

# ► Extension strategy of pension in Indonesia

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## Administration

Finance	Ministry	Institution	Programme
Contribution	Manpower	BPJS-TK	<ul style="list-style-type: none"> <li>Employment injury benefits (JKK)</li> <li>Death benefits (JKm)</li> <li>Old age savings (defined contributions) (JHT)</li> <li>Pension (defined benefit) (JP)</li> <li>Unemployment benefits (JKP)</li> </ul>
Contribution	Health	BPJS-K	<ul style="list-style-type: none"> <li>Health insurance (JKN)</li> <li>Health insurance for the poor (PBI-JKN)</li> </ul>
Tax	Social affairs	-	<ul style="list-style-type: none"> <li>CCT for poor HHs (PKH); top-up for elderly and PwD</li> <li>Non-cash food assistance (BPNT-Sembako)</li> <li>Social assistance for poor elderly (ASLUT)</li> <li>Social assistance for persons with severe disability (ASPDB)</li> </ul>
Tax	Education Religious affairs	-	<ul style="list-style-type: none"> <li>Cash transfer for poor students (PIP)</li> </ul>
Tax	-	Taspen	<ul style="list-style-type: none"> <li>Social security for civil servants</li> </ul>
Tax	-	Asabri	<ul style="list-style-type: none"> <li>Social security for police and armed forces</li> </ul>

## Coverage of major social assistance programmes

Programme	Purpose	Benefit	Budget (IDR billion)	Number of beneficiaries
PKH	Poverty reduction, strengthened human capital	IDR 315,000/month/HH (average)	34,300	10 million families
PIP	Lower costs of attending school	IDR 100,000/month/ HH (average)	11,200	20 million students
BPNT-Sembako	Boost food security and improve nutrition	IDR 150,000/month/ HH for rice, eggs and others (nominal)	20,800	15.6 million households
PBI-JKN	Preventing health shocks	Health service fee waiver (nominal)	26,700	96.8 million individuals

## Legal coverage of BPJS-TK programmes

Scheme		Wage worker			Non-wage worker
		Large/Medium	Small	Micro	
Death Benefits	JKm	Mandatory			
Employment injury	JKK	Mandatory			
Employment insurance	JKP	Mandatory		Voluntary	Not eligible
Old-age saving	JHT	Mandatory	Mandatory	Voluntary	
Pension	JP		Voluntary		Not eligible

## Contribution rates of social insurance programmes (wage workers)

Scheme		% of insurable earnings			
		Employer	Employee	Government	Total
Death Benefits	JKm	0.3	-	-	0.3
Employment injury	JKK	0.24 – 1.74*	-	-	0.24 – 1.74*
Employment insurance	JKP	0.24	-	0.22	0.46
Old-age saving	JHT	3.7	2.0	-	5.7
Pension	JP	2.0	1.0	-	3.0
Health insurance	JKN	4.0	1.0	-	5.0
Total	-	10.48 – 11.98	4.0	0.22	14.7 – 16.2

## Contribution rates of social insurance programmes (non-wage workers)

Scheme		Amount of contribution
Death Benefits	JKm	IDR 6,800
Employment injury	JKK	IDR 10,000 – IDR 207,000 (depending on income)
Employment insurance	JKP	Not eligible
Old-age saving	JHT	2% of monthly income
Pension	JP	Not eligible
Health insurance	JKN	Class III room: IDR 42,000 Class II room: IDR 100,000 Class I room: IDR 150,000

## Contribution rates of social insurance programmes (construction workers)

Scheme		Amount of contribution
Death Benefits	JKm	0.21% of project value
Employment injury	JKK	0.21% of project value
Employment insurance	JKP	Not eligible
Old-age saving	JHT	Not eligible
Pension	JP	Not eligible

## Active workers of BPJS-TK by benefit package, December 2018

Benefit package	Legal coverage	Active members		
		Wage	Non-wage	Total
JKm, JKK, JHT, JP	Mandatory for wage workers of medium and large enterprises	11.8 million	-	11.8 million
JKm, JKK, JHT	Mandatory for wage workers of small, medium and large enterprises; Voluntary for wage workers of micro enterprises and non-wage workers	15.3 million	0.21 million	15.5 million
JKm, JKK	Mandatory for wage and non-wage workers	28.1 million	2.4 million	30.5 million

# ▶ Old-age benefits Parametric reforms

## 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 (JP)

### Legal coverage

- President regulation instructed to extend JP to all employees by 2029.

