

# Possibility for pension reforms in Indonesia

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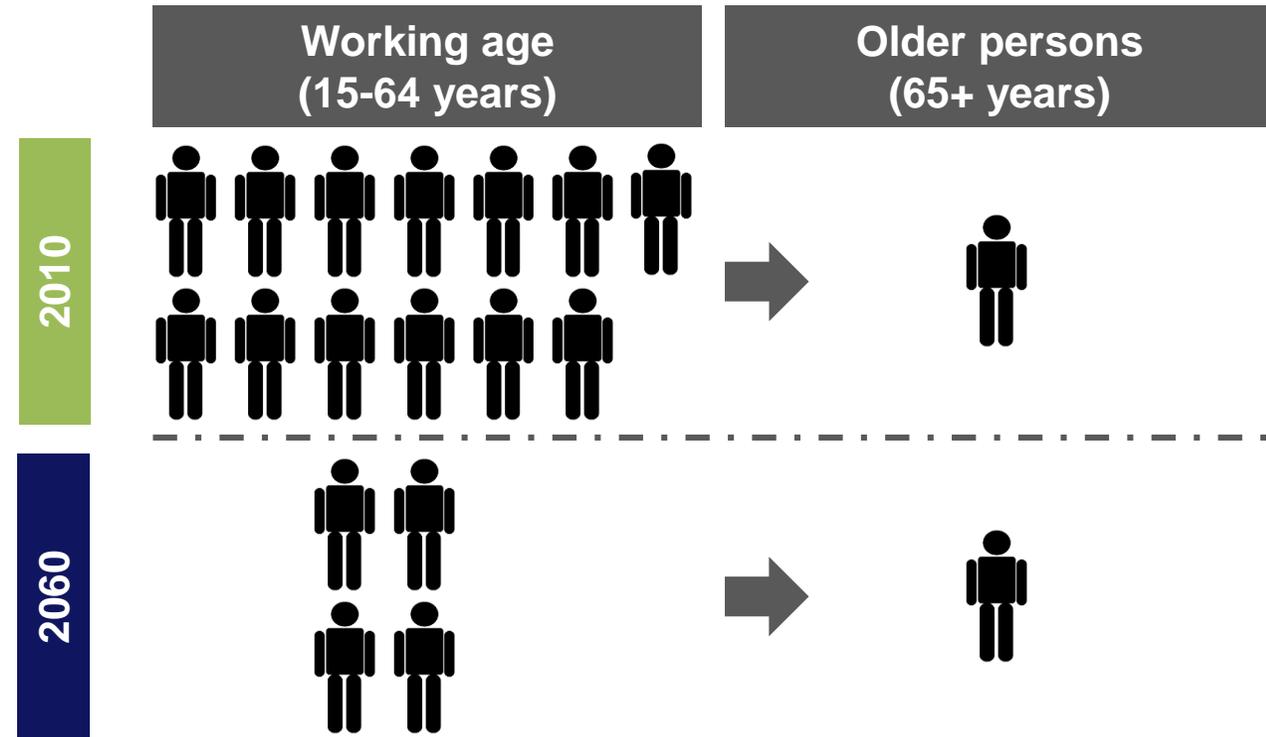




