

West Java Consultation on Pension reforms

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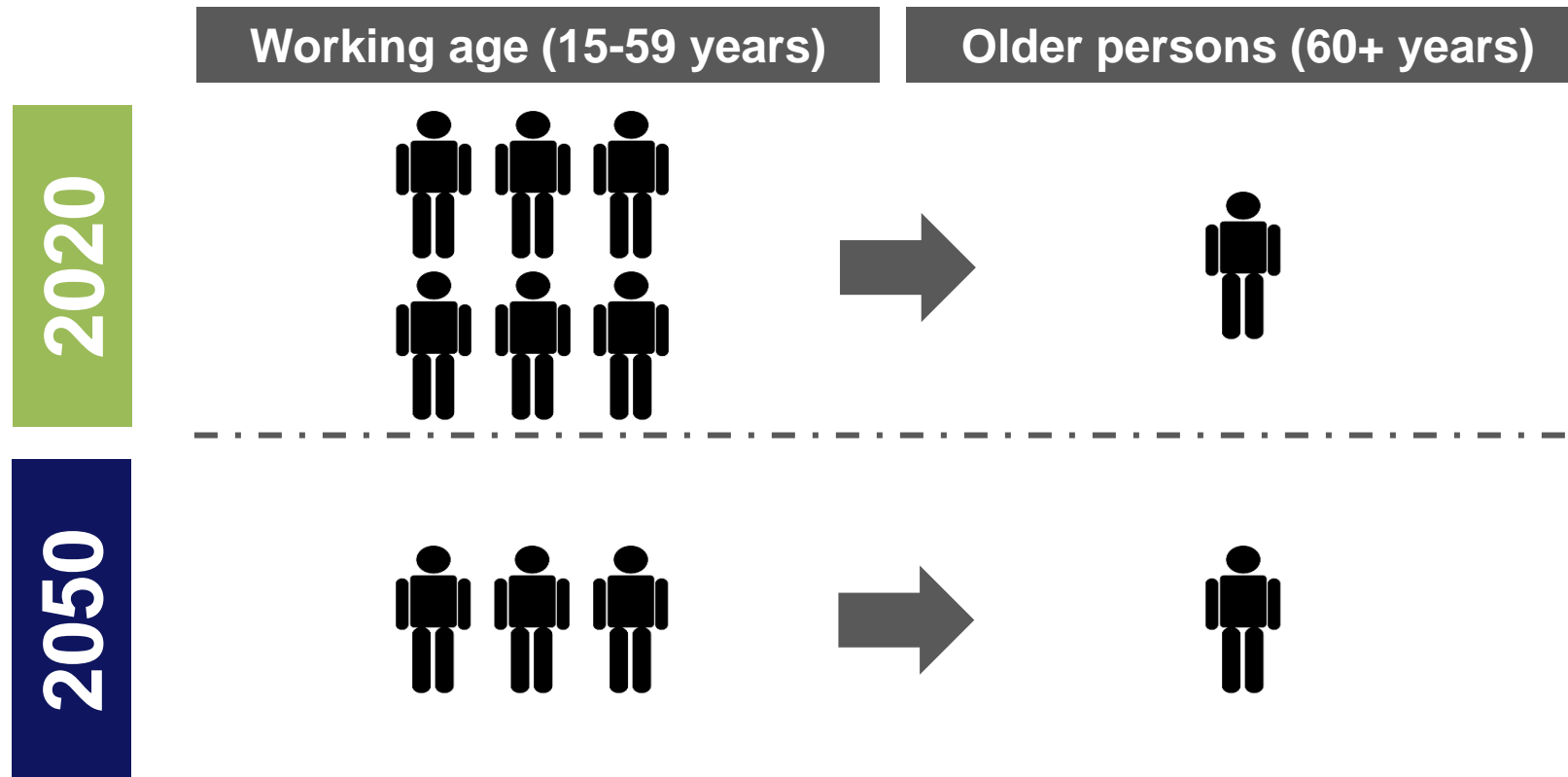
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► **‘My children will take care of me’**

Ageing



Demographic projection

Year	Age group				Ratio 16–59 / 60+
	0–14	15–59	60+	Total	
<u>2020</u>	<u>70 085 467</u>	<u>172 936 172</u>	<u>27 182 278</u>	<u>270 203 917</u>	<u>6.4</u>
2030	68 082 368	186 107 925	41 480 205	295 670 499	4.5
2040	65 967 974	191 964 868	57 104 701	315 037 544	3.4
<u>2050</u>	<u>63 552 612</u>	<u>194 343 211</u>	<u>69 410 620</u>	<u>327 306 443</u>	<u>2.8</u>
2060	60 162 620	193 728 103	79 422 214	333 312 937	2.4
2070	57 141 080	188 736 152	88 644 704	334 521 936	2.1
2080	54 167 894	180 962 223	96 945 950	332 076 066	1.9
2090	51 029 705	173 373 280	102 027 608	326 430 593	1.7
2100	48 124 807	164 695 135	105 101 959	317 921 901	1.6

▶ **‘I have savings’**

► Longevity risk (1)

Do you know when you will die?

- Life expectancy at age 60 will be 20.1 years for males and 22.9 years for females in 2050.
- Most people will retire at age 55 and live until age 80.

How much would you spend in old age?

- Spending 3 million rupiah per month for 25 years after retirement.
- You need 900 million rupiah.

► Longevity risk (2)

How much do social security schemes pay you in old age?

- Earning 5 million rupiah per month for 30 years from age 25 to age 55.
- JHT = $5.7\% \times 12 \text{ months} \times 30 \text{ years} = 102.6 \text{ million rupiah (+ interest rate)}$
- JP = $1\% \text{ replacement rate} \times 30 \text{ years} \times 5 \text{ million rupiah} = 1.5 \text{ million rupiah / month (until die)}$
 $= 1.5 \text{ million rupiah} \times 12 \text{ months} \times 30 \text{ years} = 540 \text{ million rupiah}$

Longevity risk (3)

Your needs	- 900 million rupiah
JHT benefits	+ 100 million rupiah (exhausted in 3 years = age 58)
JP benefits	+ 540 million rupiah
Savings or other income (e.g. work in old age)	+ 260 million rupiah

International Social Security Standards

Parameters	Minimum Standards C102	JP	JHT
Coverage	50% of all employees	Wage employees in medium or large scale enterprises.	Wage employees in small to large scale enterprises.
Replacement rate	40% for 30 years of contributions	30% for 30 years of contributions	Depending on contributions
Duration	Lifetime	Lifetime	Lump-sum
Payment	Periodical	Periodical	Lump-sum

