

# Overview: Challenges and pension reforms in Indonesia

Ippei Tsuruga, Social Protection Programme Manager, International Labour Organization

Supported by:

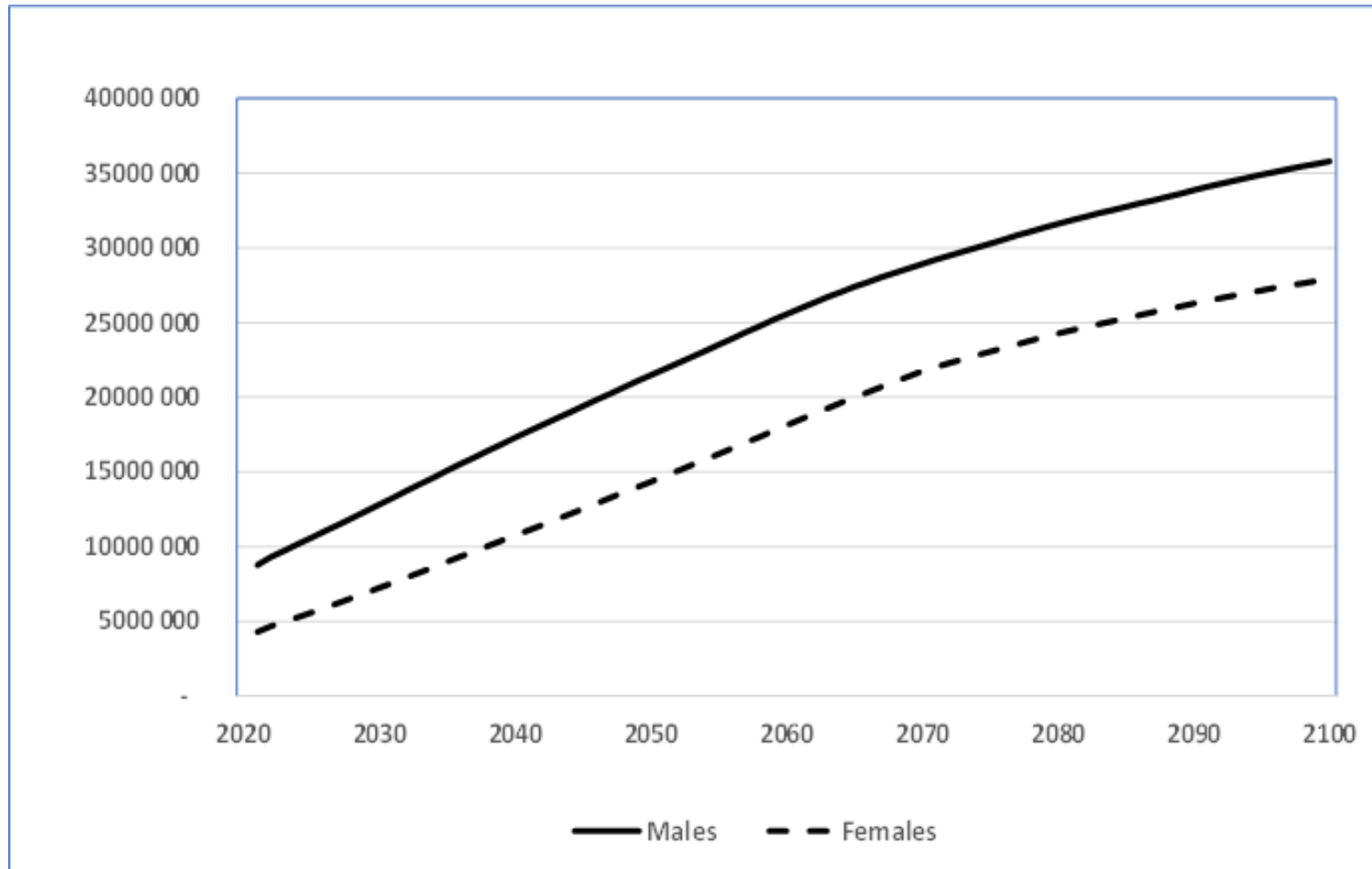


ILO/Japan  
Multi-bilateral  
Programme

# ► Parametric reforms

## Jaminan Pensiun

# Projected number of JP contributors

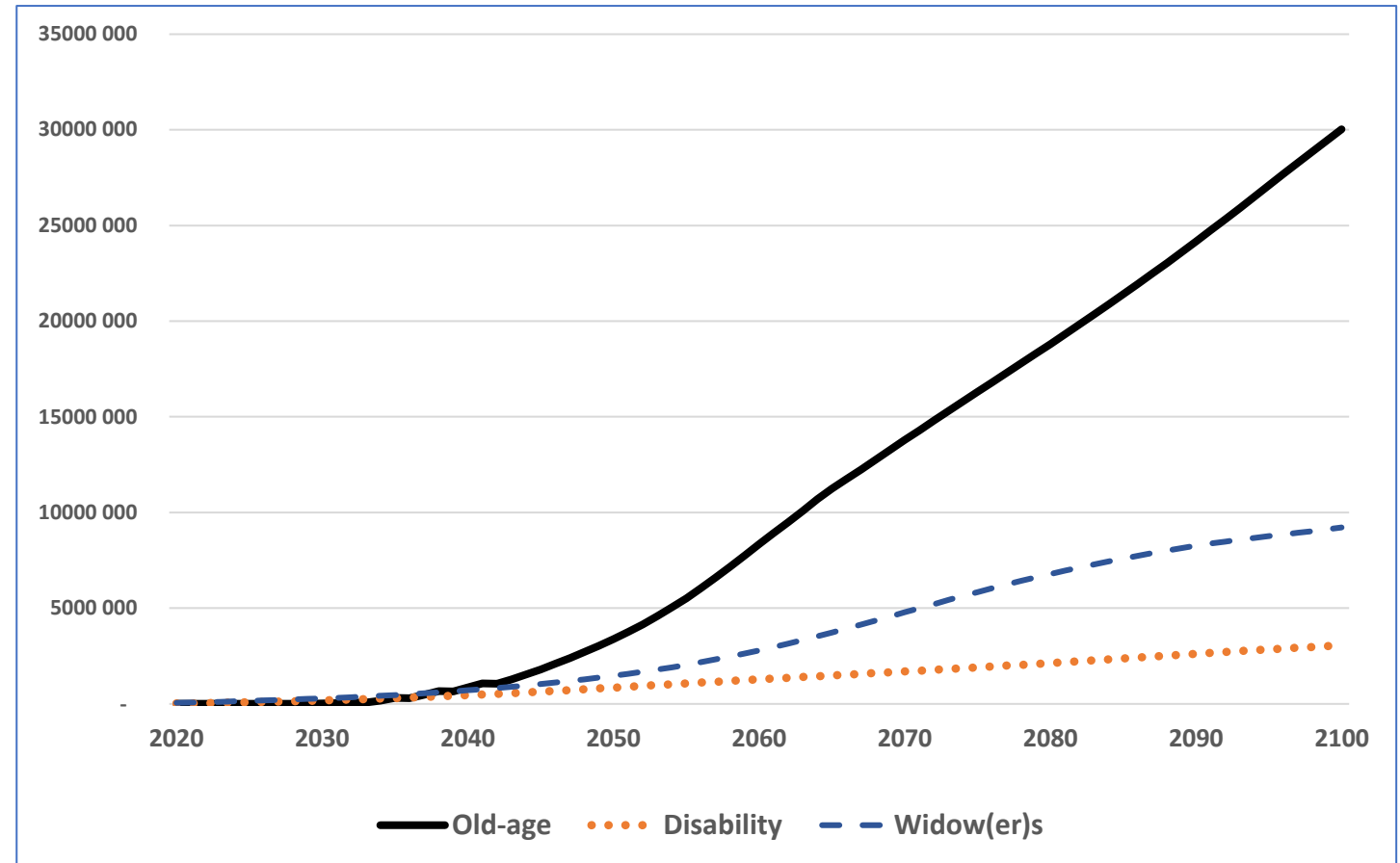


Project that proportion of wage workers will gradually increase over time, reaching 60% of total employment in 2070

