

## West Java Consultation on Pension reforms

Ippei Tsuruga

Social Protection Programme Manager, International Labour Organization

Financially supported by:



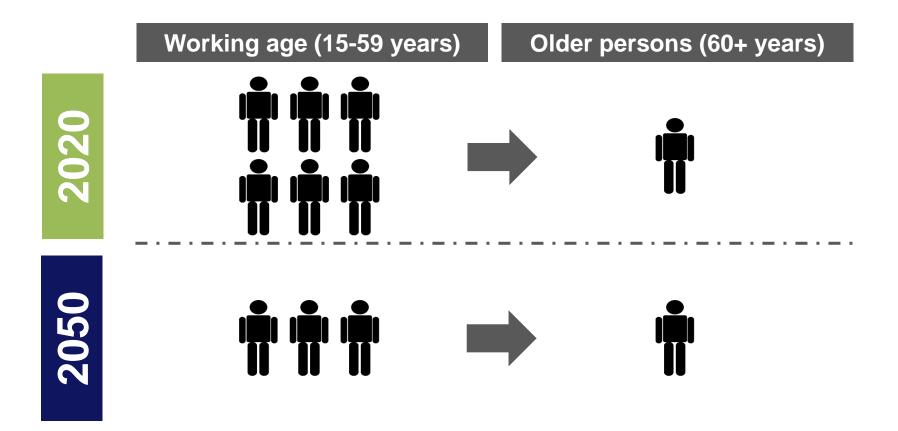
13 June 2023 – Bandung



## 'My children will take care of me'



Ageing



3



## **Demographic projection**

	Age group					
Year	0–14	15–59	60+		16–59 / 60+	
<u>2020</u>	<u>70 085 467</u>	<u>172 936 172</u>	<u>27 182 278</u>	270 203 917	<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% x 12 months x 30 years = 102.6 million rupiah (+ interest rate)
- JP = 1% replacement rate x 30 years x 5 million rupiah = 1.5 million rupiah / month (until die)
  - = 1.5 million rupiah x 12 months x 30 years = 540 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.