► **‘I cannot afford to contribute’**

Contribution rate

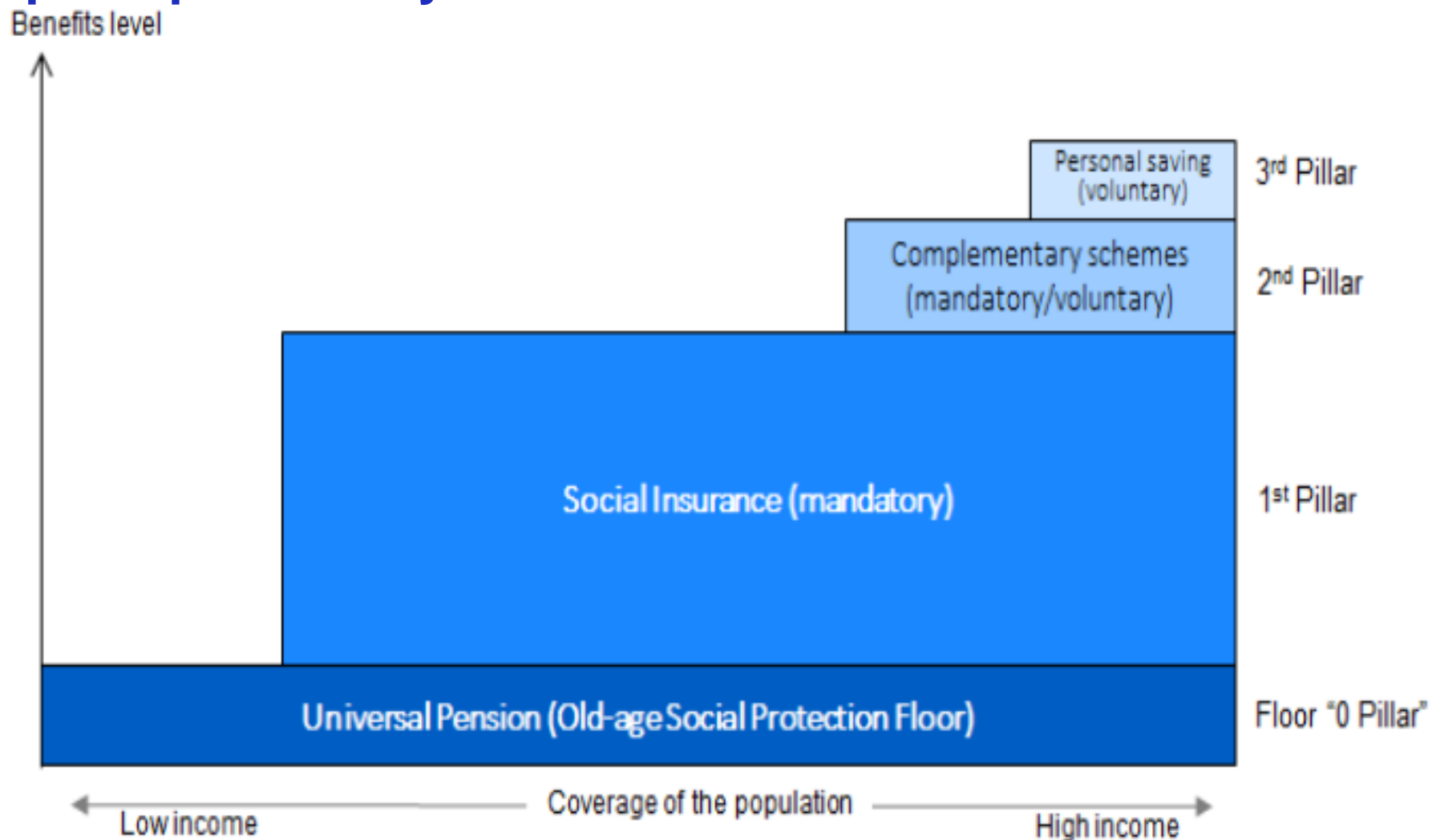
	Scheme	Employer	Employee	Total
Singapore	DC	17%	20%	37%
Malaysia	DB (DC)	0.5% (13%)	0.5% (11%)	1% (24%)
Viet Nam	DB	14%	8%	22%
Brunei	DC	8.5%	8.5%	17%
Philippines	DB	9.5%	4.5%	14%
Lao PDR	DB	5%	4.5%	9.5%
Thailand	DB	3% + 1% by GOT	3%	7%
Indonesia	DB (DC)	2% (3.7%)	1% (2%)	3% (5.7%)

► ‘I want pension but do not want to pay’ is not an option.