Number of JP contributors will increase by a factor of 3.7 over the period 2021-2070, and at a slower pace thereafter due to the projected decrease, in long term, of the total employed population.

# Projection of JP pensioners

- Old-age pensions will start to be paid in 2030 (need 15 years of contribution)
- Number of JP beneficiaries will steadily increase thereafter
- Ratio of contributors to pensioners:
  - 14.3 in 2040
  - 2.5 in 2070
  - 1.5 in 2100



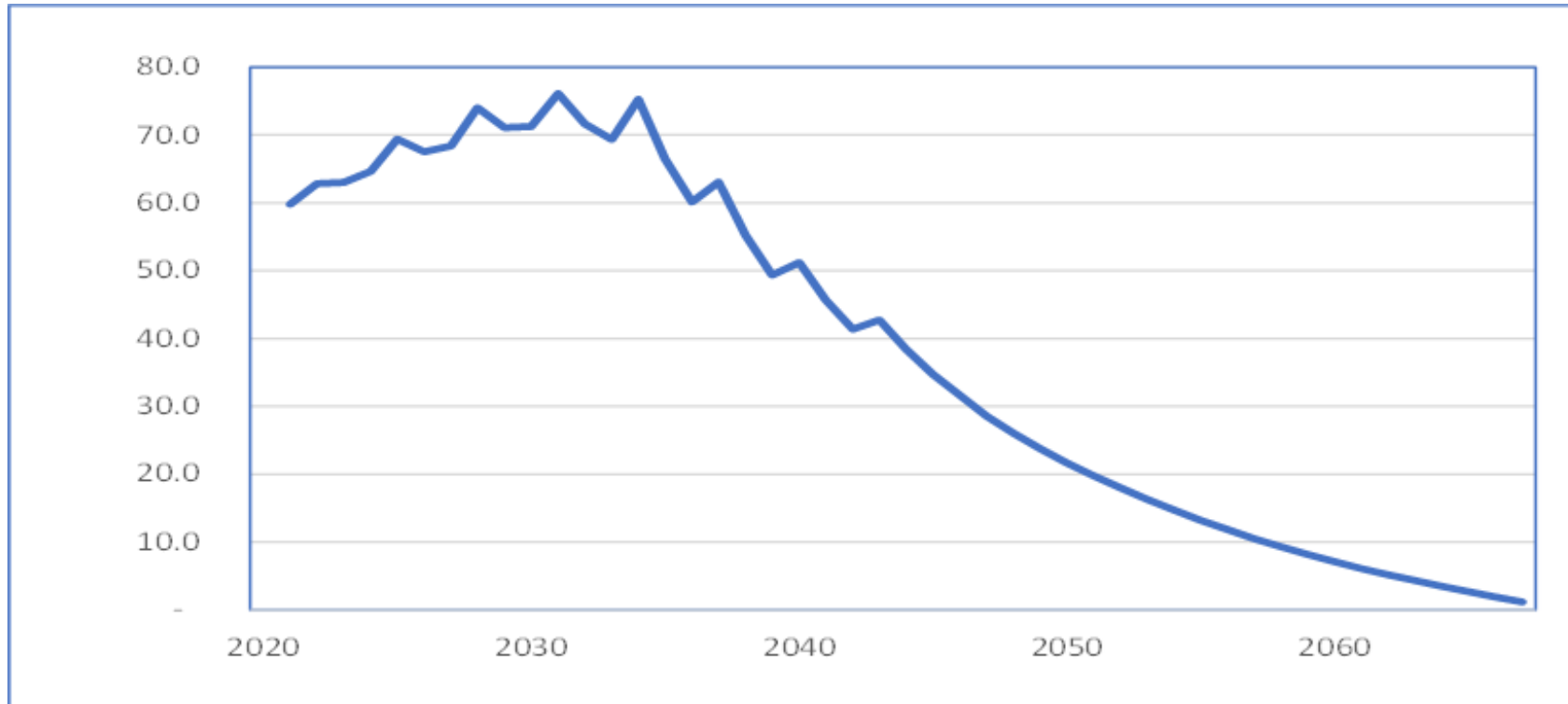
# Key dates of the future evolution of JP reserves

(with a constant contribution rate at 3%)

