

What's the problem of pension system in Indonesia?

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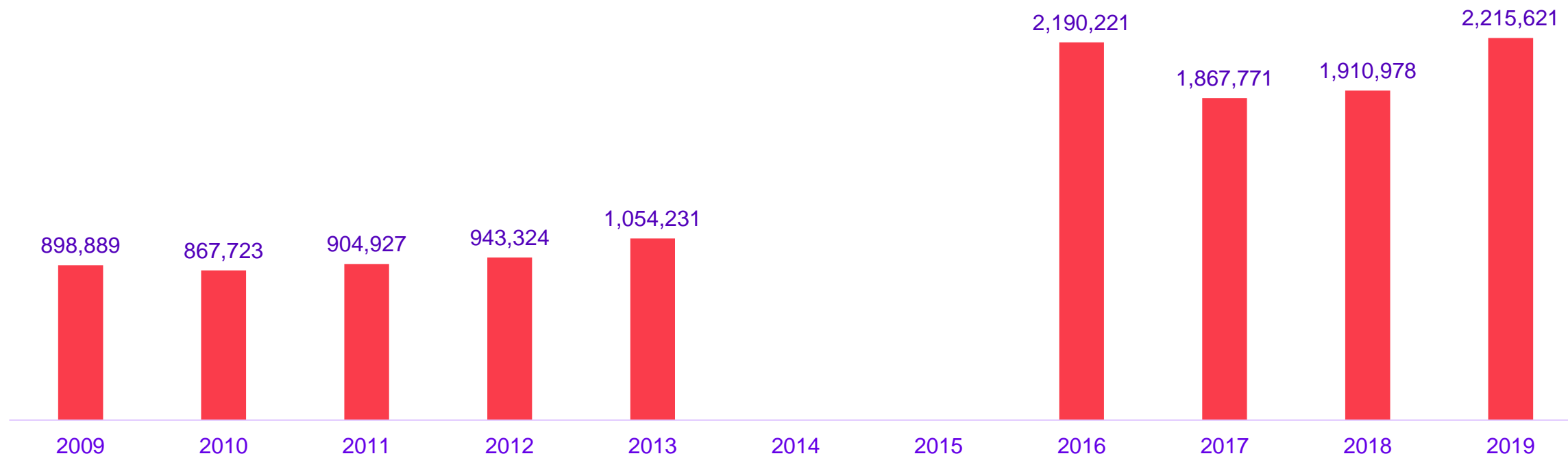
MOM - 15 July 2021

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► **Is JHT playing a central role
for old-age income security?**

Number of JHT claims

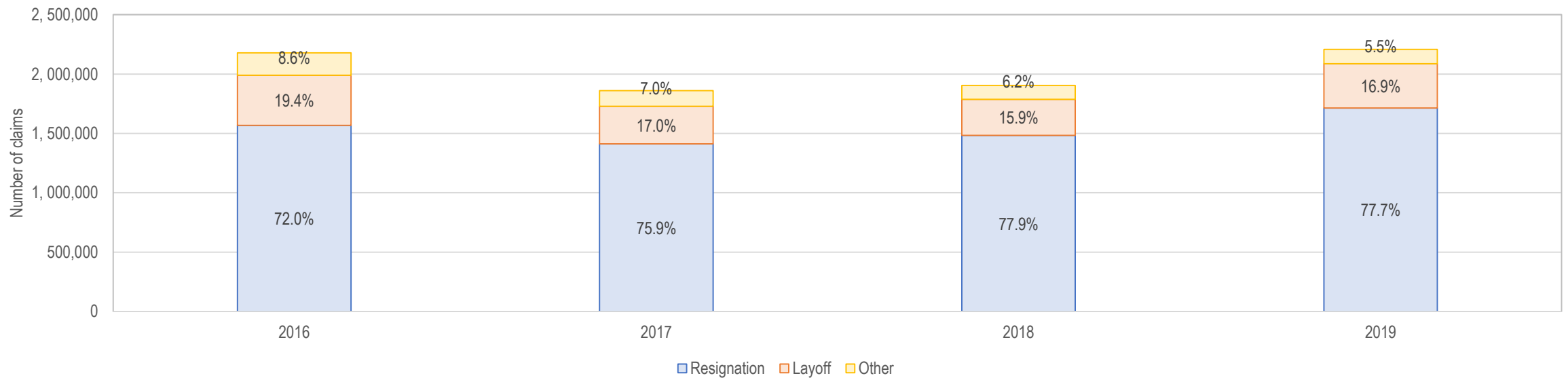


Changes in conditions for early withdrawals

	Government Regulation No. 46 of 2015	Government Regulation No. 60 of 2015	Minister of Manpower Regulation No. 19 of 2015
Qualifying conditions	10 years of contributions	Removed	None
Ceiling of withdrawals (% of account balance)	30% for purchasing housing 10% for miscellaneous	Removed	100% for one-month unemployment or migrating abroad
Limits	Only once during their participation	Removed	None

Reasons for JHT withdrawals

- 90 to 95 per cent of all JHT claims are reported as resulting from one-month unemployment.



► How can the Government solve the problem?

Legal revision

The Minister of Manpower can amend its Regulation No. 19 of 2015 not to allow the JHT participants to withdraw for unemployment.

Timing of enactments

It can be enacted in February 2022 when JKP will start to pay out.

Communication

This arrangement will not only give the JHT its original role as old-age savings but also let the public understand the role of and the difference between JHT and JKP.