# Sustainability





Adequacy



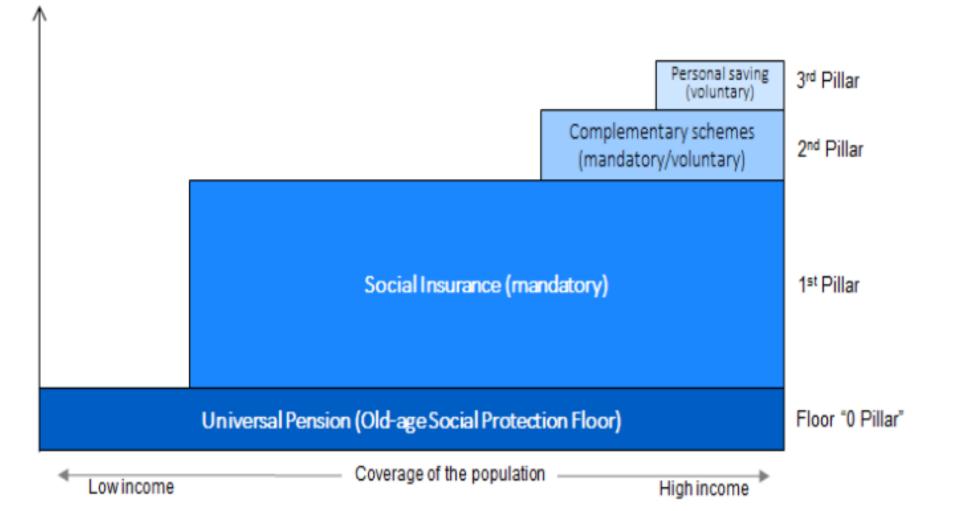
## ILO multi-pillar pension system





## ILO multi-pillar pension system

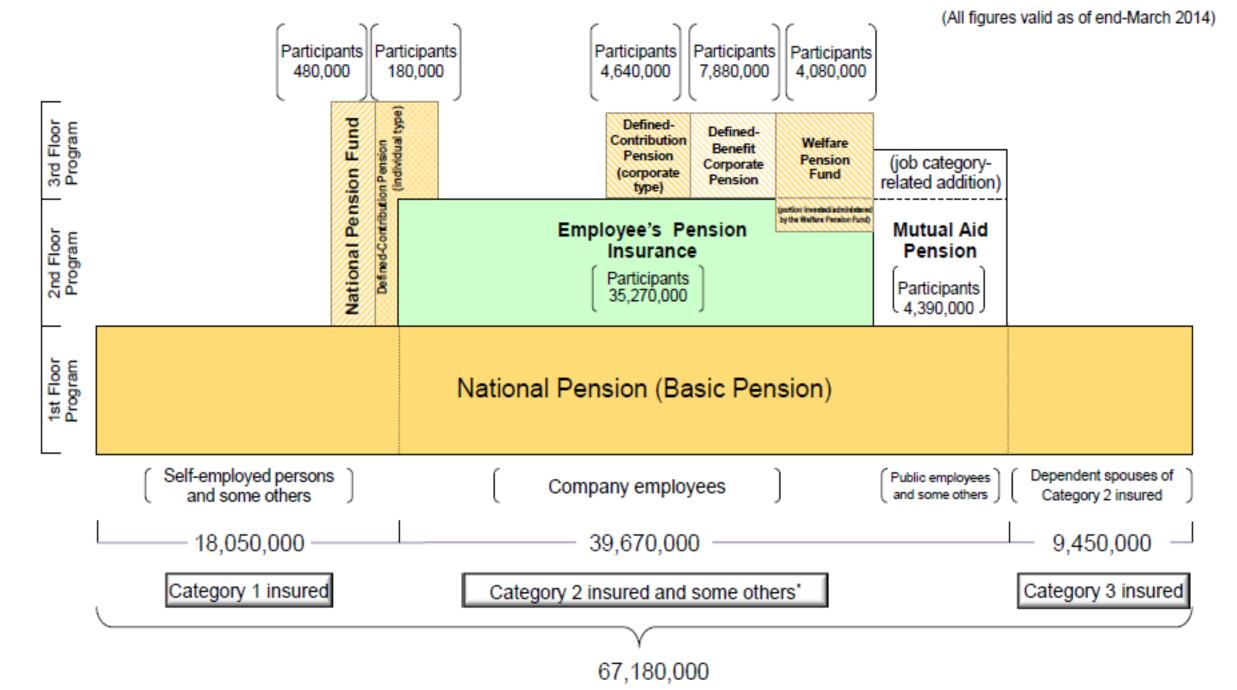
Benefits level











\* "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



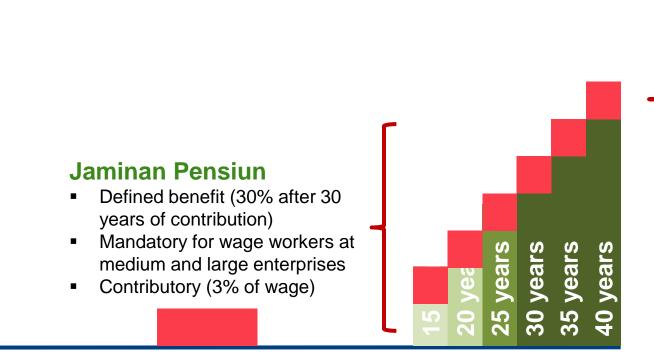
### Pension coverage

	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

High



## Dana PensiunVoluntary corporate pension



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

Low



### Inconsistent retirement age

Year	JP	JHT	Dana Pensiun
2016	56		
2019	57		
2022	58	56	
2025	59		
2028	60		FC
2031	61		56
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 (%)



Source: ILO. 2021. World social protection report 2020–22: Social protection at the crossroads in pursuit of a better future.









## Non-contributory pension

		Social pension		
		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.		