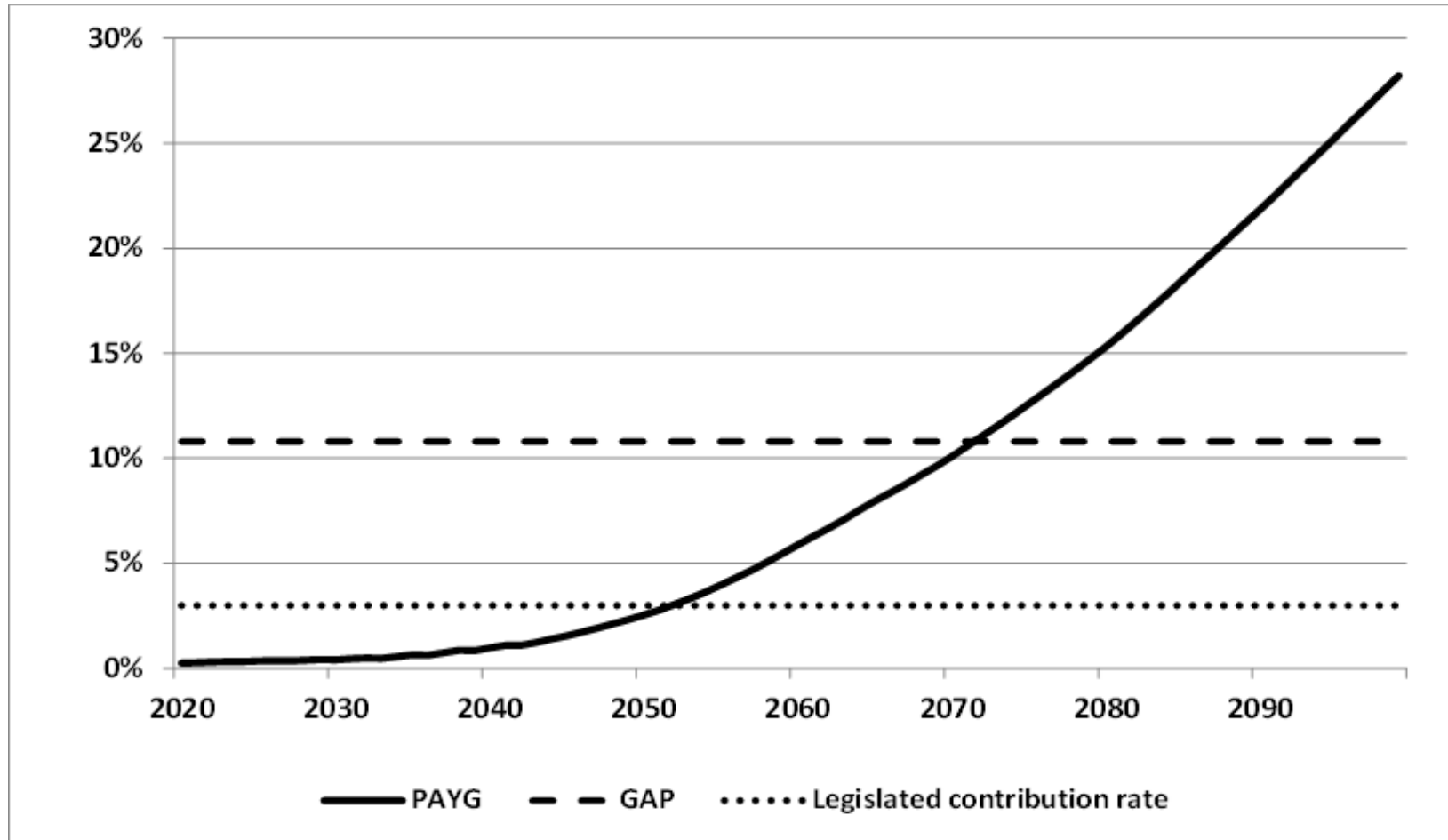
	Year
Scheme's expenditure first exceeds contributions (investment income must be used to support expenditures)	2053
Scheme's expenditure first exceeds contributions plus investment income (reserve starts to decrease)	2059
Reserve is exhausted	2069

# Projected reserve ratio

(reserve fund divided by JP annual expenditures)



# Projected cost rates



PAYG rate of the scheme steadily increasing over time. Equal to 28.2% in 2100.

General average premium (GAP): constant contribution rate to finance the scheme over 100 years

GAP estimated at 10.8%.

GAP significantly higher than the present contribution rate of 3.0%

# Parametric reform of JP

## (suggested measures)

- **Qualifying period.** Eliminate the requirement to accumulate a minimum of 15 years of contribution for eligibility to the old age pension.
- **Pension accrual rate.** Increase the pension accrual rate from 1.00 to 1.33 per cent per year of contribution.
- **Minimum pension.** Increase the minimum pension to 40 per cent of the average national minimum wage (IDR 1,075,090 in 2021)
- **Indexation of schemes parameters.** Index the earnings' ceiling and the minimum pension in line with the general wage growth.
- **Maximum pension.** No need for a maximum pension. Indirectly determined through the earnings' ceiling.
- **Survivors' benefits.** Establish minimum survivors' benefits such that the replacement rate of survivors' benefits for a spouse with two children would be at least equal to 40 per cent after 15 years of service.
- **Financing policy.** Adopt a financing policy to establish a legal obligation to increase contribution rates in the future once specific cost indicators are revealed by successive actuarial valuations.
- **Financing.** Contribution rate increases by 3% every 10 years (starting in 2024) to reach 15% in 2054

# Parametric reform of JP (financial implications)

Scenario	PAYG rate		GAP (100 years)	Year of reserve exhaustion
	2050	2100		
<b>Base scenario</b>	2.3%	28.2%	10.8%	2069
Earnings' ceiling indexed with wage growth (instead of real GDP)	2.2%	10.1%	7.4%	2071
Eliminate minimum qualifying period	2.6%	10.1%	7.6%	2067
Increase minimum pension at 40% of minimum wage, indexed with wage growth	4.3%	16.4%	12.4%	2057
Increase pension accrual rate to from 1.00% to 1.33% per year	4.6%	19.0%	14.2%	2056
Minimum survivors' benefits	4.6%	19.1%	14.3%	2056
<b>All measures combined, including the gradual increase of the contribution rate</b>	4.6%	19.1%	14.3%	2119

GAP increases because:

- Increase of the accrual rate from 1.00% to 1.33%
- Increase of the minimum pension