► **Can JHT play a central role
for old-age income security?**

Life expectancy at the age of 60

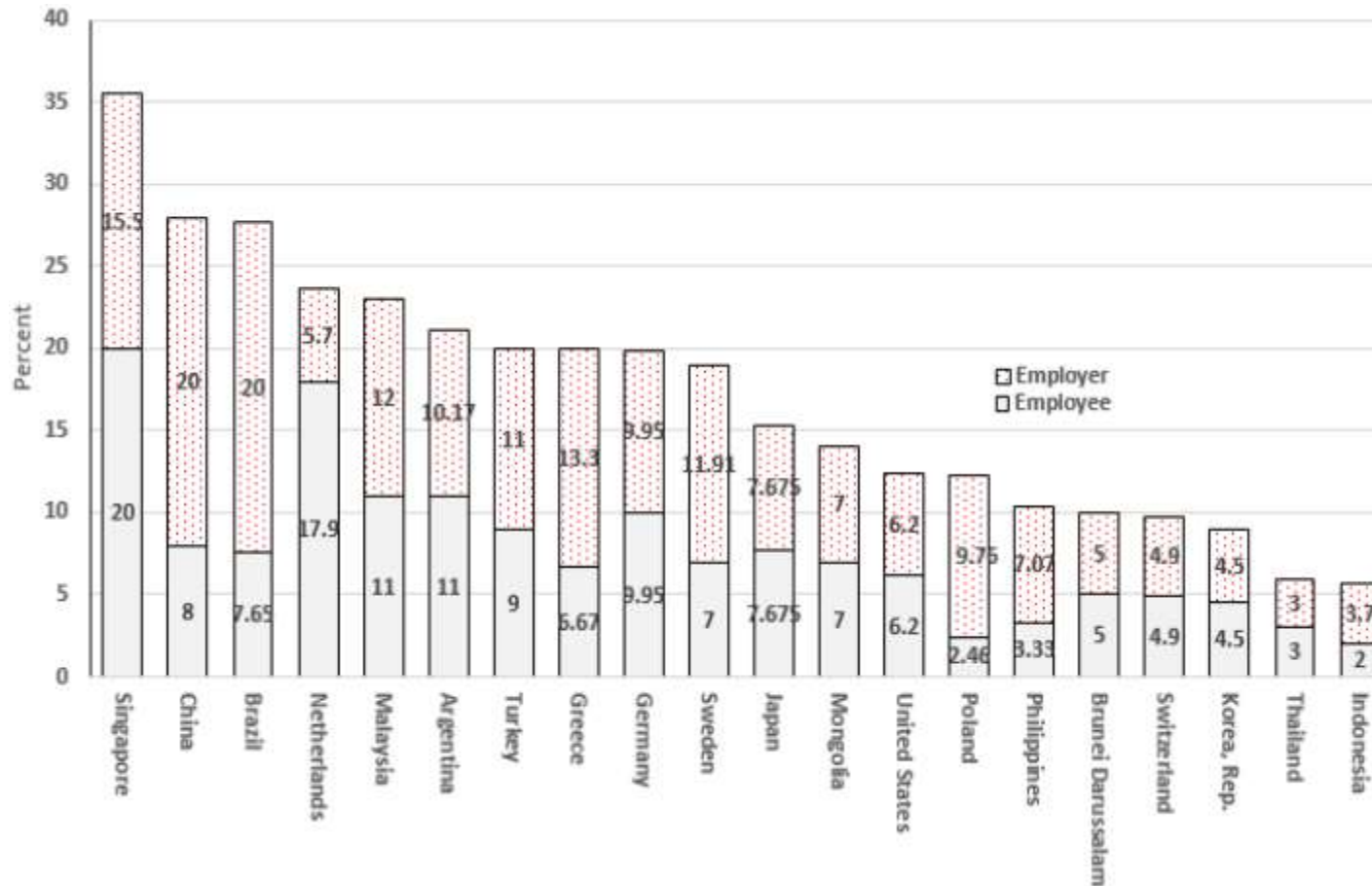
Year	Male	Female
2010	15.2	17.8
2035	16.5	19.4
2060	18.0	21.1
2085	20.1	22.9

▶ JHT does not guarantee income security by design

Life expectancy at 60 years old for male is estimated at 15 years in 2010 and 18 years in 2060. Assume JHT benefit after 30 years of participation and retire at 60 years old:

- Accumulated JHT benefit: $5.7\% \times 12 \text{ months} \times 30 \text{ years} = 20.52$ times of average monthly wage
- If an older person withdraw 50% of average monthly wage every month, he will exhaust the fund at the age of 63 years old.
- In contrast, JP guarantees 30% of average monthly wage until he dies.

Contribution rate to old age benefit schemes



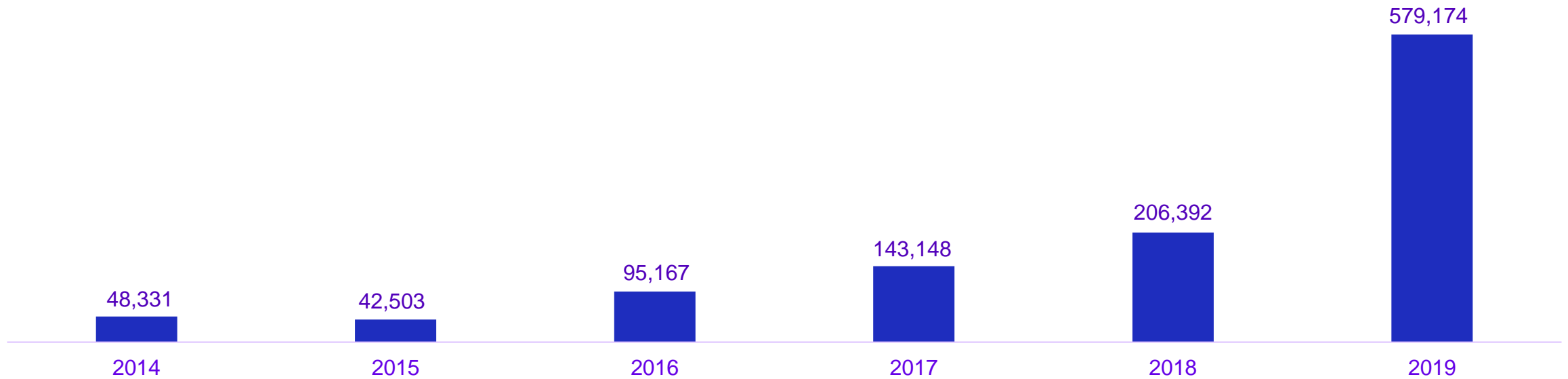
► **Can voluntary participation in pension schemes help extend coverage?**