SSO article 40 - Social	All workers not insured by	nternational abour Organization Contributory voluntary	Contributions: B100 per month, with an additional B50 per month paid by the			(Private manage	:d)	Employees (schemes are voluntary and set up by employers)	Contributory, voluntary, defined- contribution	Contributions: Employees and employee each contribute between 2% and 15% of worker's salary. Benefits: Lump sum of accumulated contributions with investment return, less charges. Various tax privileges are provid for both contributions and benefits. Minimum retirement age: 55 years (tho who withdraw sooner do not receive tax privileges).	f the s any ided ose
Security Fund	other mandatory pension schemes	defined- contribution scheme	Government (option 2) or B300 per month with an additional B150 per month paid by the Government (option 3). Contributors can pay up to B1,000 per month (although the government contribution remains a maximum of B150 per month). Benefits: Lump sum based on monthly contribution (individual and government) x months + interest.	SSO article 39 - Social Security	Individuals who were previously	Contributory voluntary	Contril	butions: Flat rate of base salary of B4,80		Formal sector	Govt.
National Savings Fund	All workers not insured by other mandatory	Contributory voluntary defined-	Minimum retirement age: 60 years. Contributions: B50–B13,200 per year. The Government matches contributions up to B600, B960 or B1,200 per year, depending or	Fund	members under SSO article 33	defined-benefit scheme (partially funded)	as SSC	t: Calculated using th article 33 pensions. um retirement age:			GPE
	pension schemes	contribution (funded) scheme	the age of members. Benefits: The pension amount is calculated as the total savings (including interest) divided by 240 (12 months x 20 years). The minimum benefit is B600 per month, which expires when pension savings are depleted. If a pensioner dies before the age of 80, the remaining amount is paid to their heirs. Minimum retirement age: 60 years. Lump sum possible before age 60 if disabled. If leaving scheme before 60, can receive lump sum (only their contributions and interest, not matching contributions.)	SSO article 33 - Social Security Fund	Employees in private enterprises, with some exceptions including seasonal and domestic workers <sup>11</sup>	Contributory mandatory defined-benefit scheme (partially funded)	Contribut employer funds (old allocated Benefit: I 15 years (a lump s years). Th of the ave	tion rate: 7% (3% em , 1% Government) for d age and family benefits). Insured persons must (180 months) to recei- um is provided for tho he pension is calculate erage of the last five y in retirement age: 55	nployee, 3% two benefit fits - 0.65% contribute for ve a pension use with fewer ed on the basis ears of salary.	Provident <u>Fun</u> ds	it pension
			State Welfare C	Card		NSF	SSC (A.40			SSO ( <u>A.33</u> & A.39)	Civil servant pension
						Old a	ge allow	vance			
				OAA	Thai citizens not receiving civil servant pensions	g (tax-fina	ntributory anced)	Benefits: Bet month, depen	s: None. ween B600 and E ding on the age o nsion age: 60 yea	of the recipient.	



## 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.









**Benefit level** 

### **Means-tested pension**

- Flat benefit (VND540,000)
- Age 60+ & having no family support/no caregiver
- Non-contributory

#### **Social pension**

#### **Social insurance**

- Defined benefit (F:AR 3% till 15 & 3% thereafter; M:(45%+2%\*(CY-15))\*BS)
- AR 3% till 15 & 2% thereafter
- Mandatory for wage workers
- Contributory (EE:8%; ER:14%)





## Non-contributory pension

		Pension-tested	Means-tested
Qualifying	conditions	Age 80+	Age 60+, having no family support/no caregiver
Benefit	Local currency	270,000 (IDR 170k)	540,000 (IDR 340k)
amount	unt % 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.