PAYG decreases in long term because:

- Index earnings' ceiling in line with general wage growth (instead of real GDP)

Reserve duration is longer because:

- Contribution rate increases by 3% every 10 years (starting in 2024) to reach 15% in 2054

# ► Structural reforms

## 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

## Old-age pension (JP)

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

## Old-age pension (JHT)

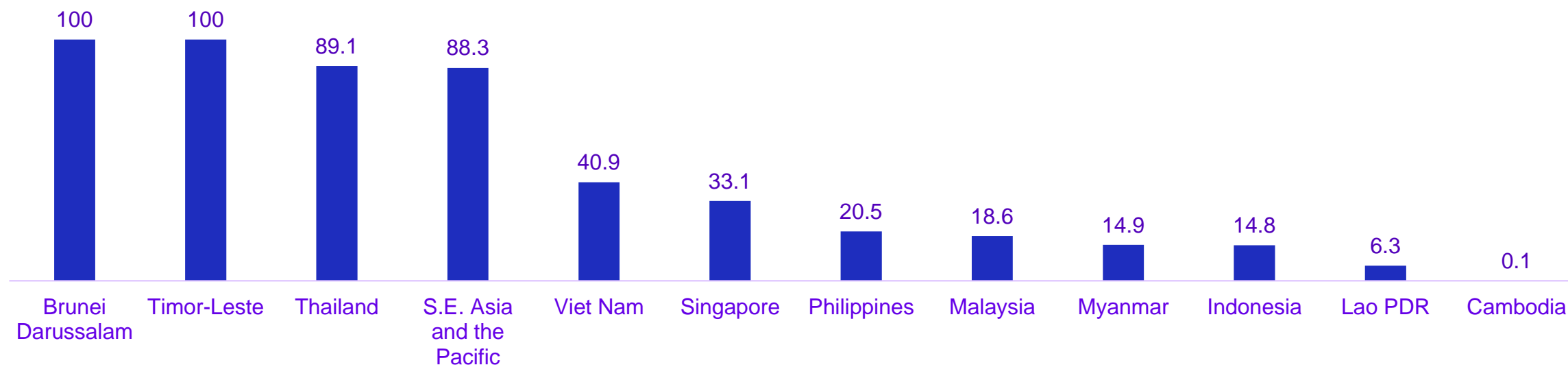
Parameters	C102	JHT
Coverage	50% of all employees	Employees of the formal sector working in <b>small, medium or large scale enterprises</b> ; and <b>voluntary for other workers</b> .
Qualifying condition	15 years of contributions	<b>n/a (Paid at the age 56)</b>
Replacement rate	40% for 30 years of contributions	<b>Up to the amount of saving</b>
Duration	Lifetime	<b>Up to the amount of saving</b>
Payment	Periodical	<b>Lump-sum</b>

## Active participants in old-age benefit schemes

Working age population, age 20-59* ( ) = Female		TASPEN	ASABRI	JHT	JP
Economically active	119 million (47 million)	21 million			
Employee	46 million (17 million)	4 million	1 million	15 million	12 million
<b>Non-wage worker or employer</b>	<b>65 million (27 million)</b>	-	-	<b>0.6 million</b>	-
Unemployed	7 million (3 million)	-	-	-	-
Economically inactive	36 million (30 million)	-	-	-	-
Student	3 million (1 million)	-	-	-	-
<b>House keeping</b>	<b>29 million (27 million)</b>	-	-	-	-
Others	4 million (1 million)	-	-	-	-

## Older persons receiving a pension in South-Eastern Asia

Persons above statutory retirement age receiving an old-age pension (including contributory and non-contributory) to persons above statutory retirement age (%)



## Older-age income security in ASEAN Member States

Old-age pension schemes anchored in national legislation providing periodic cash benefits  
10 countries

Contributory scheme  
only

3 countries (IDN, KHM,  
LAO)

Contributory scheme  
and non-contributory,  
means-tested scheme

4 countries (MYS, PHL,  
SGP, VNM)

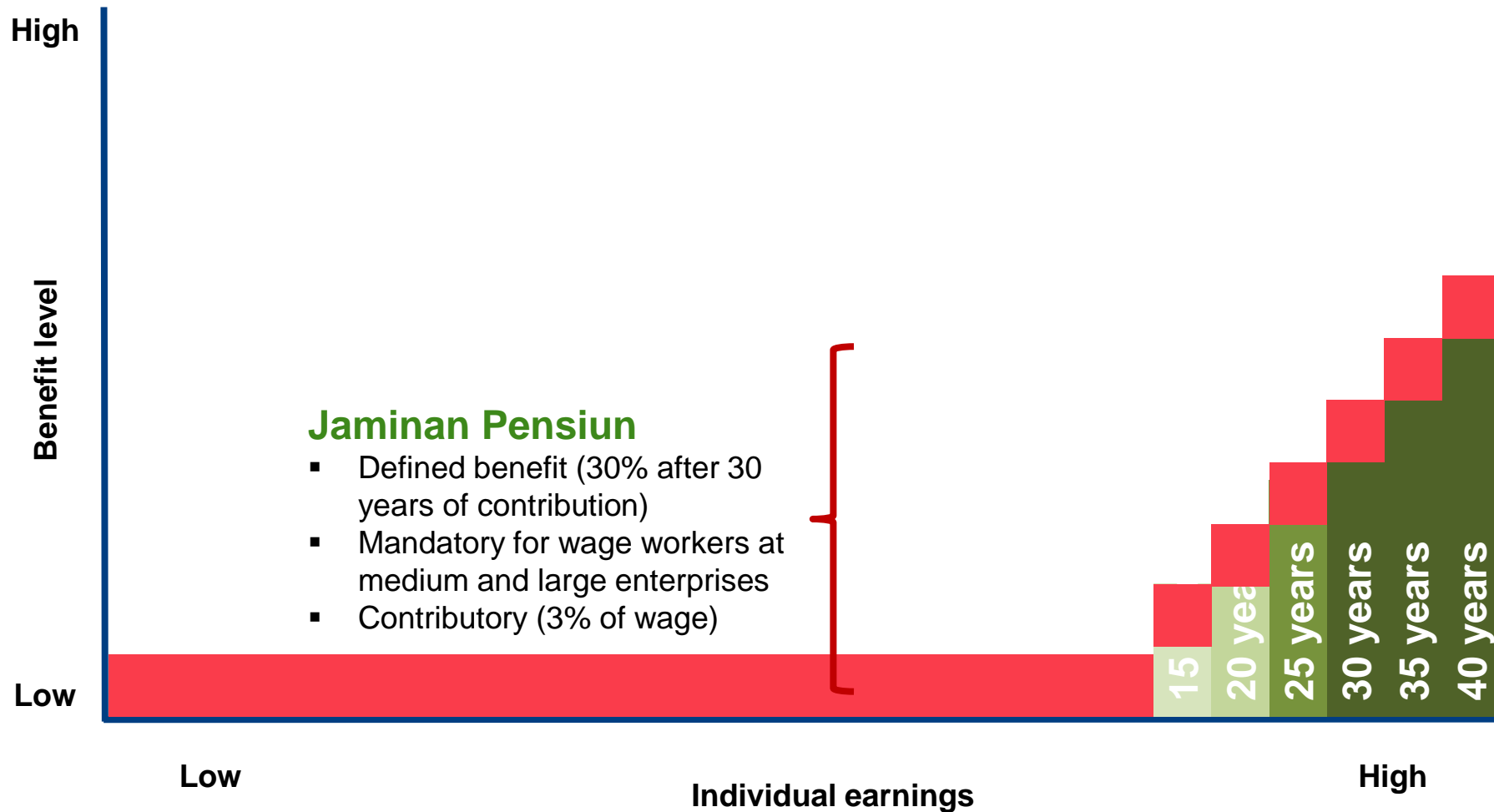
Contributory scheme  
and non-contributory,  
pension-tested scheme

