group of non-working household heads will be the reference group.

Receiving social protection benefits: We will use the elderly households that are not receiving any social protection benefits as the reference group. Social protection benefits comprise social insurance benefits (pension, sickness and job loss allowance) and a social welfare allowances.

Receiving remittances: We will use the elderly households that do not receive any remittances as the reference group in our estimation. Receipts of remittances include both domestic and international remittances.

Conclusions/Observation

When undergoing rapid social and economic changes, an aging society produces potential concern in terms of public policy, particularly the social welfare policies for protecting the elderly. Vietnam needs an appropriate social security system to protect the elderly. To establish such a system, the poverty incidence of the elderly and their households must be known, and the possible factors underlying the circumstances of the elderly and their households must be understood. Using the 2004 VHLSS with a variety of individual and household characteristics of the elderly, the present paper pursues the abovementioned research objectives.

We identify determinants of elderly poverty in Vietnam during economic transition, using household survey data in 1992/93, 1997/98, 2002 and 2004. The elderly living in urban and rural areas face significantly different conditions. Some factors impact poverty in both urban and rural areas (e.g. age, region, and social protection and remittances receipt), some factors are insignificant in both areas (e.g. living arrangements and household head characteristics) and some factors have a differing impact in the two areas (e.g. gender, ethnicity, and household composition and size). With these findings, we formulate policy priorities, including reducing regional disparities, promoting the rural economy and reforming social security.

As urban and rural areas in general, and urban and rural elderly in particular, are differentiated by a variety of aspects, based on our findings, we suggest that policies aiming at their protection need to be considered in dynamic ways. In other words, such policies must not only focus on the elderly population, but also deal with developmental issues for the country as a whole, where an aging population, youth employment, migration and social protection, eroding traditional

household living arrangements due to swift urbanization and modernization, regional disparities, and gender inequality are some of urgent policy issues.

Regarding the social protection scheme for the elderly, UN-DESA (2007) shows that older persons living in countries with comprehensive formal pension systems and public transfer schemes are less likely to fall into poverty than younger people in the same population. Without these formal systems, the elderly tend to rely on informal support from their families, which might not protect the elderly against the risk of destitution under swift social and economic changes stemming from economic transformation. The limited coverage of the formal social protection system means that there is inadequate income security for the elderly in Vietnam. In light of the results of the present paper and those from Giang and Pfau (2009b), we suggest that providing social pension benefits to the elderly living in rural areas, or creating a universal social pension scheme providing low benefits to a large number of beneficiaries would be effective methods of reducing elderly poverty under limited financial and administrative capacity.