Legal coverage of BPJS-TK programmes

Scheme		Wage worker			Non-wage worker
		Large/Medium	Small	Micro	
Old-age saving	JHT	Mandatory	Mandatory	Voluntary	
Pension	JP		Voluntary		Not eligible

Voluntary coverage does not help extend coverage

Active non-wage workers of JHT



Active participants by labour force

Labour force	Labour force	BPJS TK (JHT, JP), ASABRI, TASPEN	BPJS TK (JHT)	% of labour force
Employee	51 million	21 million	-	41.0%
Non-wage worker or employer	79 million	-	0.2 million	0.3%
Unemployed	7 million	-	-	5.0%
Total	136 million	21 million		15.2%

Targets set by the International Labour Standards

- 50% of all employees (Convention 102)
- All in need (Recommendation 202)

► How can the Government solve the problem?

Mandatory or voluntary

- No voluntary pension scheme has nationwide coverage.
- A mandatory DB scheme should be a core of pension system.

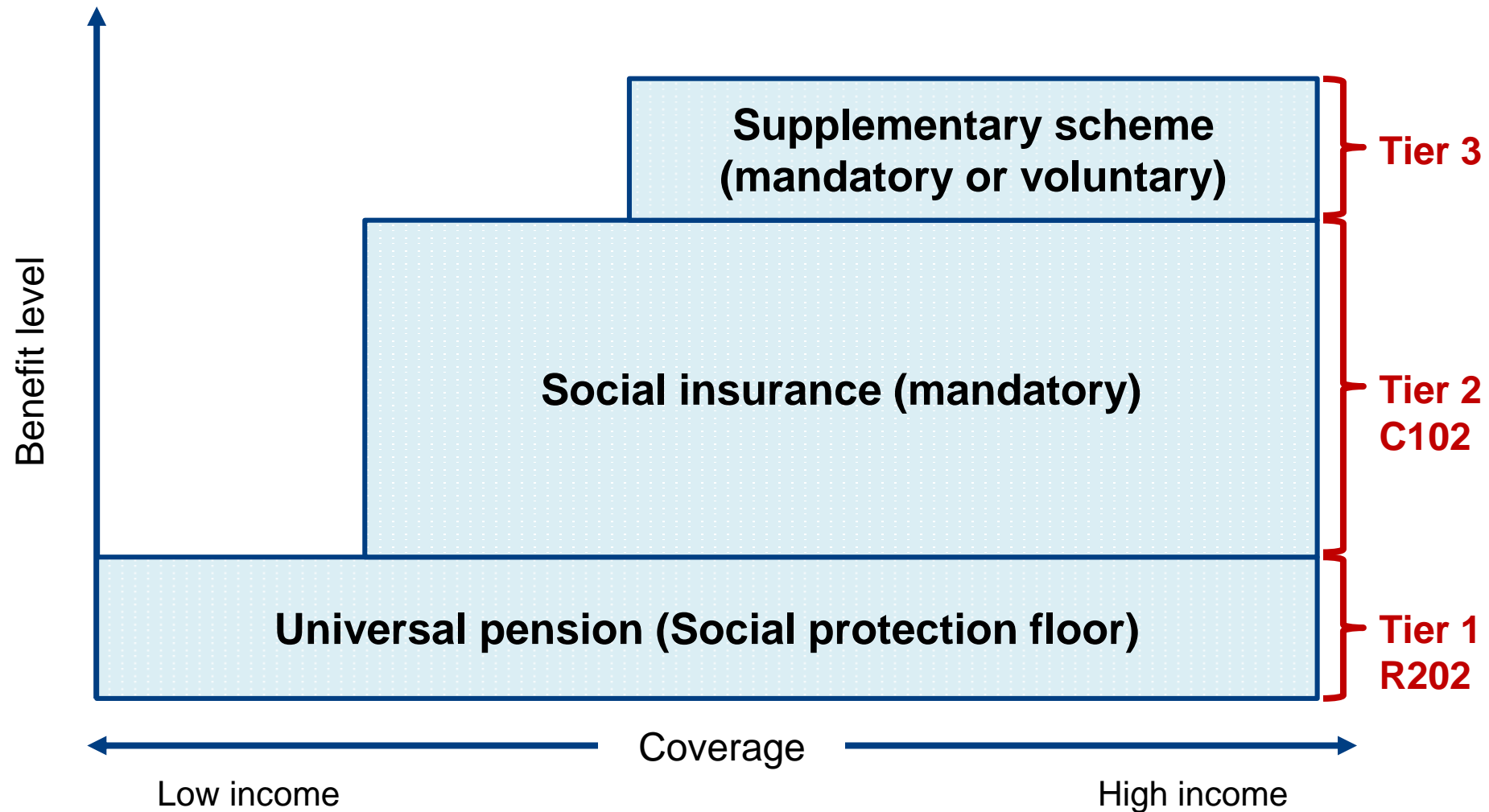
► Systemic reforms

Overall challenges (1)