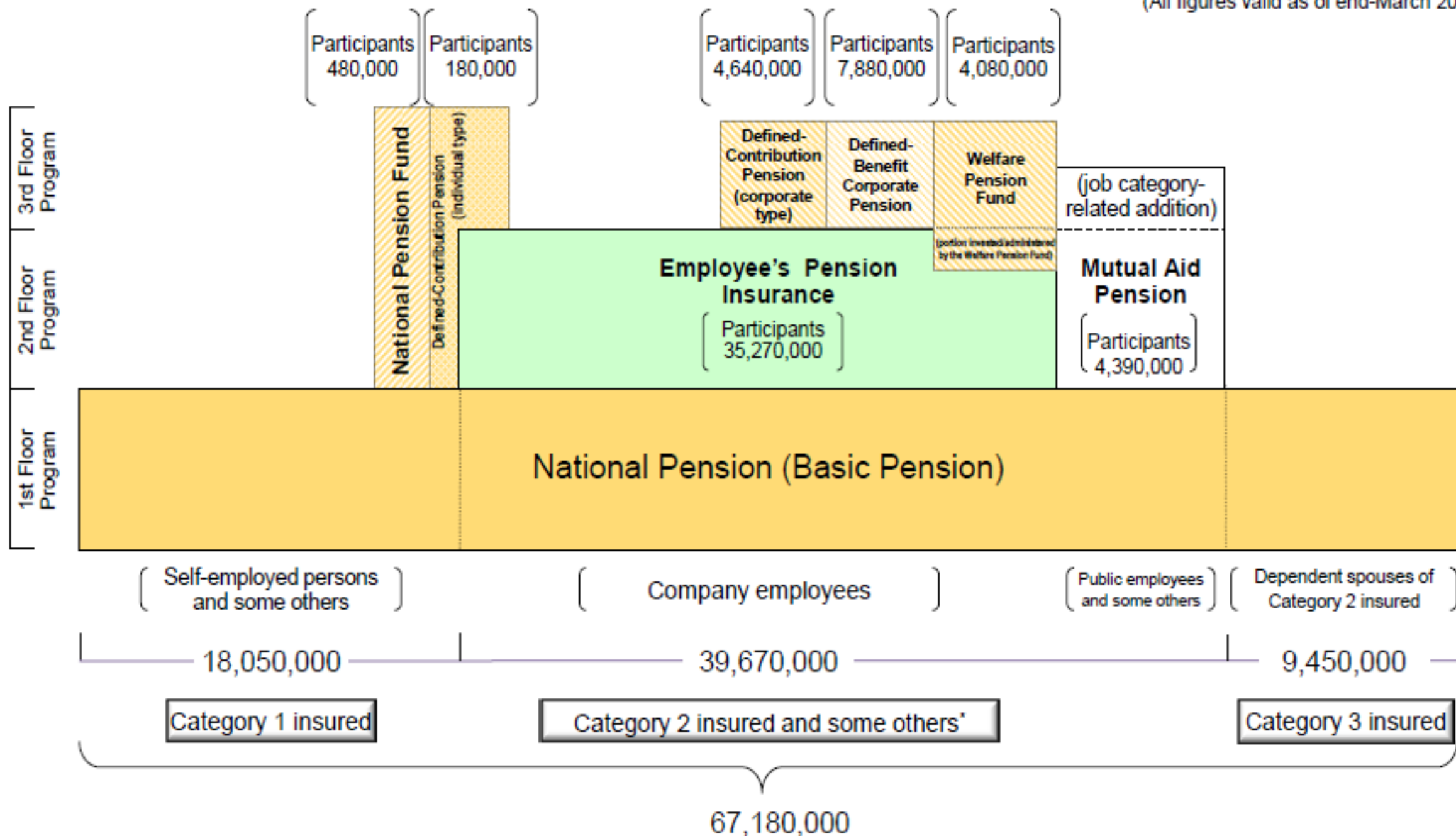
► ILO multi-pillar pension system

ILO multi-pillar pension system





Japan



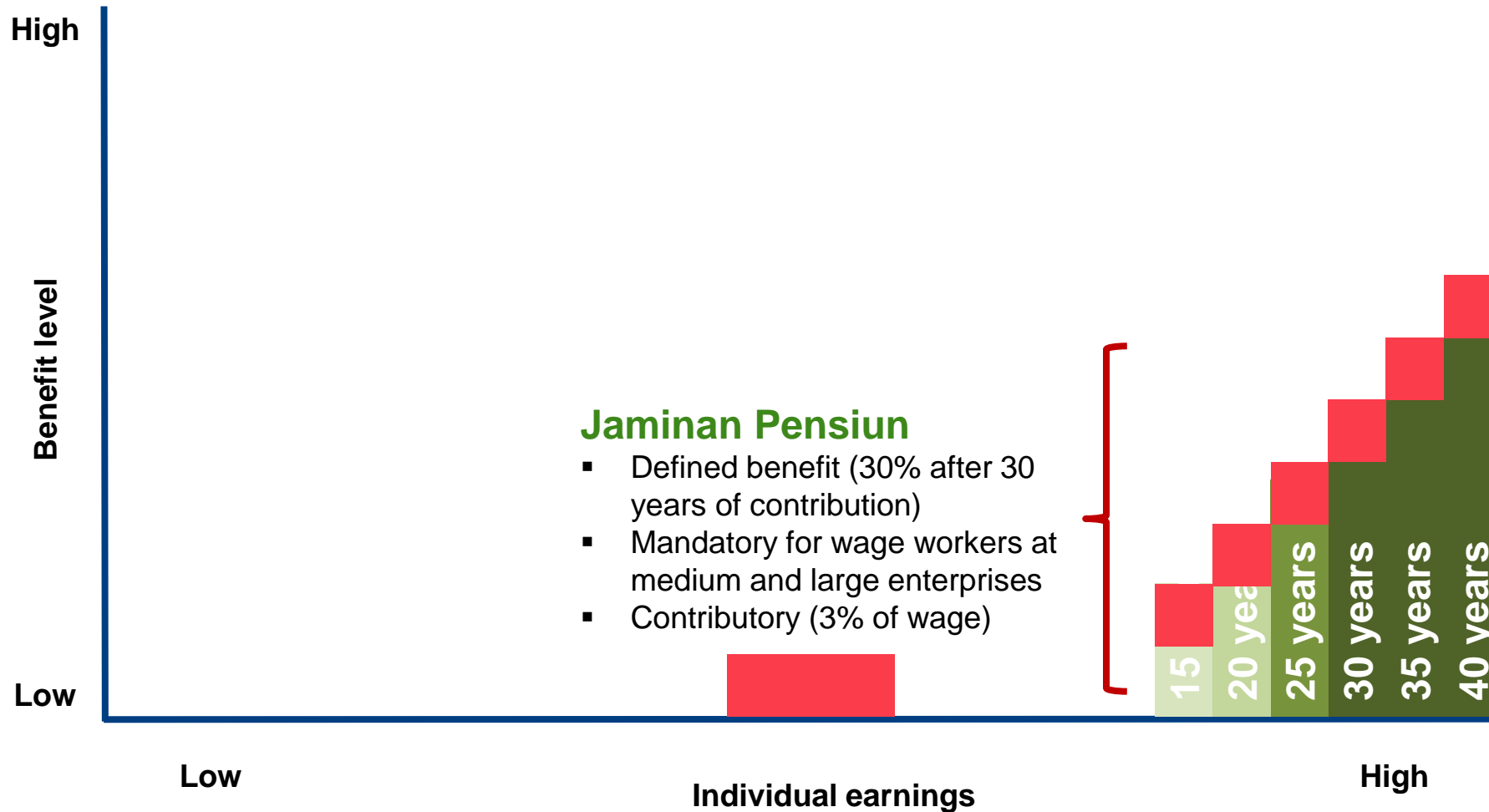
* "Cat 2 insured and some others" mean those covered by Employee Pension Insurance (including Cat 2 insured and those aged 65 and over or those entitled to pension benefits by reason of retirement).

► Low pension coverage by design

Pension coverage

	Age 20-59	(1) TASPEN	(2) ASABRI	(3) JHT	(4) JP
Economically active	118 million (100%)	4 million (3.5%)	0.9 million (0.8%)	17 million (14.0%)	13 million (11.2%)
Wage worker	56 million (100%)	4 million (7.3%)	0.9 million (1.6%)	16 million (28.9%)	13 million (23.5%)
Non-wage worker and employer	55 million (100%)	-	-	0.3 million (0.5%)	-
Unemployed	7 million (100%)	-	-	-	-
Economically inactive	35 million (100%)	-	-	-	-
Student	3 million (100%)	-	-	-	-
House keeping	29 million (100%)	-	-	-	-
Others	4 million (100%)	-	-	-	-
Total	154 million (100%)	4 million (2.7%)	0.9 million (0.6%)	17 million (10.8%)	13 million (8.6%)