### 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.

## ▶ Old-age pension (JP)

### 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.

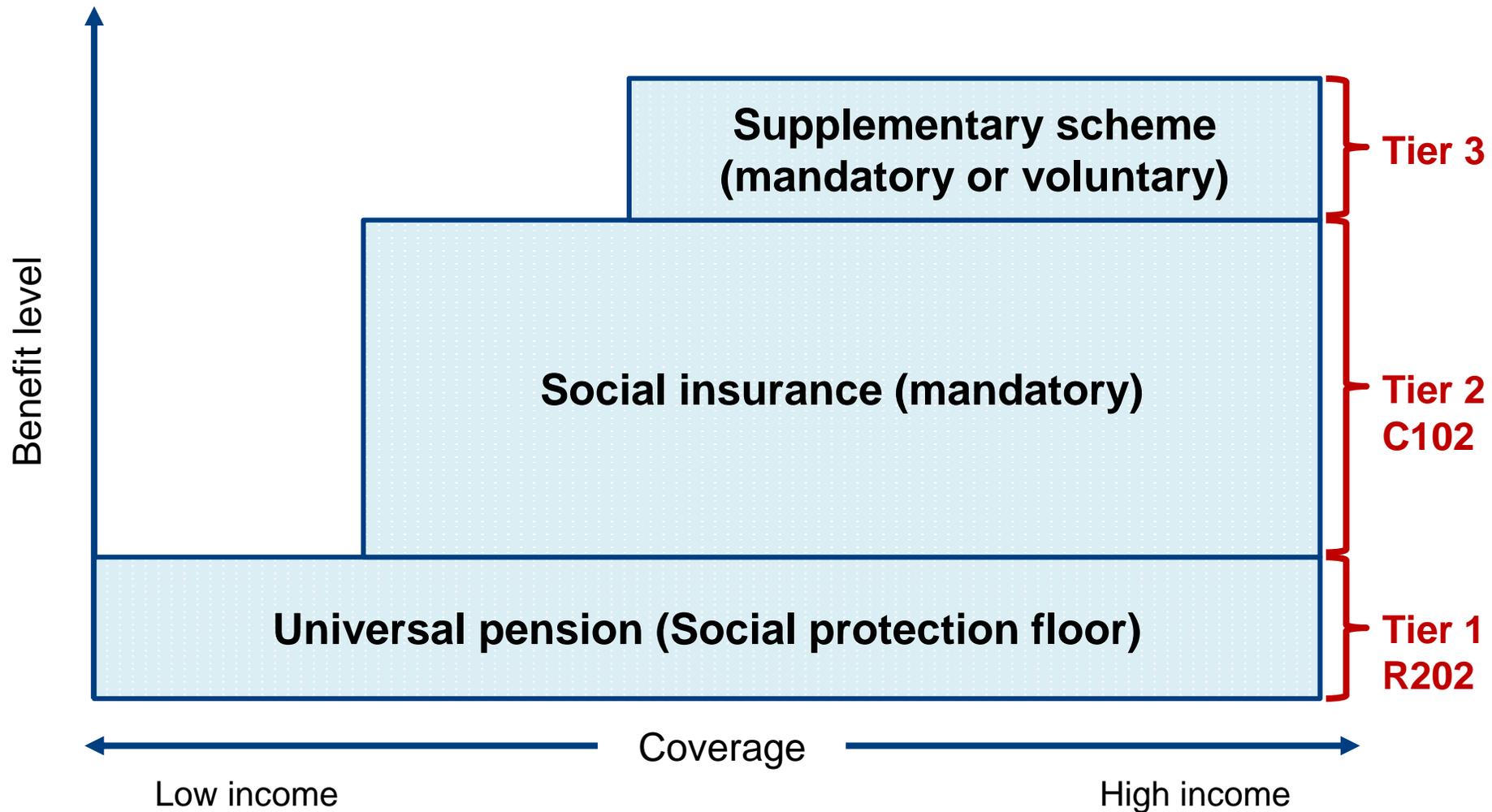
## ▶ Old-age pension (JP)