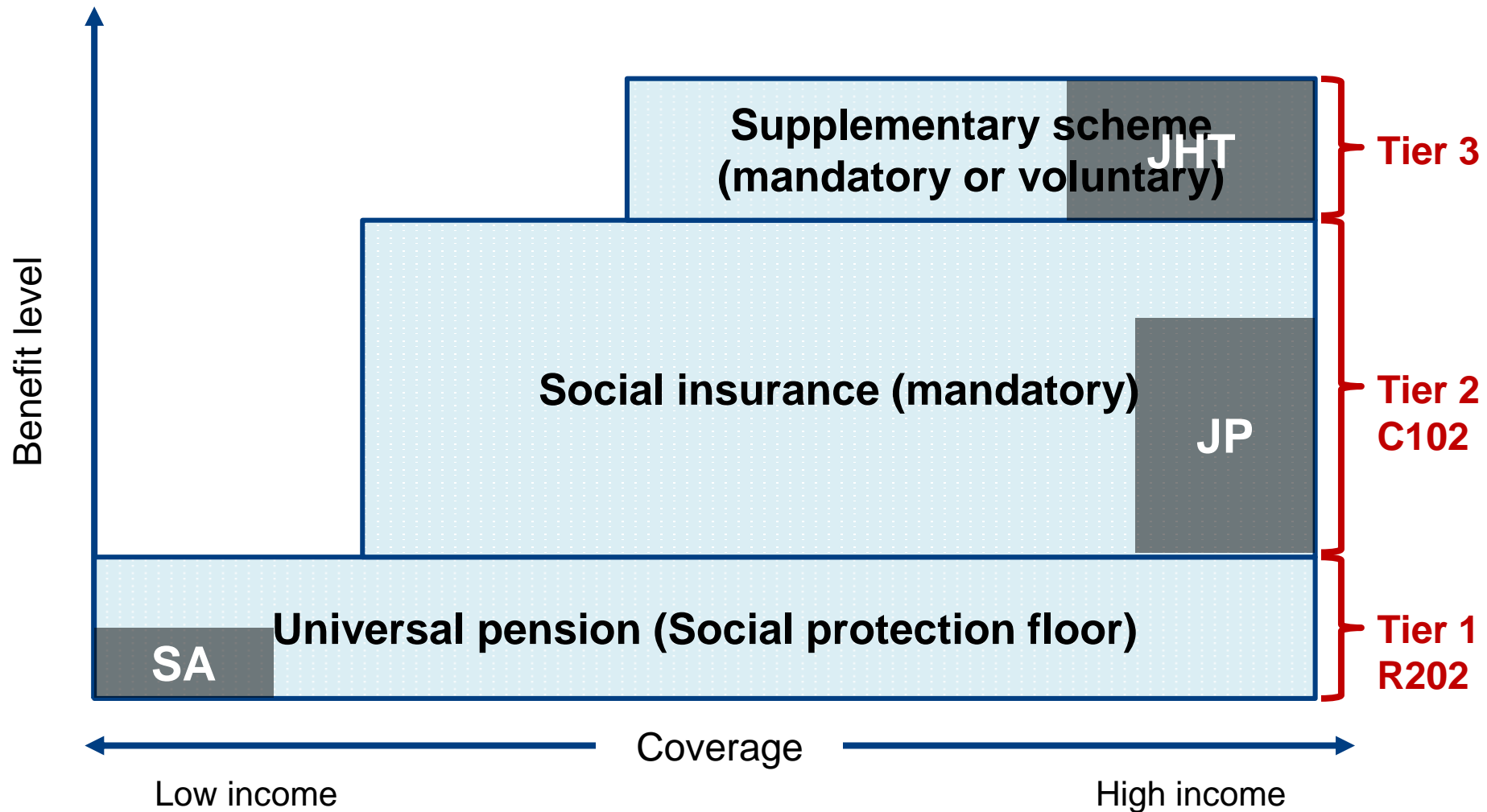
The current system limits coverage to better off workers

- Limited mandatory coverage by law and regulation
- Voluntary coverage does not help extend coverage (i.e. 0.2 million active participants)
- Workers in micro enterprises or non-wage workers are not allowed to participate in JP