Current system in Indonesia



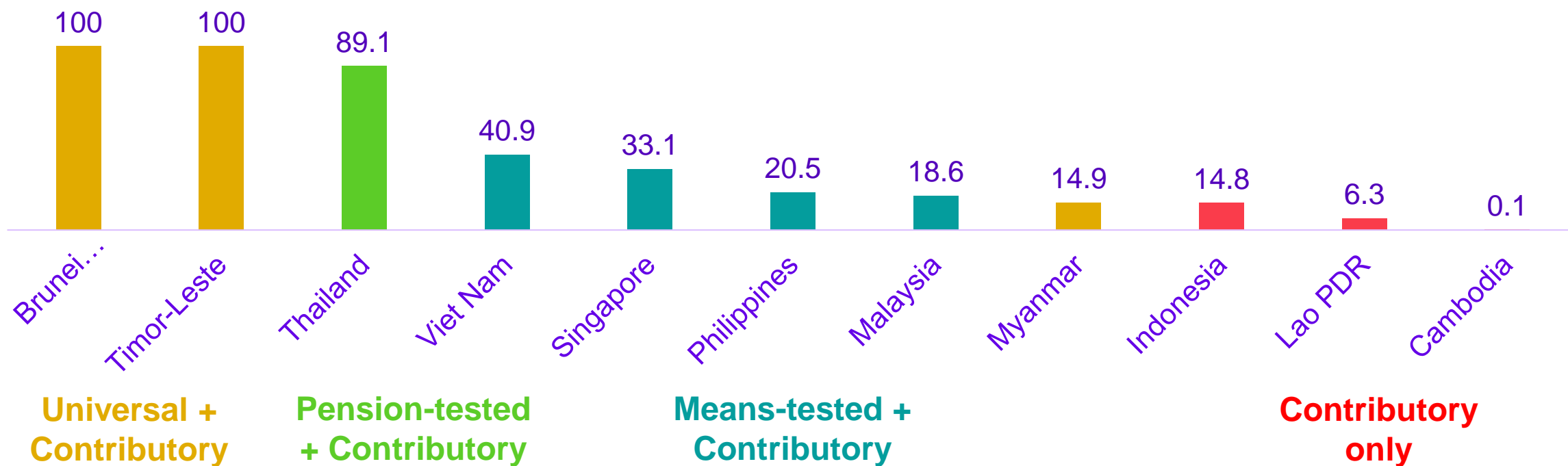
► Inconsistent retirement age

Year	JP	JHT	Dana Pensiun
2016	56	56	56
2019	57		
2022	58		
2025	59		
2028	60		
2031	61		
2034	62		
2037	63		
2040	64		
2043	65		

► Regional practices

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 (%)

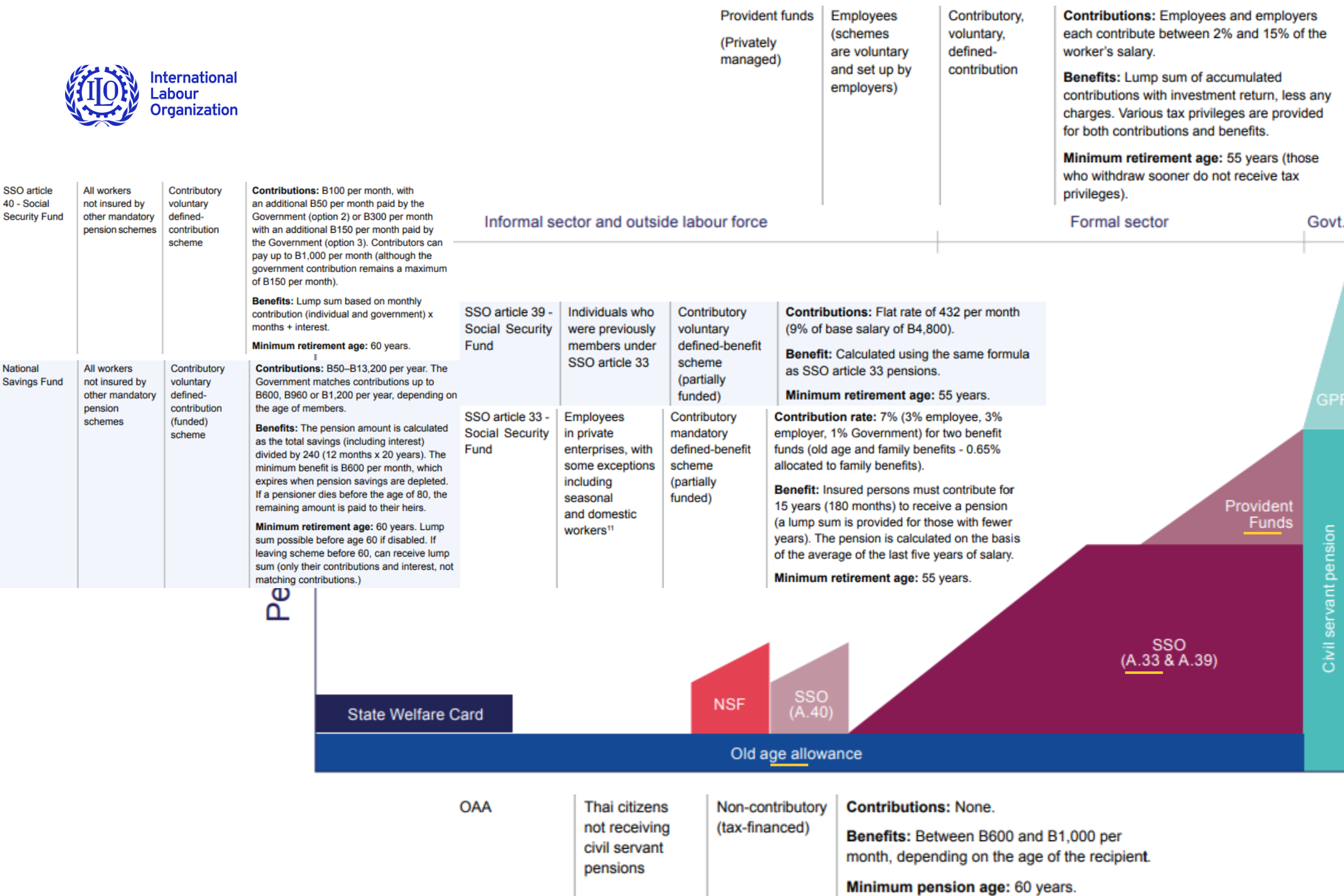


► Brunei Darussalam

Non-contributory pension

		Social pension
Qualifying conditions		Age 60 and resident for previous 10 years (30 years if non-citizen)
Benefit amount	Local currency	BND250 (IDR 2.8 million)
	% of GDP per capita	5.7%
	% of minimum wage	n.a.