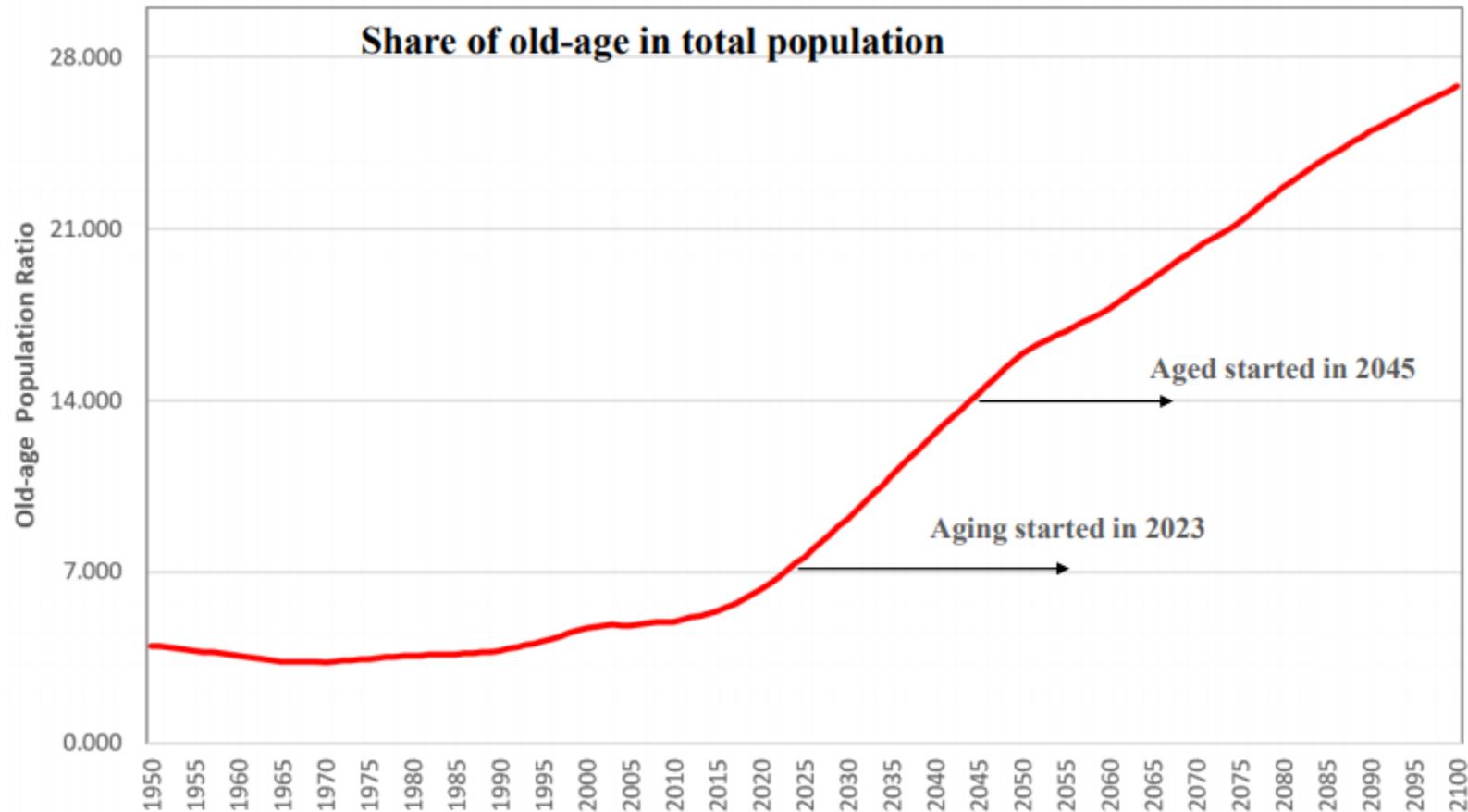
# Context

## Indonesia will be rapidly ageing

- In 2010, there were 13 working age populations against one older person.
- In 2060, there will be only 4 working age populations against one older person.
- 4 people will have to take care of one older person.