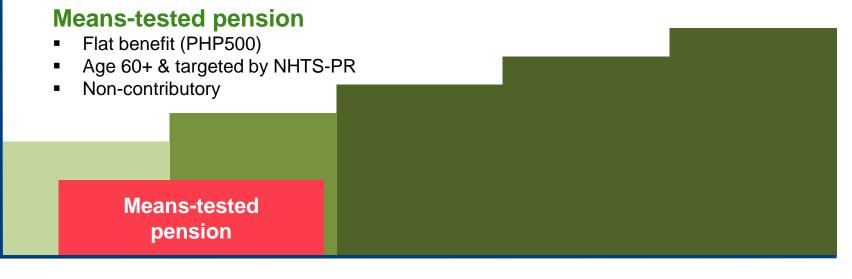


#### Social security system

- Defined benefit (Highest:
  - 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



High



## 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



Brunei Viet Nam Thailand Philippines Myanmar Lao PDR Indonesia Cambodia ASEAN World



## 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

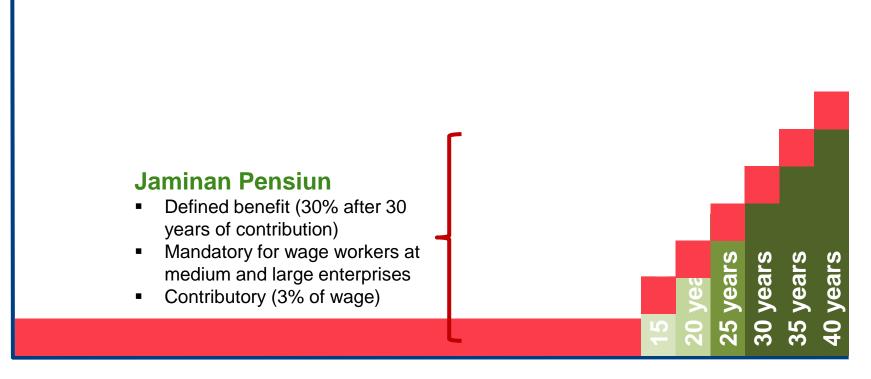








## Current system



#### 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)

High

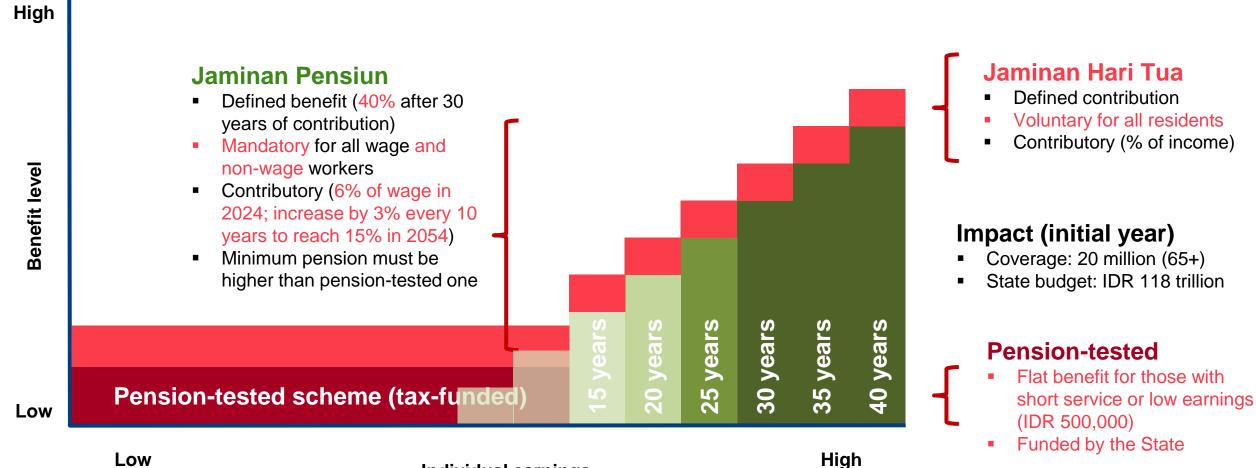
**Benefit level** 

High