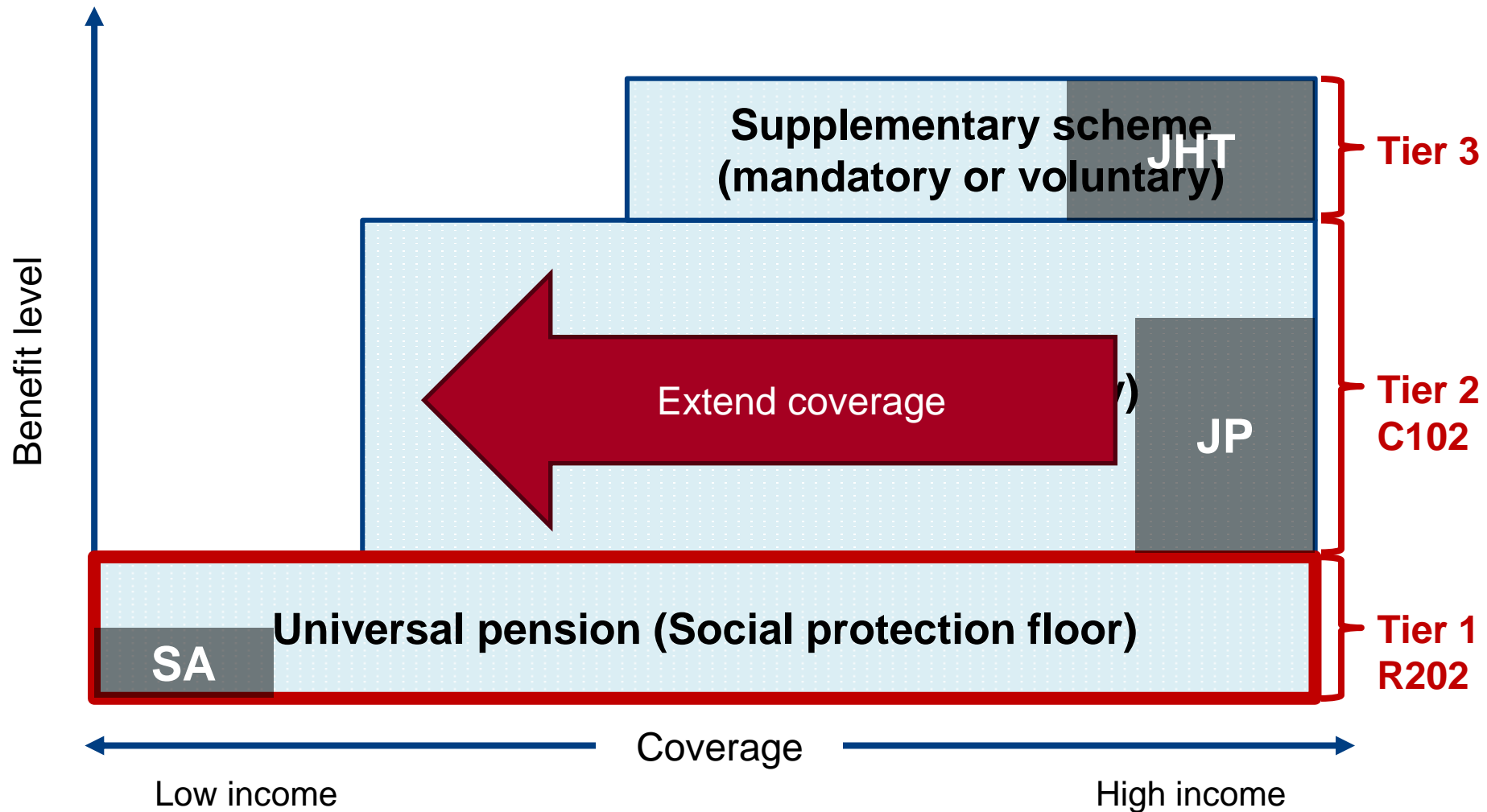
Multi-tier model for old-age pension



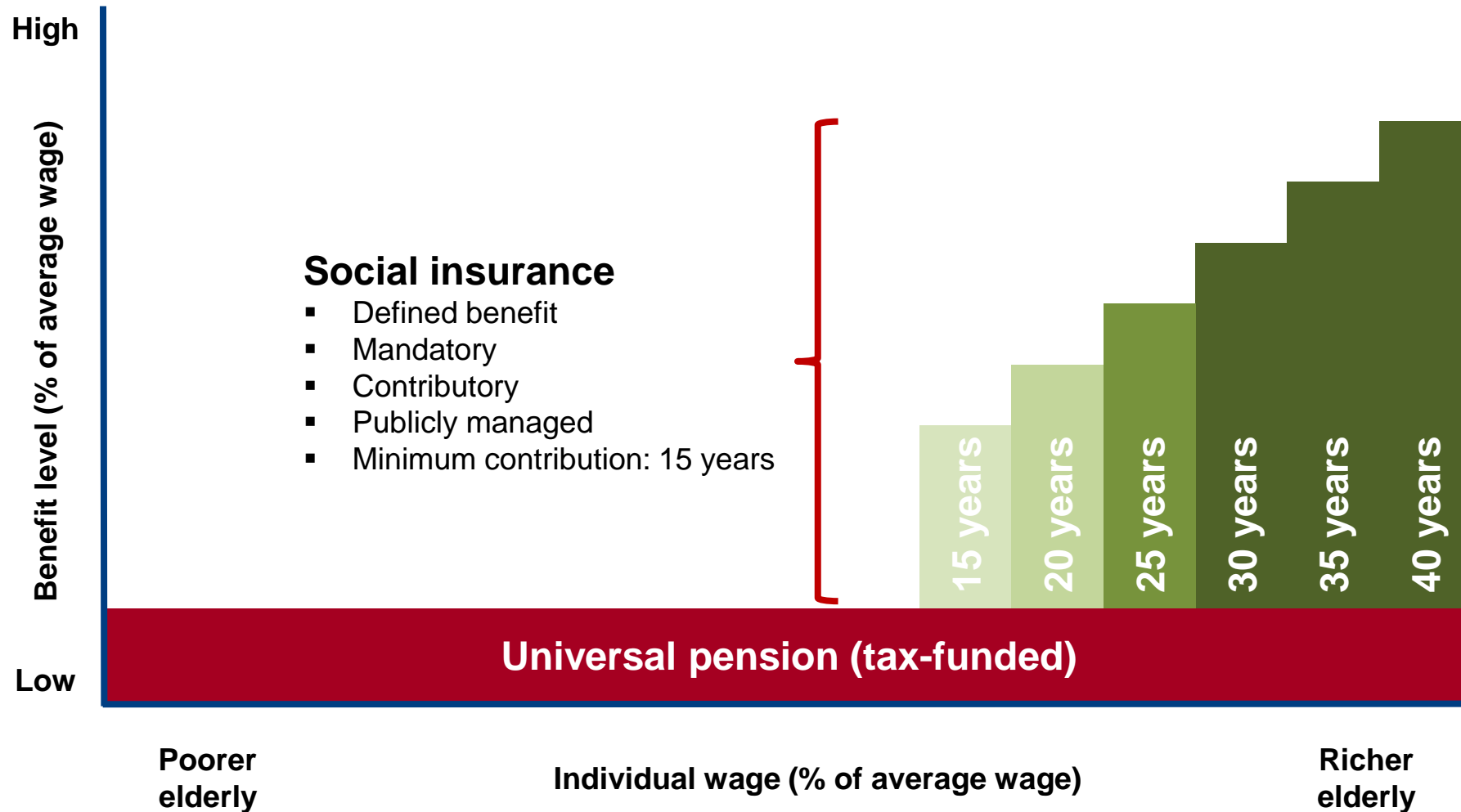
Multi-tier model for old-age benefit



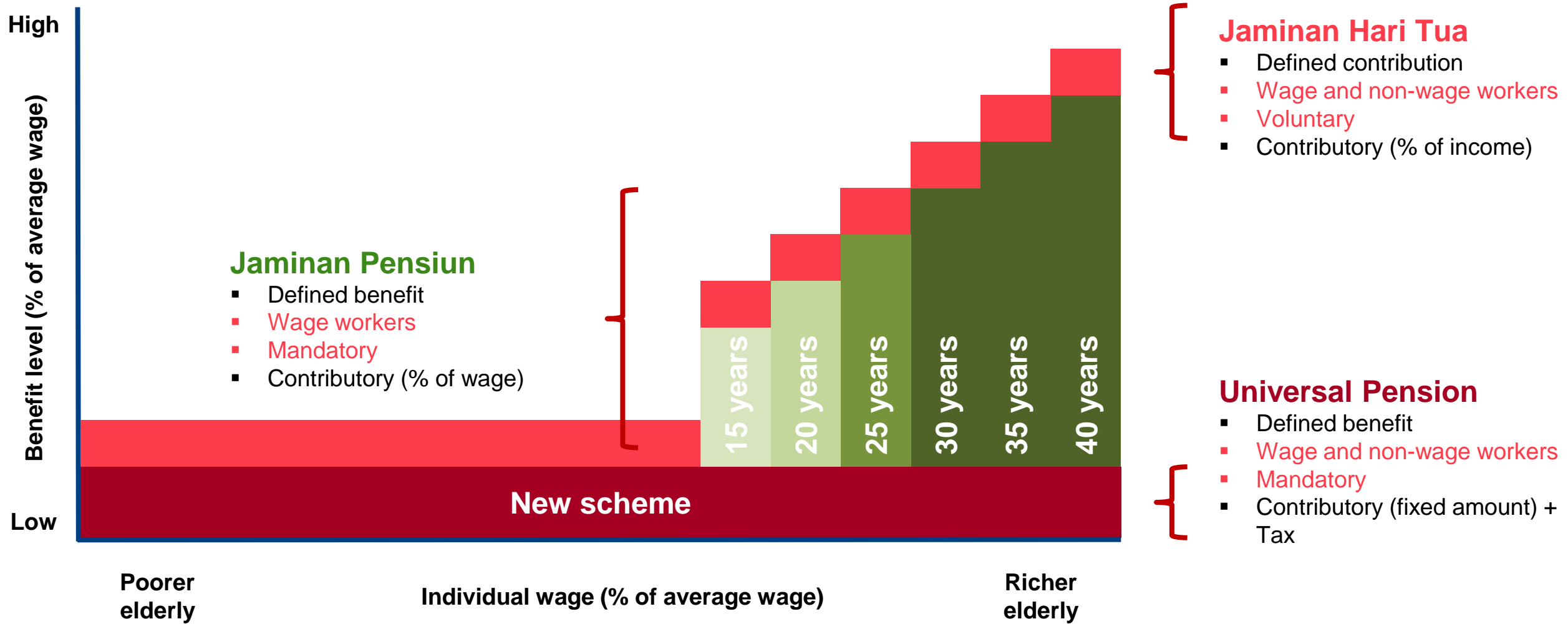
Multi-tier model for old-age benefit



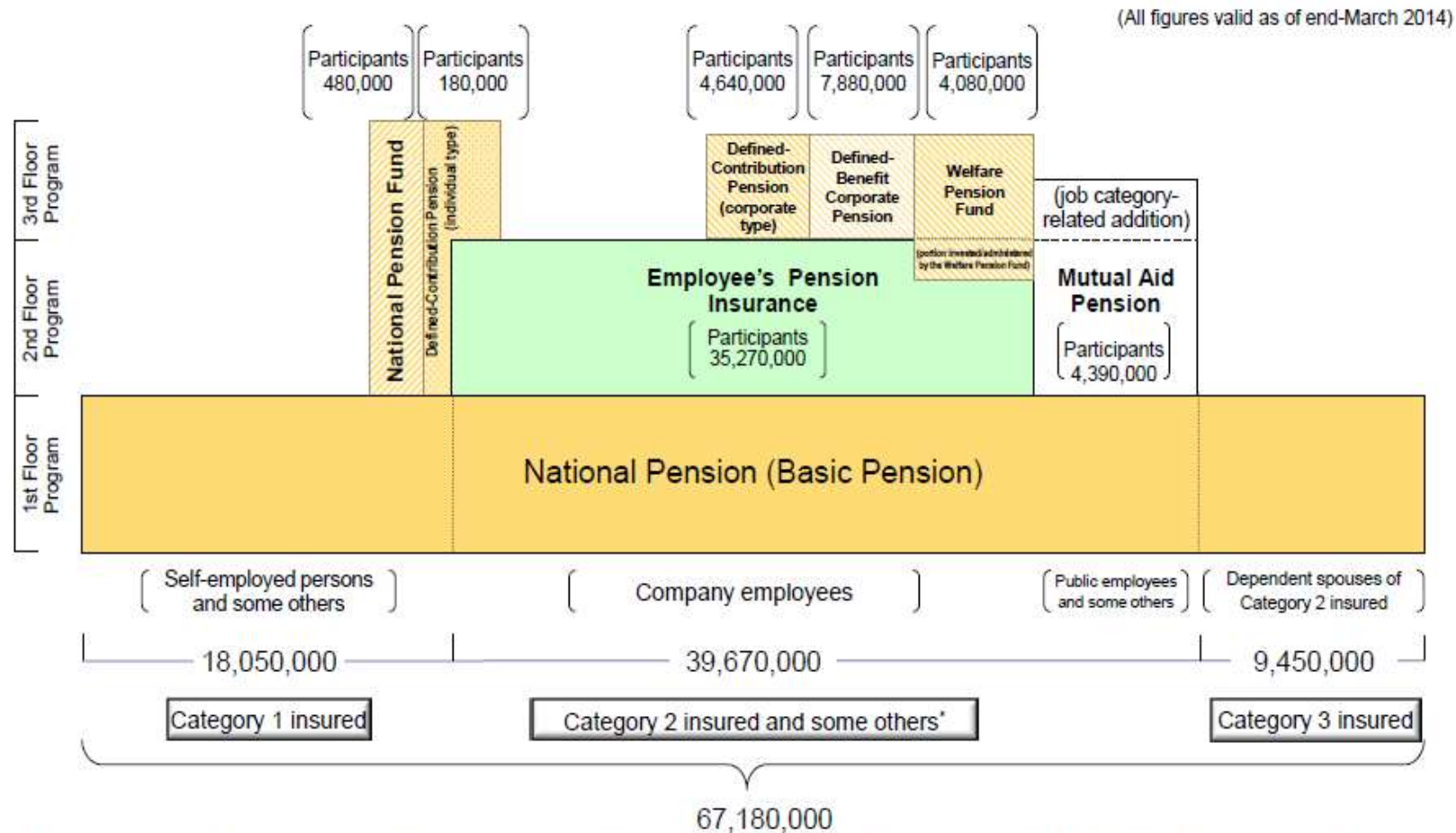
► Universal pension tier



Universal pension tier

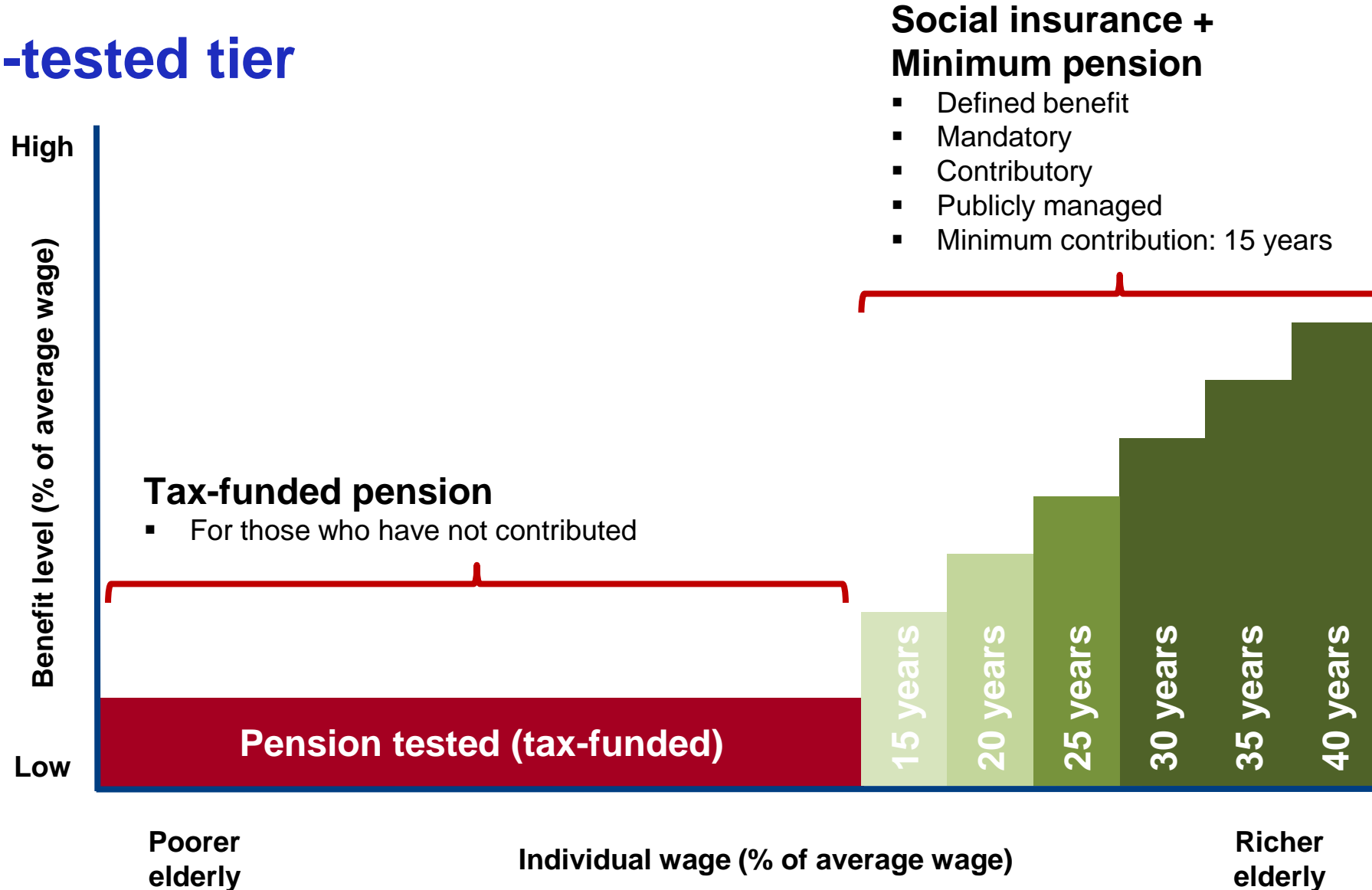


Japan

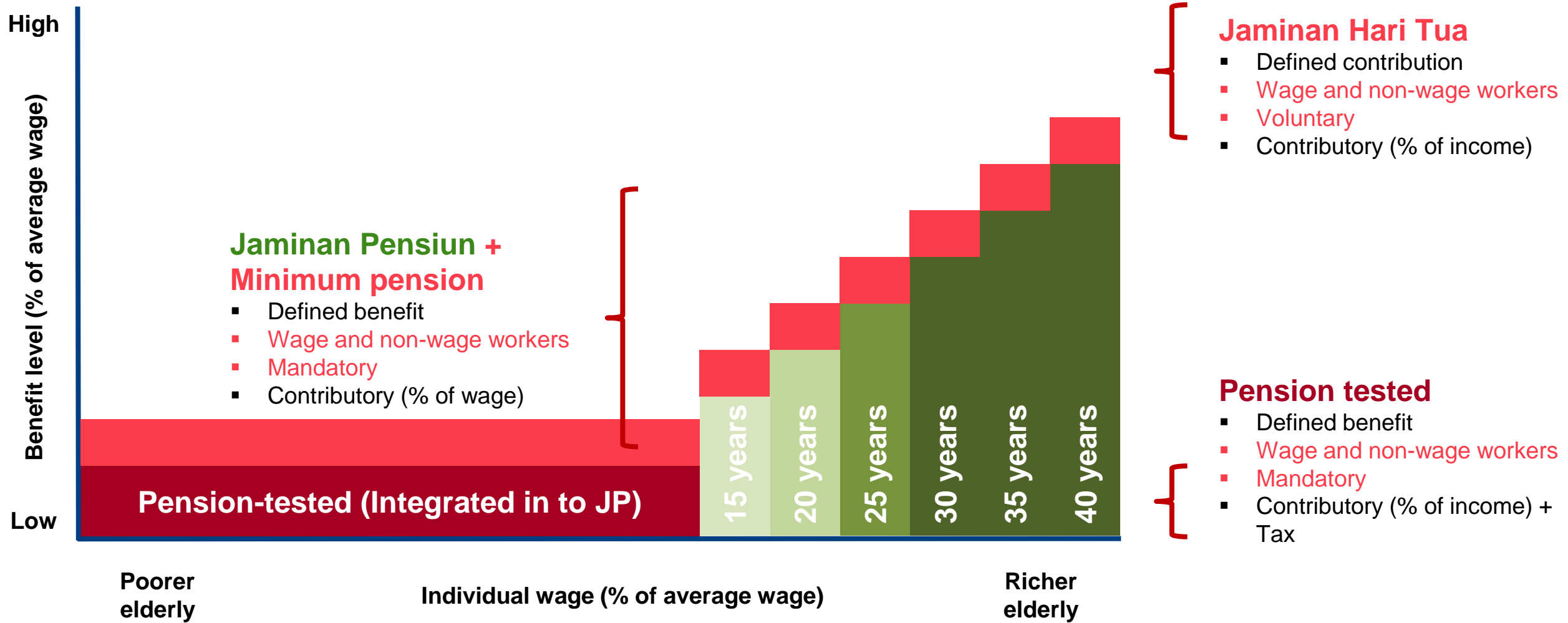


* "Cat 2 insured and some others" mean those covered by Employee Pension Insurance (including Cat 2 insured and those aged 65 and over or those entitled to pension benefits by reason of retirement).

Pension-tested tier



Pension-tested tier



► Possible systemic reforms

Mandatory pension for all citizens

- Universal pension: Flat amount of contribution that guarantees 40% equivalent of ordinary salary or basic needs, with partial tax-funding (i.e. the Government share a contribution with people or subsidize benefits)

Mandatory pension for all wage workers