► Thailand

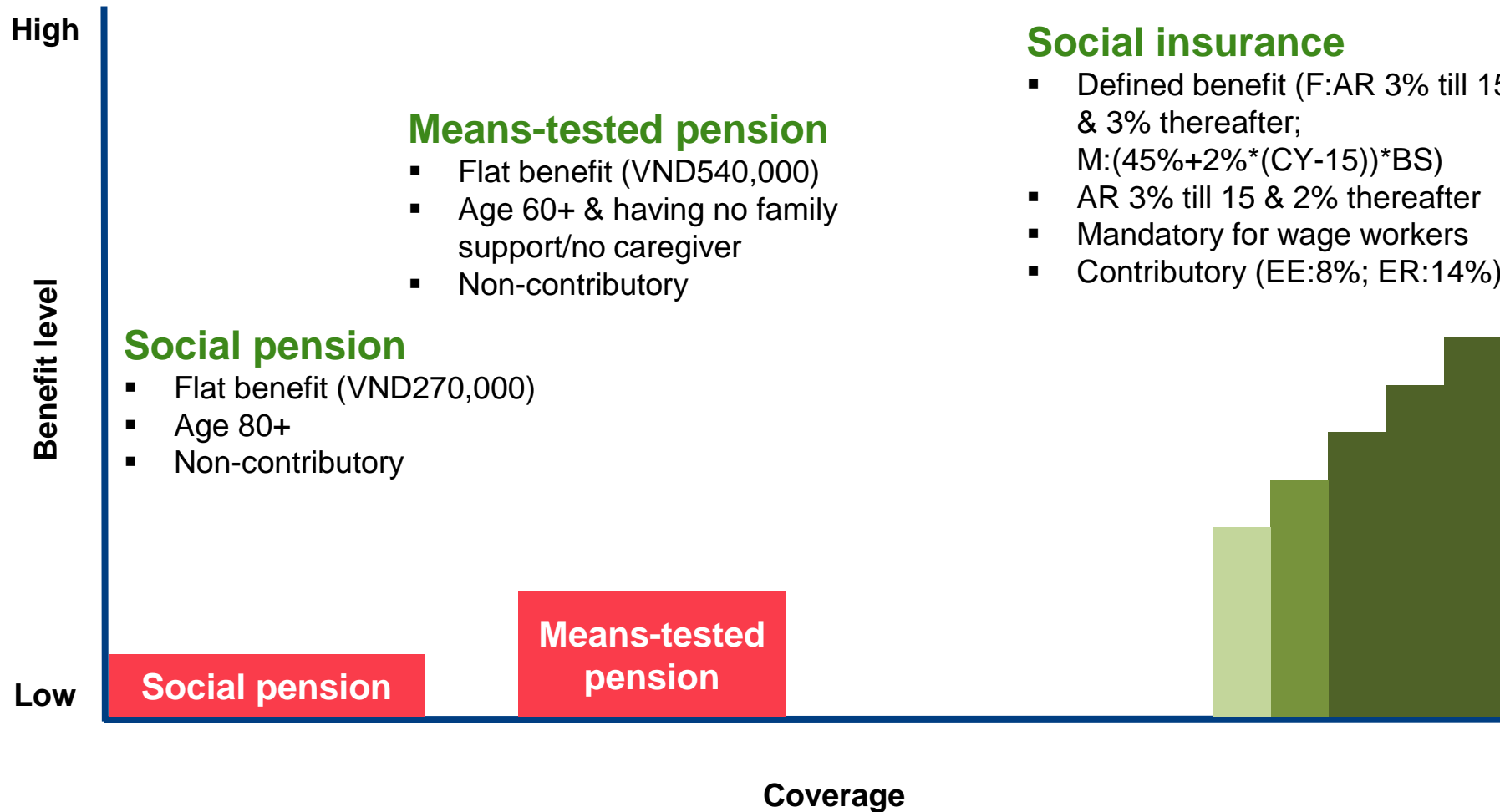


Non-contributory pension

		Pension-tested
Qualifying conditions		Age 60, not receiving civil servant pension
Benefit amount	Local currency	THB 600–1000, depending on age (IDR 260k – 430k)
	% of GDP per capita	3.3–5.5%
	% of minimum wage	9.2–15.3%

Note: Higher benefit amounts apply to older people with disabilities.

▶ Viet Nam



Non-contributory pension

		Pension-tested	Means-tested
Qualifying conditions		Age 80+	Age 60+, having no family support/no caregiver
Benefit amount	Local currency	270,000 (IDR 170k)	540,000 (IDR 340k)
	% of GDP per capita	6.6%	13.2%
	% of minimum wage	11.3%	22.5%

Note: Higher benefit amounts apply to older people with disabilities.

► Philippines

Social security system

- Defined benefit (Highest:
 1. PHP300 monthly + 20% of average monthly salary credit (AMSC) for each year of service + 2% for each year of service exceeding 10 years
 2. 40% of AMSC
 3. PHP1200 monthly
- Mandatory for wage workers
- Contributory (EE:4.5%; ER:9.5%)

Mandatory

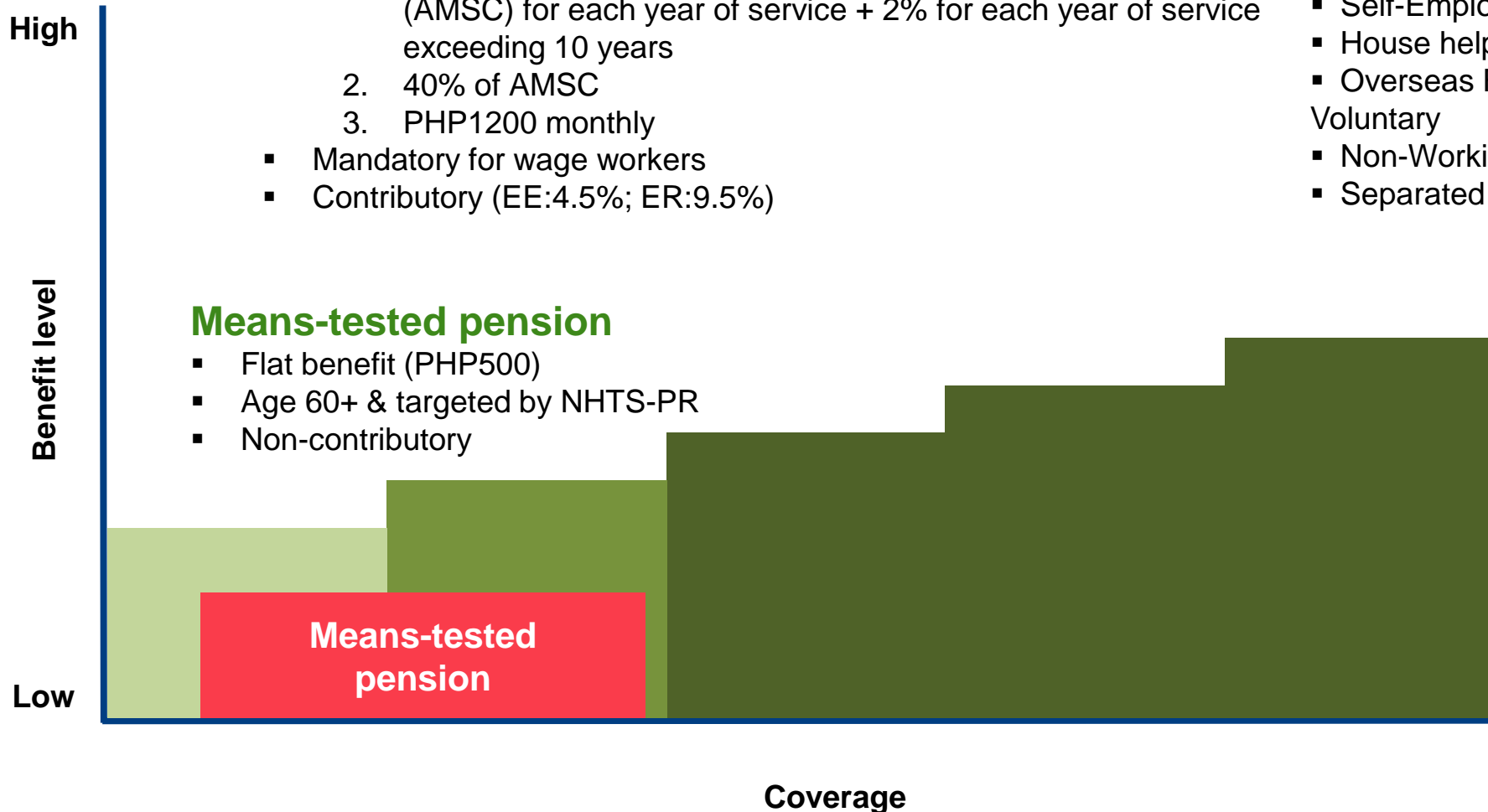
- Employer (Business or Household Employer)
- Employee
- Self-Employed
- House helper or Kasambahay
- Overseas Filipino Workers (OFW)