1 country (THA)

Contributory scheme  
and non-contributory,  
universal scheme

2 countries (BRN,  
MMR)

## Current system



## ► Case study: Mr. Ahmad

### A worker with a permanent contract and a long career in a large enterprise

- Starts contributing in 2023 at age 30.
- Contributes for 30 years and retires at age 60 in 2053.
- Average salary for the period of employment is IDR 9,000,000 per month.
- Old-age benefits will be IDR 3,691,000 per month (IDR 670,000 from employer, IDR 827,000 from JHT, and IDR 2,194,000 from JP).
- Replacement rate: 41%

## ► Case study: Ms. Aulia

### A worker with a permanent contract and a long career in a small enterprise

- Starts contributing in 2023 at age 30.
- Contributes for 30 years and retires at age 60 in 2053.
- Average salary for the period of employment is IDR 5,500,000 per month.
- Old-age benefits will be IDR 915,000 per month (IDR 410,000 from employer, and IDR 505,000 from JHT).
- Replacement rate: 17%

## ► Case study: Ms. Inaaya

### A worker with a permanent contract and a long career in a micro enterprise

- Starts contributing in 2023 at age 30.
- Contributes for 30 years and retires at age 60 in 2053.
- Average salary for the period of employment is IDR 3,600,000 per month.
- Old-age benefits will be IDR 268,000 per month from employer.
- Replacement rate: 7%

## ► Case study: Mr. Arif

### A worker with a fixed-term contract and a long career in a large enterprise

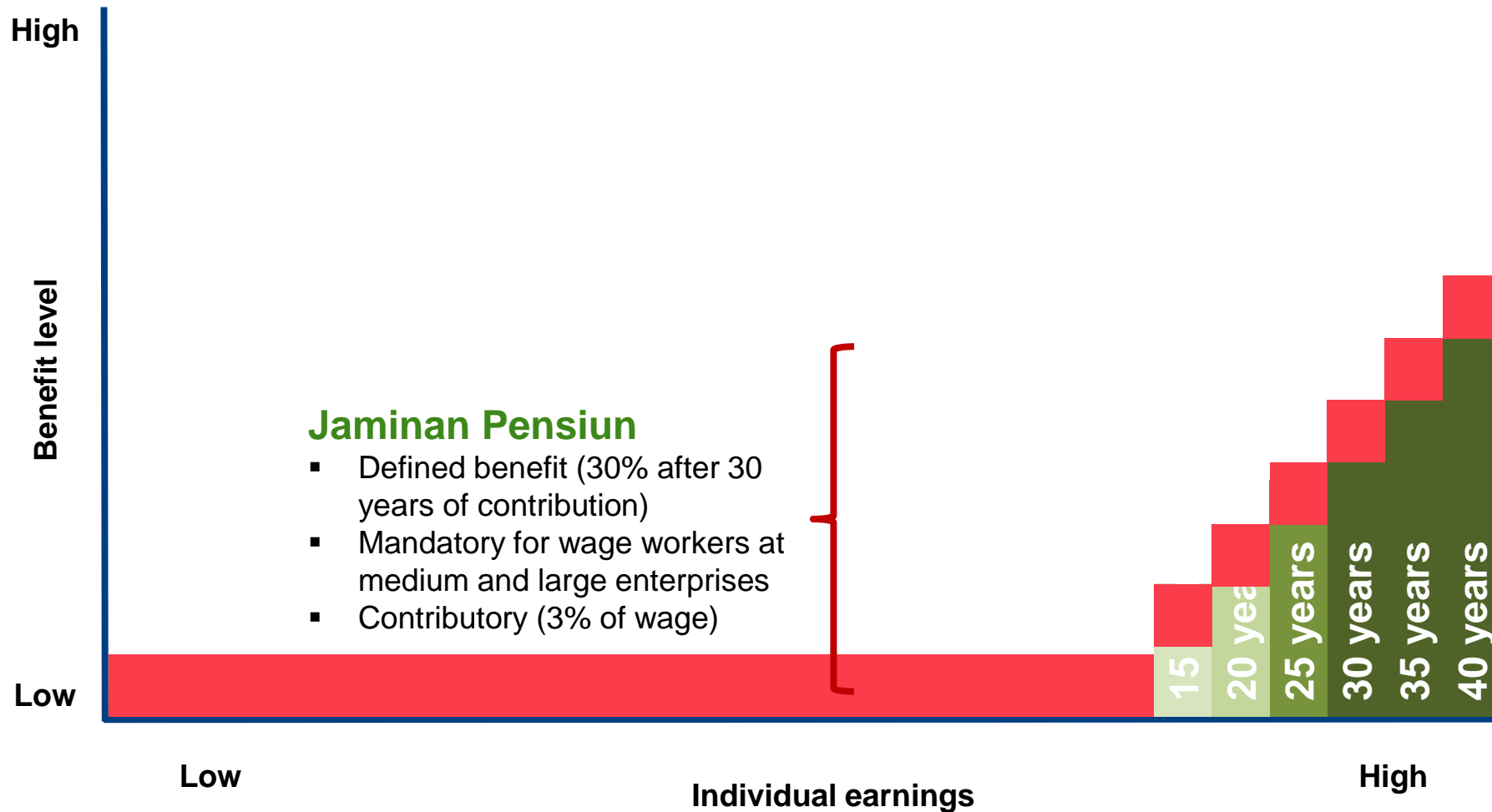
- Starts contributing in 2023 at age 30.
- Contributes for 30 years and retires at age 60 in 2053.
- Average salary for the period of employment is IDR 6,300,000 per month.
- Old-age benefits will be IDR 2,115,000 per month (IDR 579,000 from JHT, and IDR 1,536,000 from JP).
- Replacement rate: 34%