- Jaminan Pension (JP): Employment based pension to be extended to all wage workers.

Voluntary pension for wage and non-wage workers

- Jaminan Hari Tua (JHT): A defined contribution scheme could remain as a voluntary tier to top up pensions.

Key dates of gradual extension of legal coverage (1)

Category of workers			JHT	JP
Wage earner	Workers at state agencies	a. Candidates of civil servants	By 2029	By 2029
		b. Civil servants		
		c. Military (TNI) personnel		
		d. Police (POLRI) officers		
		e. State officials		
		f. Non-civil servant government's employees	By 2029	By 2029
		g. Military (TNI) students		
		h. Police (POLRI) students		

Key dates of gradual extension of legal coverage (2)

Category of workers			JHT	JP
Wage earner	Workers at non state agencies	a. Large enterprise	By 1 July 2015	By 1 July 2015
		b. Medium enterprise	By 1 July 2015	By 1 July 2015
		c. Small enterprise	By 1 July 2015	(Currently, <u>voluntary participation allowed</u>)
		d. Micro enterprise	(Currently, <u>voluntary participation allowed</u>)	(Currently, <u>voluntary participation allowed</u>)
		Construction sector (daily workers, temporary contractual workers, and/or seasonal workers)		

Key dates of gradual extension of legal coverage (3)

Category of workers		JHT	JP
Non-wage earner	a. Employers	By 1 July 2015	By 1 July 2015 (voluntary – <u>not implemented</u>)
	b. Non-contractual or self-employed workers	By 1 July 2015 (voluntary)	By 1 July 2015 (voluntary – <u>not implemented</u>)
	c. Workers that do not fall under the category of point b who do not receive salary or wage	By 1 July 2015 (voluntary)	By 1 July 2015 (voluntary – <u>not implemented</u>)

► Parametric reforms

Old-age pension (JP)

Parameters	C102	JP
Coverage	50% of all employees	Employees of the formal sector working in medium or large scale enterprises .
Qualifying condition	15 years of contributions	15 years of contributions
Replacement rate	40% for 30 years of contributions	30% for 30 years of contributions
Duration	Lifetime	Lifetime
Payment	Periodical	Periodical

► Possible parametric reforms

Legal coverage

- Extend JP to all employees.

Benefit amount

- ILO recommended to improve the replacement rate from 30% of wage for 30 years of contributions at least to 40% of wage for 30 years of contributions.

Contribution rate

- ILO recommended to adopt a scaled premium method to gradually increase contribution rate by 2 per cent every ten years starting in 2025.

► Possible parametric reforms

Indexation of contribution ceiling

- ILO recommended that the maximum insurable salary should be indexed in line with average wage increase instead of GDP growth.

Indexation of maximum and minimum pensions

- ILO recommended that the maximum and minimum pensions should be indexed in line with average wage increase instead of inflation.

► Possible parametric reforms

Qualifying condition

- ILO recommended to grant additional years of service to individuals close to retirement so that they can qualify for pension even with shorter contribution records than 15 years.
- Lower qualifying conditions with prorated benefits.

▶ **THANK YOU**