Voluntary

- Non-Working Spouse (NWS)
- Separated Members

Means-tested pension

- Flat benefit (PHP500)
- Age 60+ & targeted by NHTS-PR
- Non-contributory

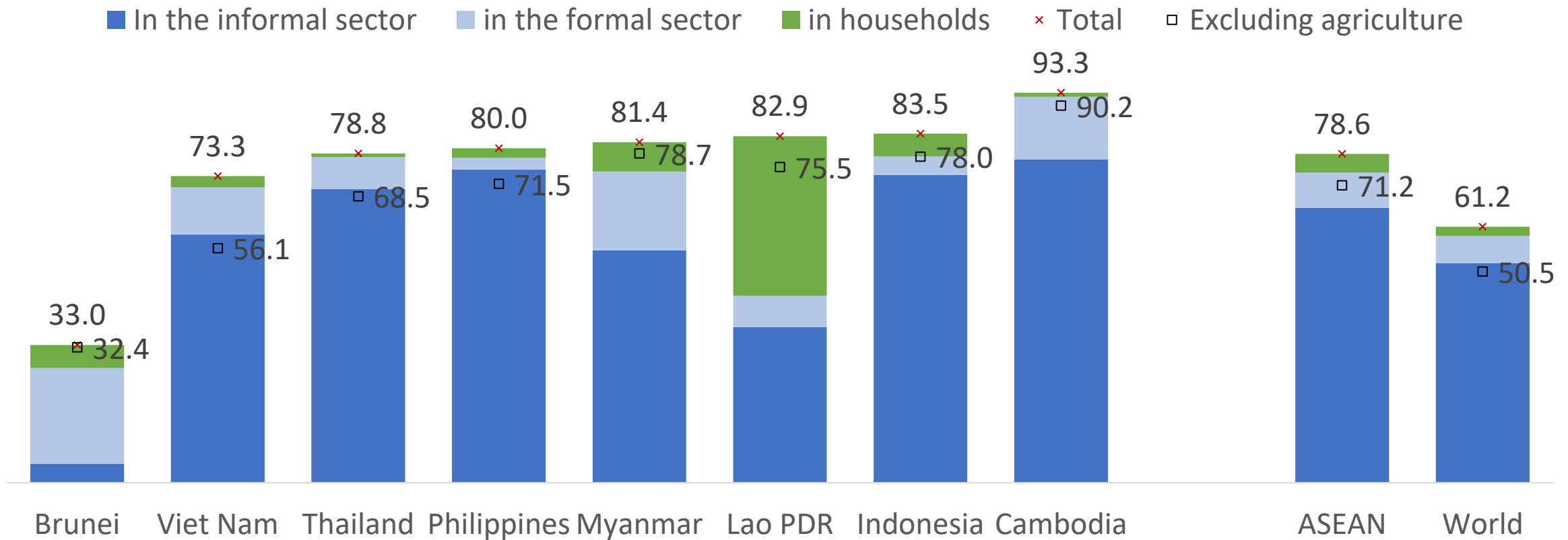


Non-contributory pension

		Means-tested pension
Qualifying conditions		Age 60 and assessed as poor by the National Household Targeting System for Poverty Reduction (NHTS-PR)
Benefit amount	Local currency	PHP500 (IDR 130k)
	% of GDP per capita	5.7%
	% of minimum wage	n.a.

► **‘Indonesia has a unique situation – informal economy’**

Share of informal employment



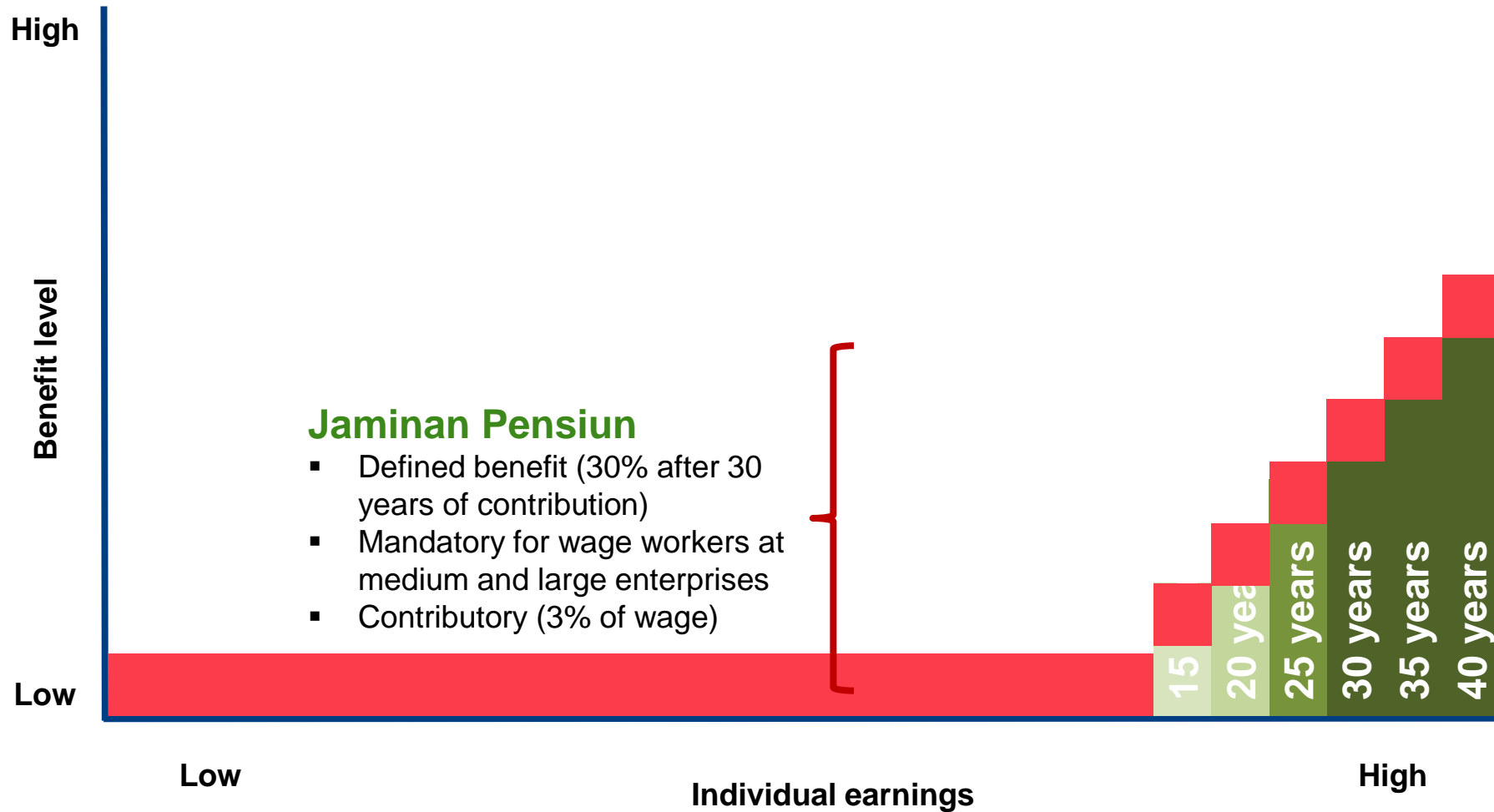
► **‘It is too early to discuss pension’**