### Qualifying condition

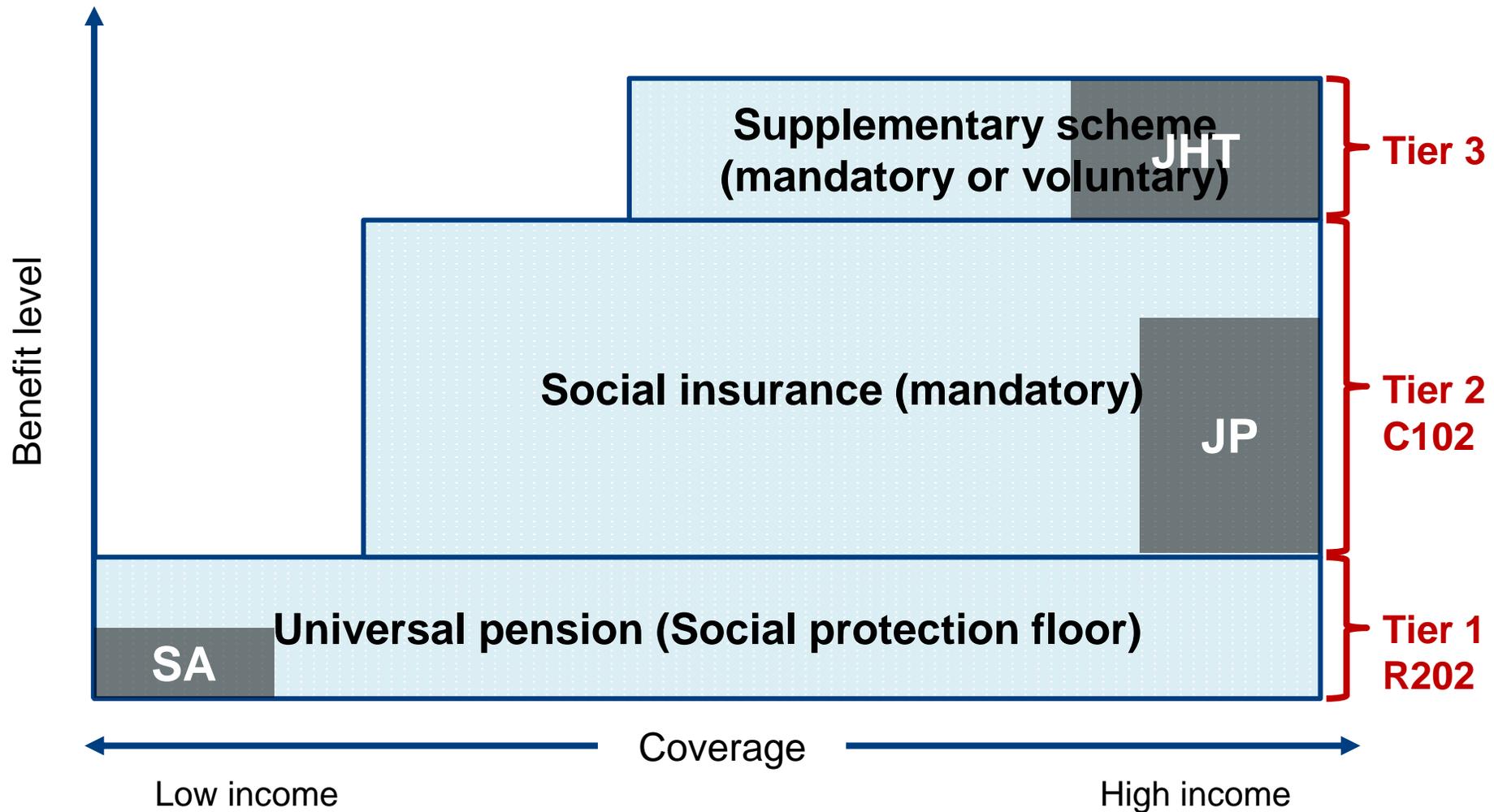
- ILO recommended to grant additional years of service to individuals close to retirement so that they can qualify for pension even with shorter contribution records than 15 years.
- What about lowering qualifying conditions with prorated benefits?