## Pension-tested scheme within Jaminan Pensiun (Option 1)

Individual earnings



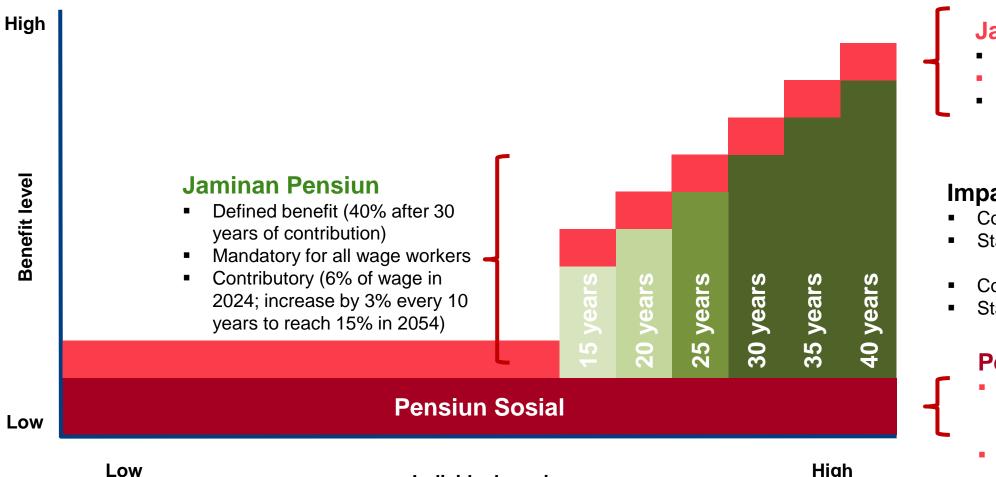


## Summary – Finance (Option 1 – compulsory participation)

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)**



#### Jaminan Hari Tua

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

#### 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

51

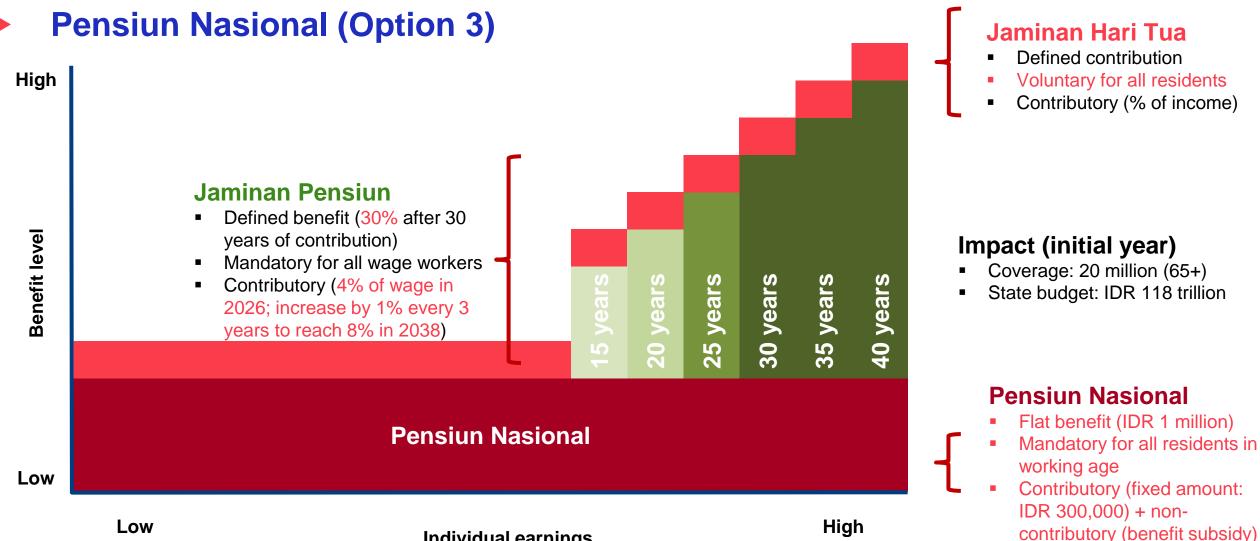
High



## 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







## 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

Financially supported by:



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