## ► Case study: Ms. Cindy

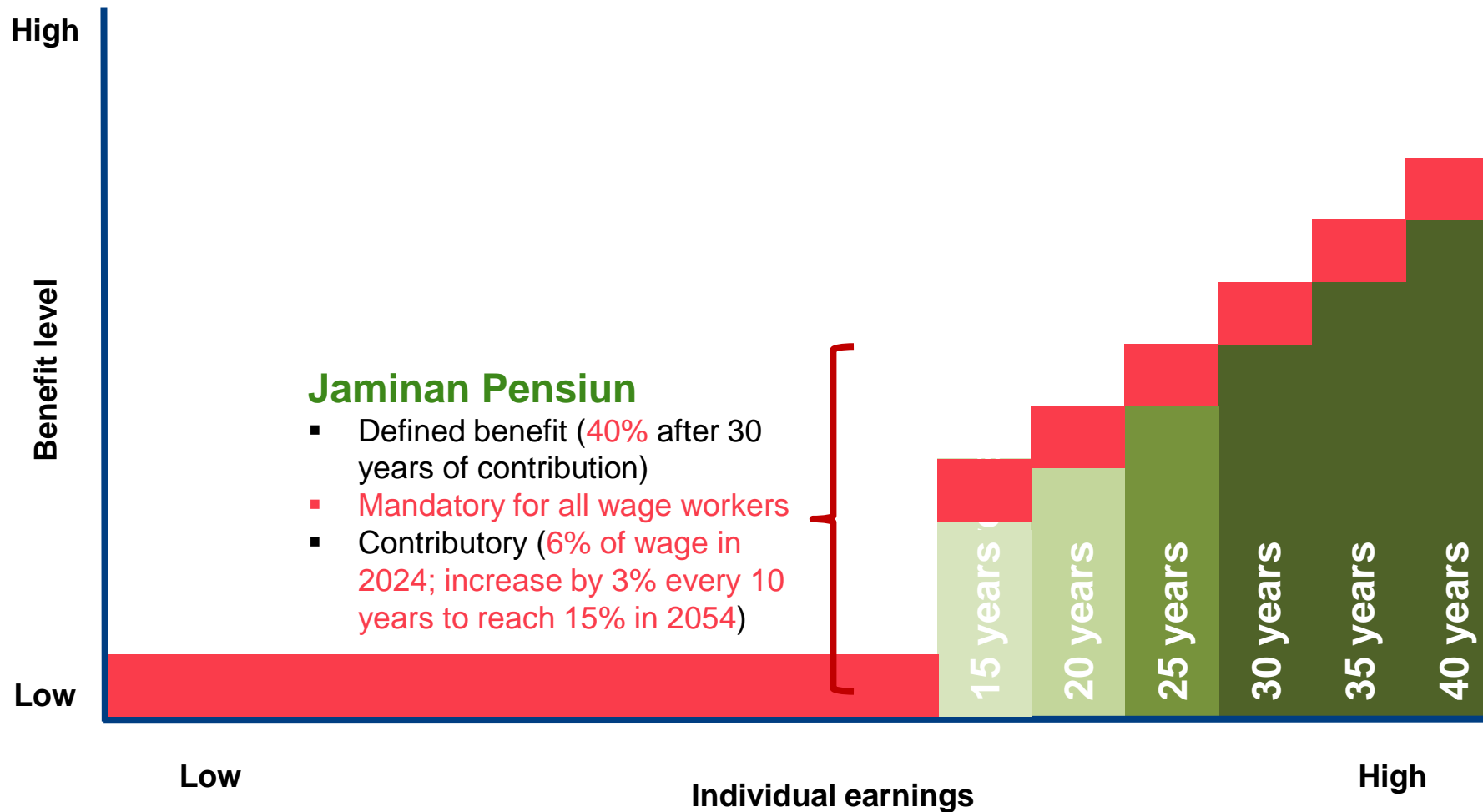
**A self-employed worker with a long career who voluntarily contributes to JHT**

- Starts contributing in 2023 at age 30.
- Contributes for 30 years and retires at age 60 in 2053.
- Average salary for the period of employment is IDR 4,600,000 per month.
- Old-age benefits will be IDR 423,000 per month from JHT.
- Replacement rate: 9%