# ▶ Old-age benefits Systemic reforms

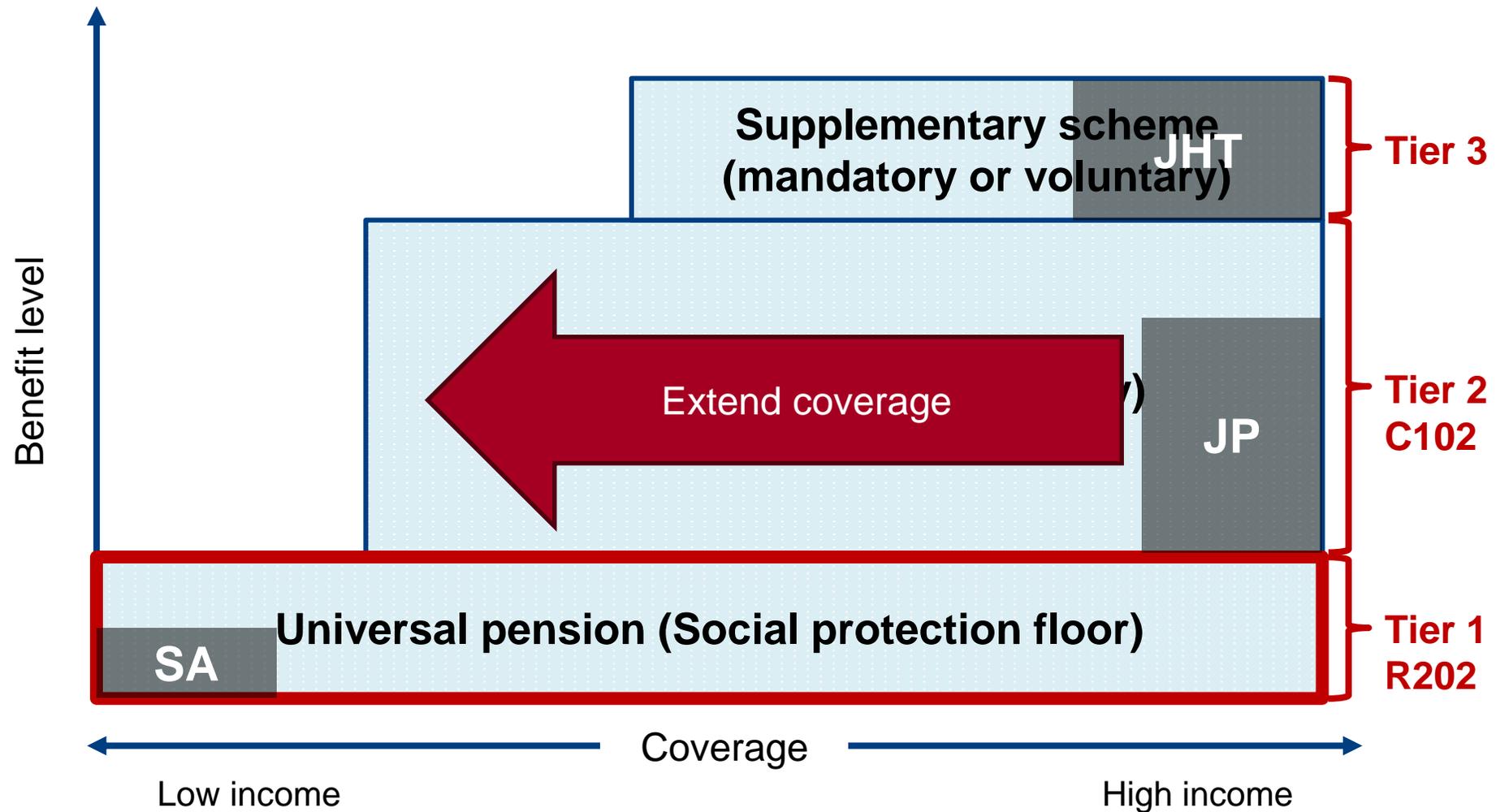
## Multi-tier model for old-age pension



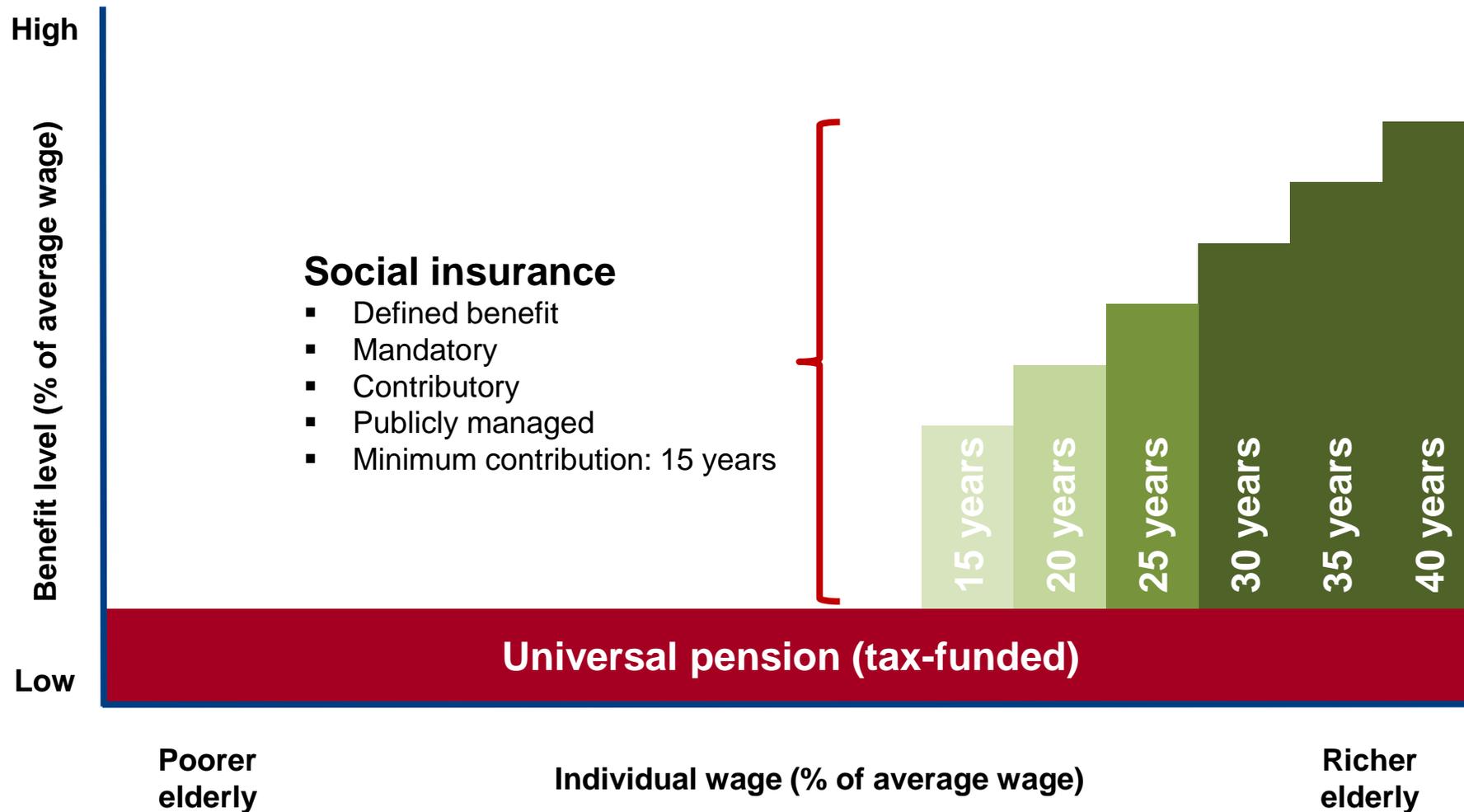