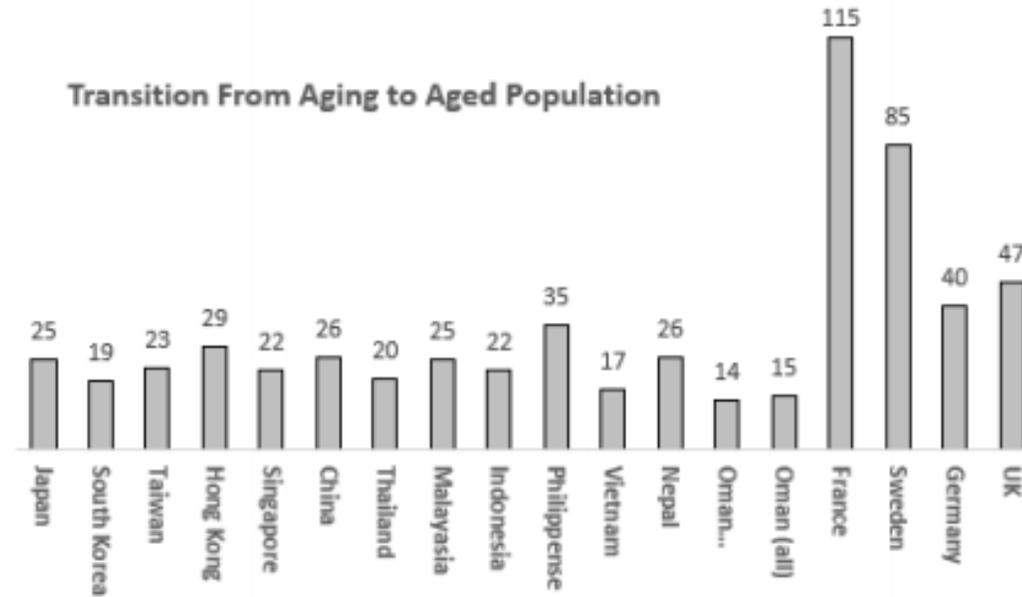


## From aging to aged population

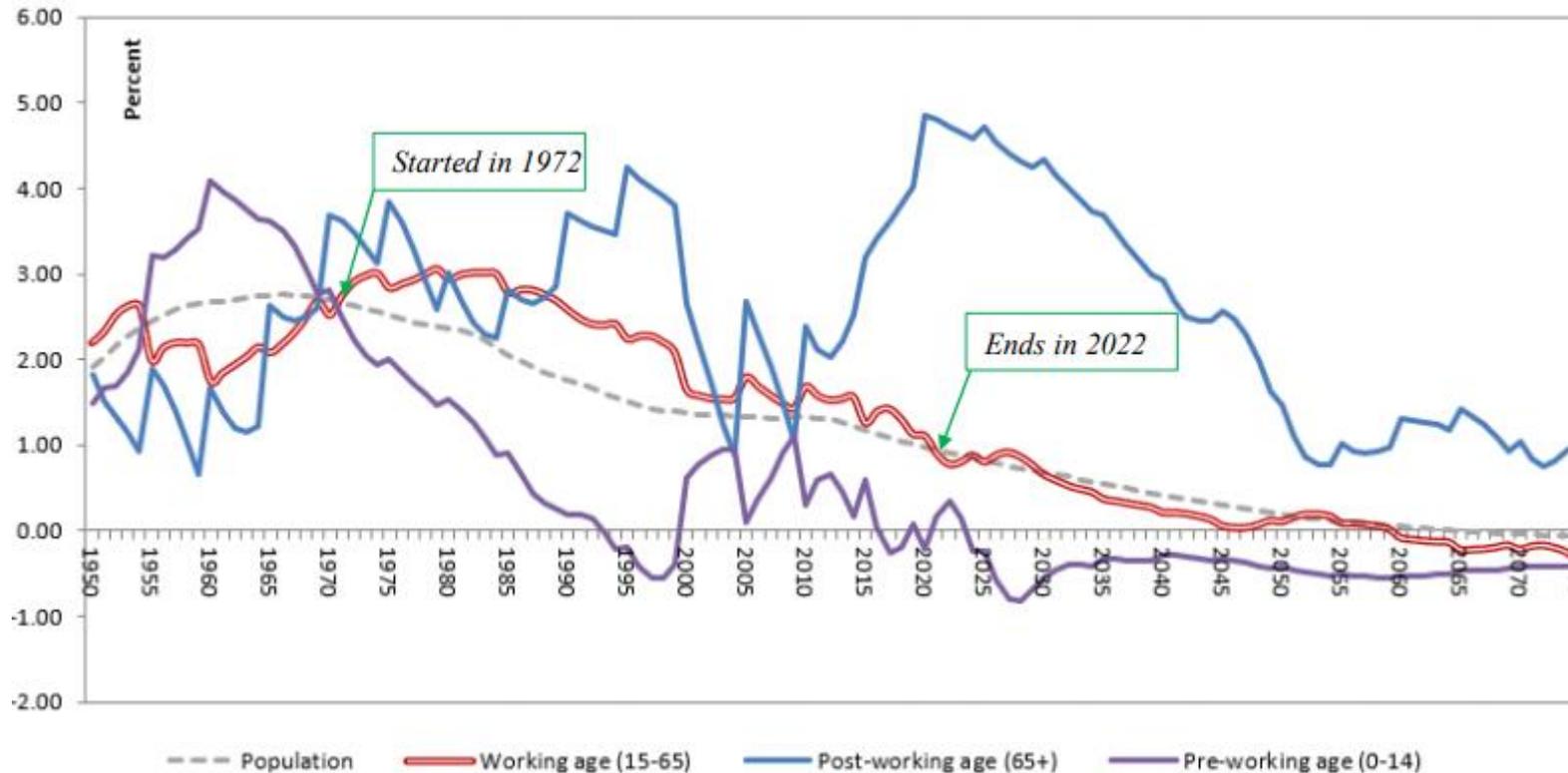


## Transition from aging to aged population

	Year		Length
	7%	14%	
Japan	1970	1995	25
South Korea	1999	2018	19
Taiwan	1994	2017	23
Hong Kong	1984	2013	29
Singapore	1999	2021	22