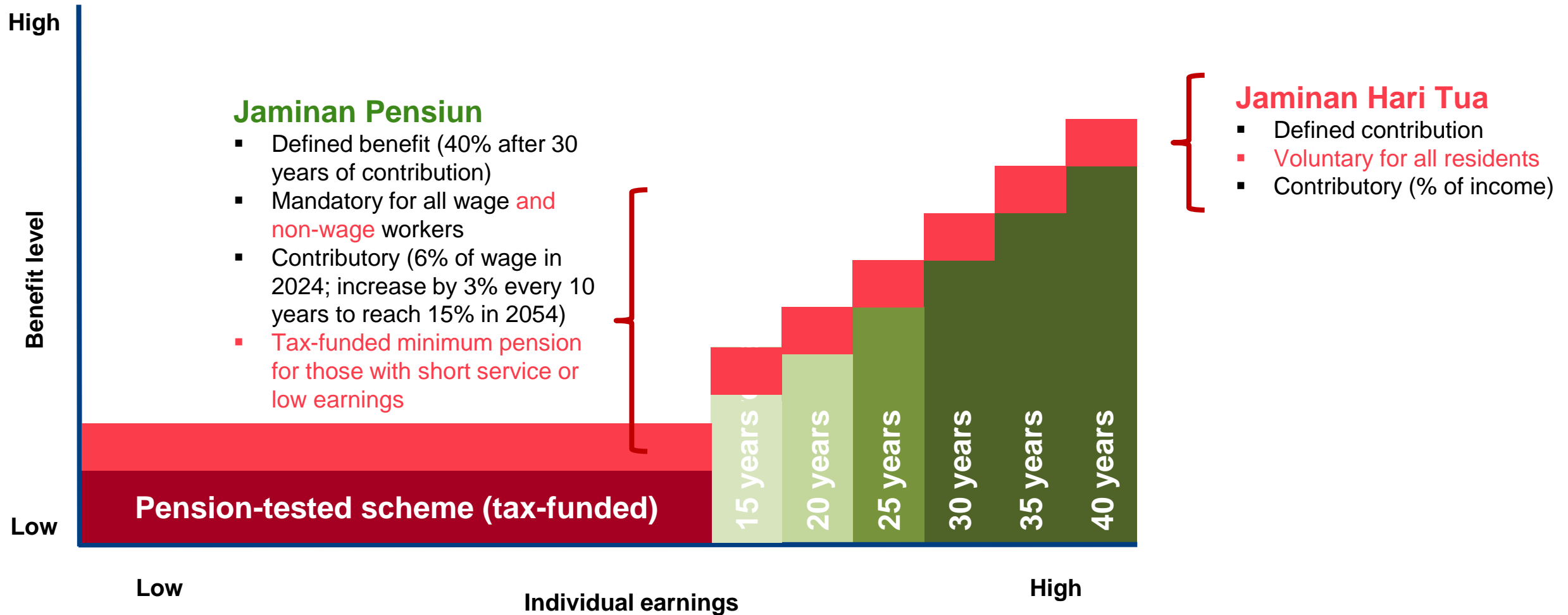
## Current system



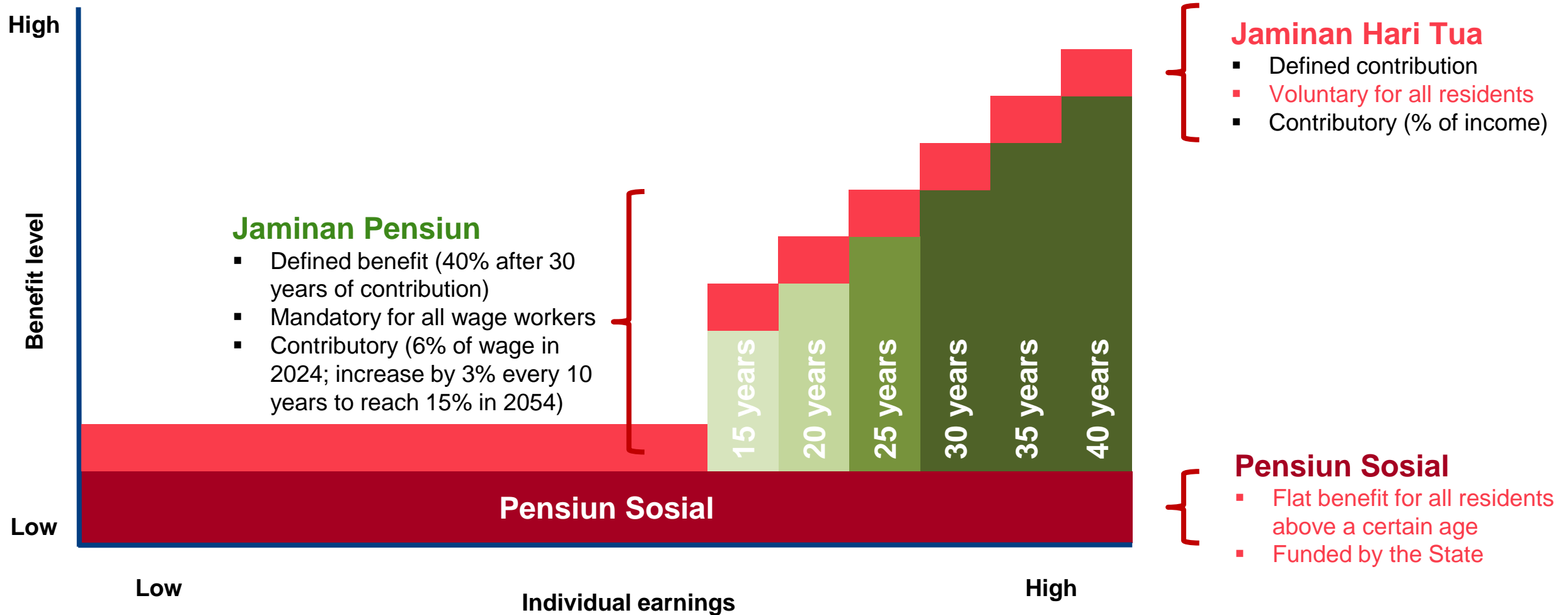
## Extension of Jaminan Pensiun only (Option 0)