► Years to move from 7% to 14% population share aged 65 and older

Country	Aging (7%)	Aged (14%)	Transition period
France			115
United States			69
Japan	1969	1994	25
China	2001		
Viet Nam	2015	est. 2036	21
Indonesia	2023	est. 2044	21
Malaysia	2020		
Thailand	2002	2020	18
Korea	2000	2018	18
Singapore	2006	2021	15

► Reform options

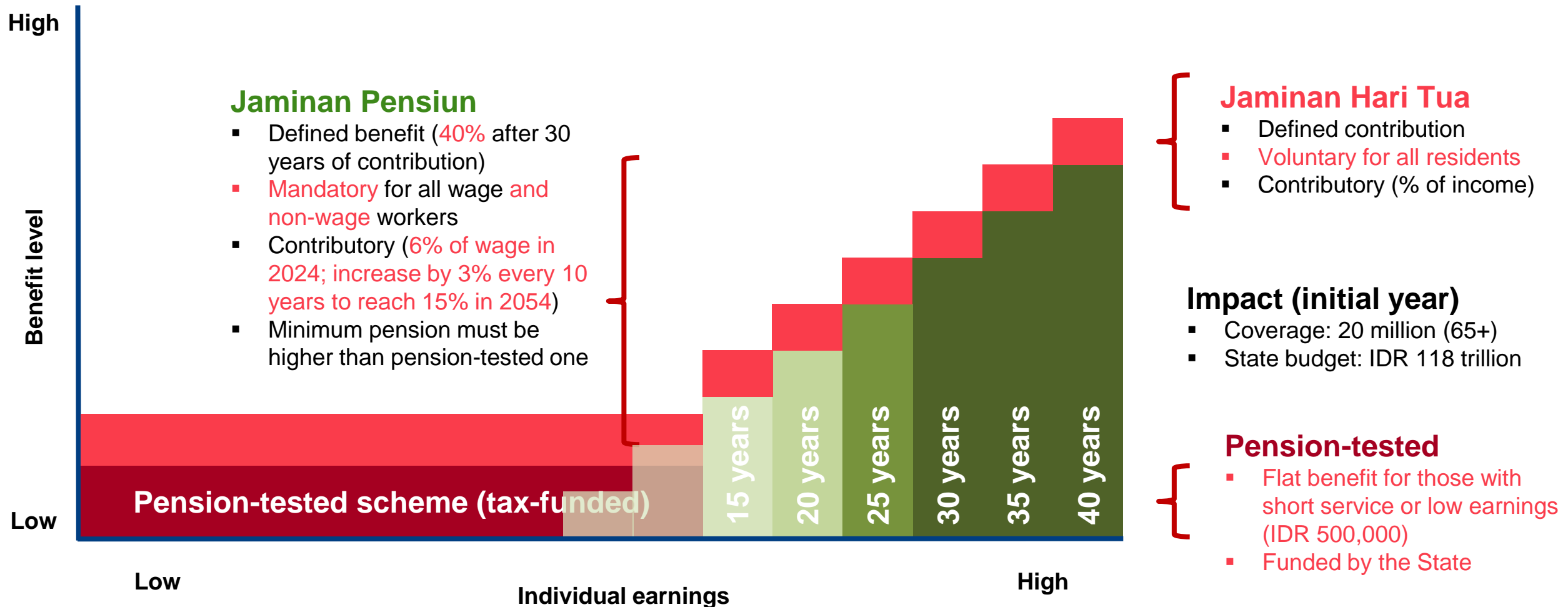
Current system



Jaminan Hari Tua

- Defined contribution
- Mandatory for wage workers at small to large enterprises
- Voluntary for micro enterprise and non-wage workers
- Contributory (% of income)

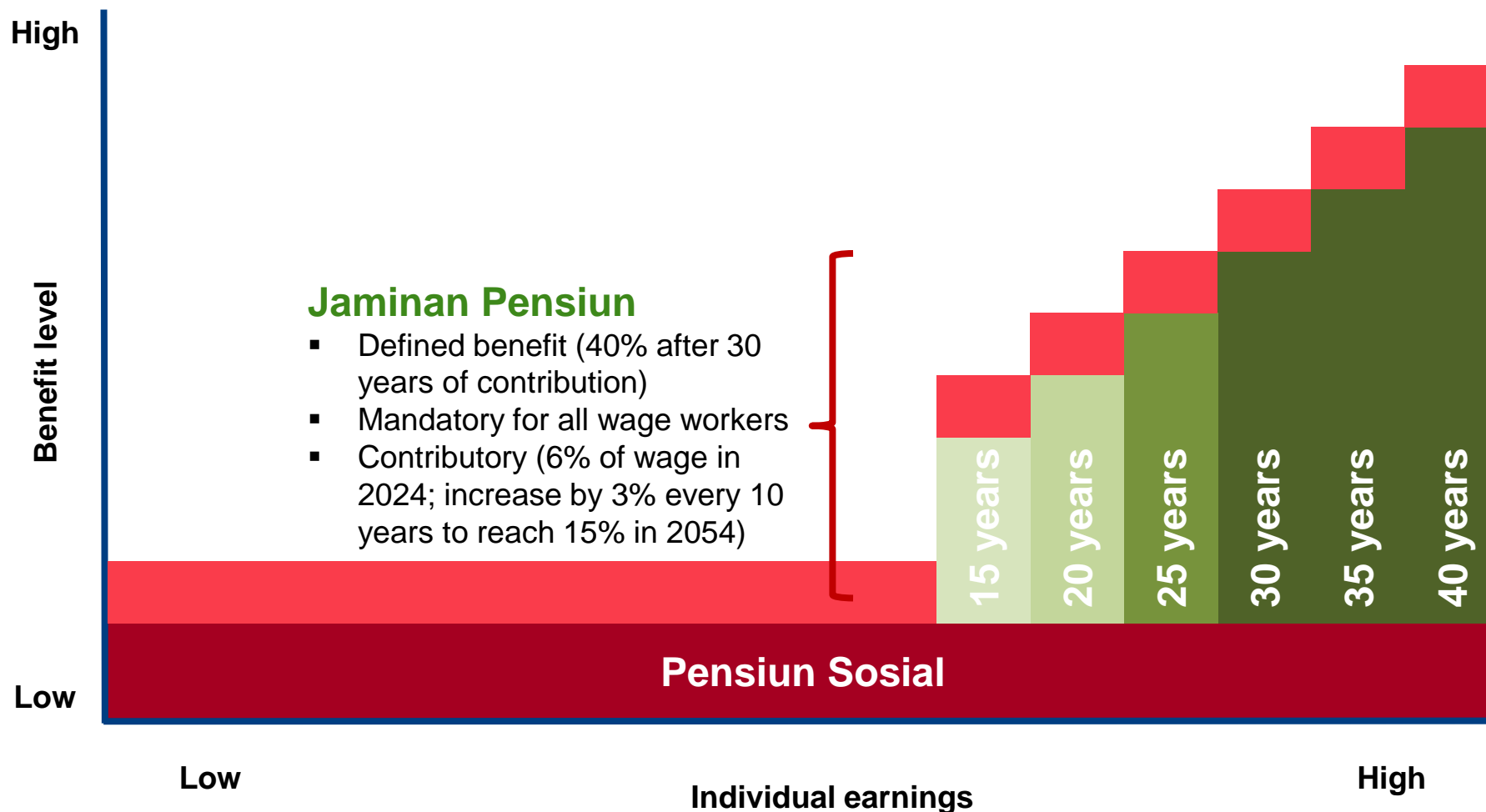
Pension-tested scheme within Jaminan Pensiun (Option 1)