## Multi-tier model for old-age pension



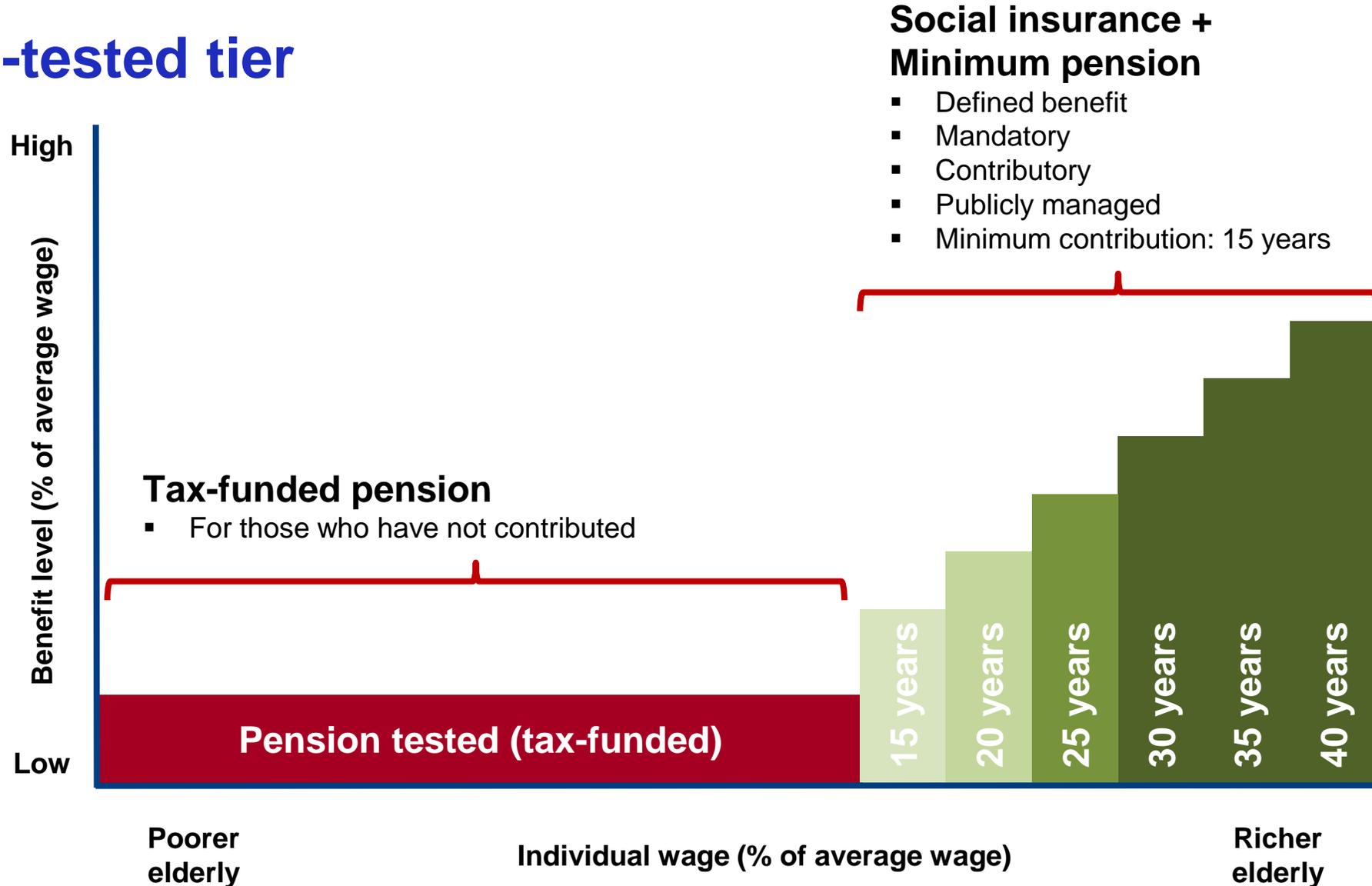
## Multi-tier model for old-age pension



## Universal pension 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 by 2029.

### 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.



**THANK YOU**