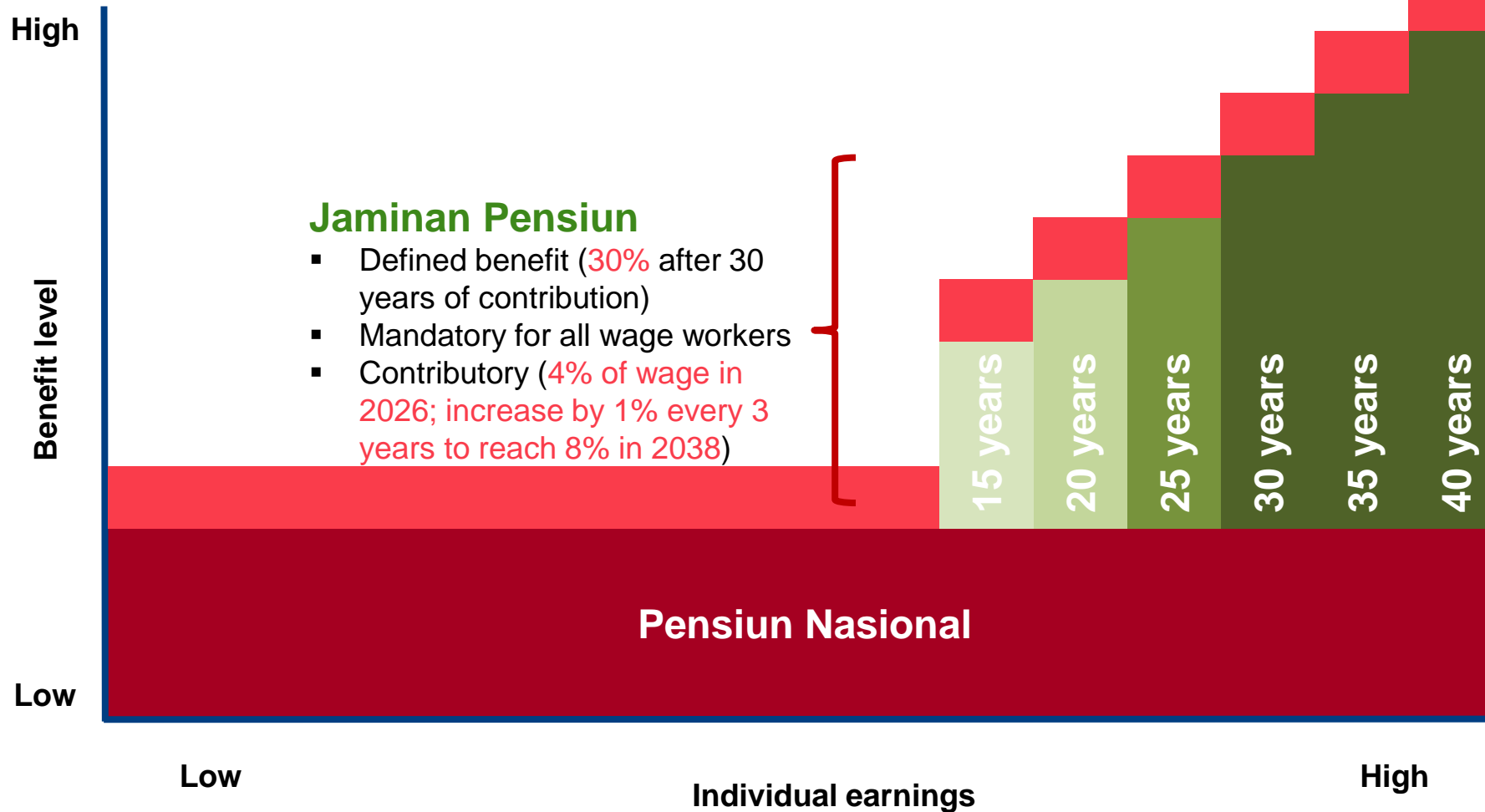
## ► Tax-funded scheme within Jaminan Pensiun (Option 1)



## Social Pension (Option 2)



## National Pension (Option 3)



### Jaminan Hari Tua

- Defined contribution
- Voluntary for all residents
- Contributory (% of income)

### Pensiun Nasional

- Flat benefit
- Mandatory for all residents in working age
- Contributory (fixed amount) + non-contributory (benefit subsidy)



# Annex

## Summary – coverage and benefit

		Current	Option 0 Jaminam Pensiun	Option 1 Pensiun-tested	Option 2 Pensiun Sosial	Option 3 Pensiun Nasional
Coverage	Wage worker	Low	Full	Full	Full	Full
	Non-wage worker	Low	Low	Full	Full	Full
	Other resident	None	None	None	Full	Full
Benefit	Wage worker	Low	Medium	Medium	High	High
	Non-wage worker	Low	Low	Medium	Medium	Medium
	Other resident	n.a.	n.a.	n.a.	Low	Medium
BPJS membership		Low	Low	Medium	Low	High

## Summary – Finance (Option 1 – compulsory participation)

Year	Beneficiaries	Wage	Non- wage	Others	State
		JP	JP		(Minimum pension)
2025	15 848 823	6.0%	6.0%	n.a.	IDR 219 trillion
2030	20 016 920	6.0%	6.0%	n.a.	IDR 385 trillion
2035	...	9.0%	9.0%	n.a.	...
2040	26 600 895	9.0%	9.0%	n.a.	IDR 924 trillion
2045	...	12.0%	12.0%	n.a.	...
2050	25 387 499	12.0%	12.0%	n.a.	IDR 1,435 trillion

## Summary – Finance (Option 2 – compulsory participation)

Year	Beneficiaries	Wage	Non- wage	Others	State
		JP			(age 65 & above)
2025	21 659 269	6.0%	n.a.	n.a.	IDR 136 trillion
2030	27 254 558	6.0%	n.a.	n.a.	IDR 198 trillion
2035	...	9.0%	n.a.	n.a.	...
2040	40 116 707	9.0%	n.a.	n.a.	IDR 390 trillion
2045	...	12.0%	n.a.	n.a.	...
2050	52 308 269	12.0%	n.a.	n.a.	IDR 680 trillion

## Summary – Finance (Option 3 – compulsory participation)

Year	Beneficiaries	Wage	Non- wage & Others	State
		JP+NP	NP	NP
2025	21 659 269	3.0% & IDR 300,000+	IDR 300,000+	IDR 148 trillion
2030	27 254 558	5.0% & IDR 300,000+	IDR 300,000+	IDR 243 trillion
2035	...	8.0% & IDR 300,000+	IDR 300,000+	...
2040	40 116 707	8.0% & IDR 300,000+	IDR 300,000+	IDR 480 trillion
2045	...	8.0% & IDR 300,000+	IDR 300,000+	...
2050	52 308 269	8.0% & IDR 300,000+	IDR 300,000+	IDR 593 trillion

▶ **THANK YOU**

This presentation has been prepared by Ippei Tsuruga. Please contact Ippei Tsuruga ([tsuruga@ilo.org](mailto:tsuruga@ilo.org)) for more details.

Supported by:



ILO/Japan  
Multi-bilateral  
Programme