Summary – Finance (Option 1 – compulsory participation)

Year	Beneficiaries	Wage	Non- wage	Others	State
		JP	JP		(Minimum pension)
2025	21 657 376	6.0%	6.0%	n.a.	IDR 149 trillion
2030	26 915 970	6.0%	6.0%	n.a.	IDR 259 trillion
2035	...	9.0%	9.0%	n.a.	...
2040	37 293 637	9.0%	9.0%	n.a.	IDR 647 trillion
2045	...	12.0%	12.0%	n.a.	...
2050	42 958 984	12.0%	12.0%	n.a.	IDR 1,214 trillion

Pensiun Sosial (Option 2)



Impact (initial year)

- Coverage: 6 million (75+)
- State budget: IDR 36 trillion
- Coverage: 20 million (65+)
- State budget: IDR 118 trillion

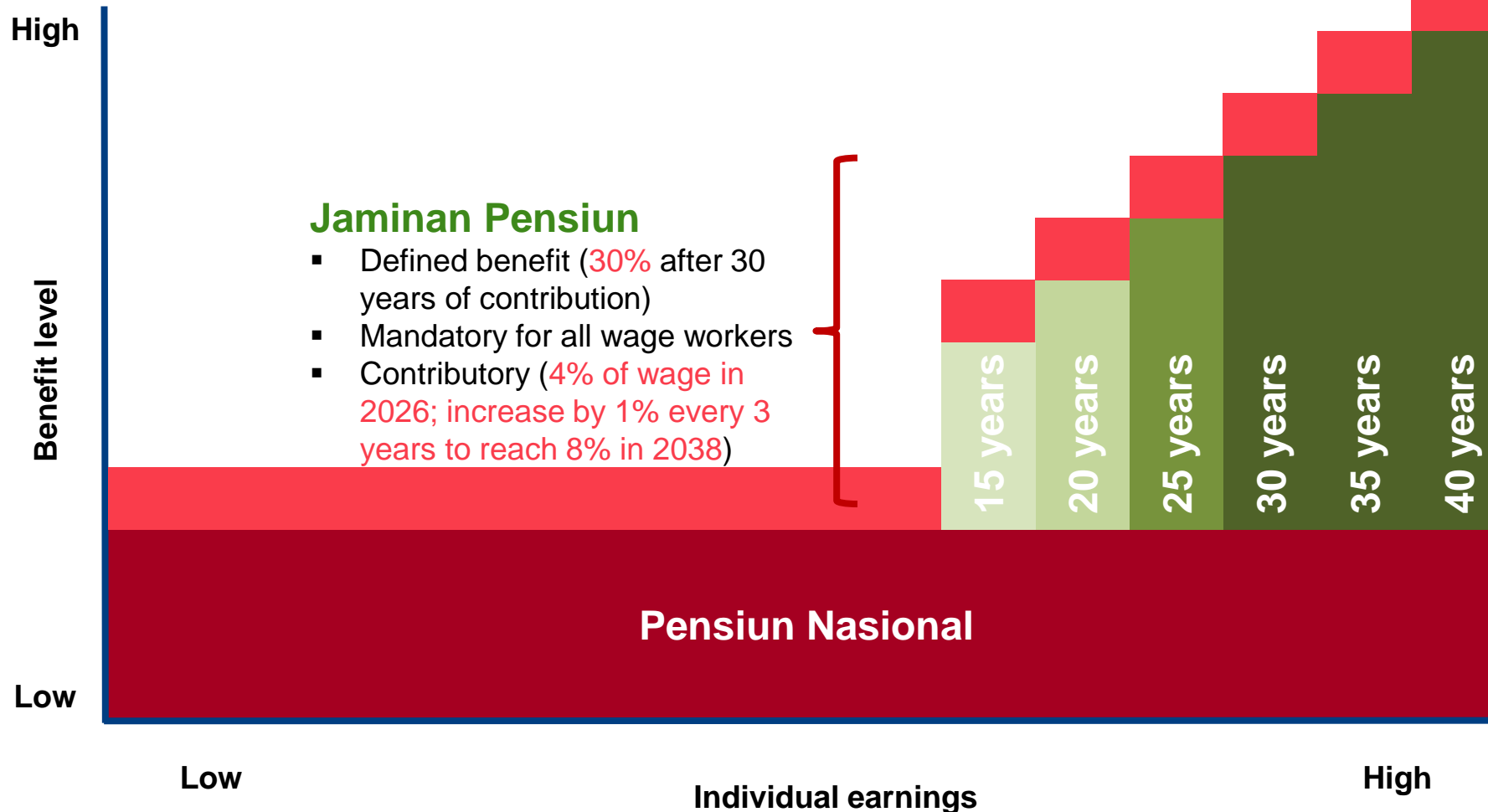
Pensiun Sosial

- Flat benefit for all residents above a certain age (IDR 500,000)
- Funded by the State

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 149 trillion
2030	27 254 558	6.0%	n.a.	n.a.	IDR 262 trillion
2035	...	9.0%	n.a.	n.a.	...
2040	40 116 707	9.0%	n.a.	n.a.	IDR 696 trillion
2045	...	12.0%	n.a.	n.a.	...
2050	52 308 269	12.0%	n.a.	n.a.	IDR 1,478 trillion

Pensiun Nasional (Option 3)



Summary – Finance (Option 3 – compulsory participation)

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

▶ **THANK YOU**

This note has been prepared by Ippei Tsuruga. Please contact Ippei Tsuruga (tsuruga@ilo.org) for more details.

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