China	2001	2027	26
Thailand	2002	2022	20
Malayasia	2020	2045	25
Indonesia	2023	2045	22
Philippense	2035	2070	35
Vietnam	2016	2033	17
Nepal	2028	2054	26

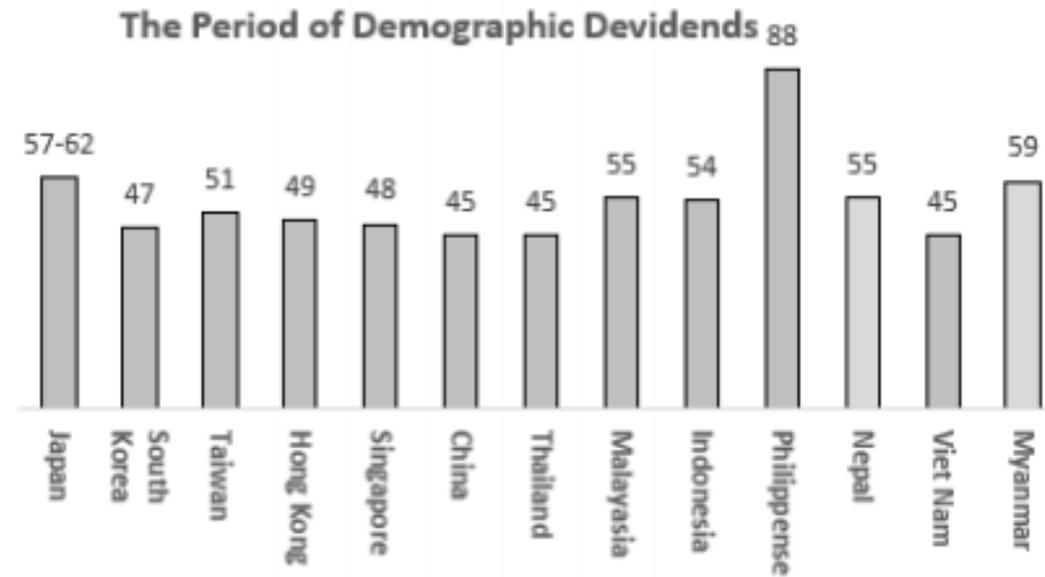


## Demographic window of opportunity



## Demographic window of opportunity

	Year		Length
	Start	End	
Japan	1930-35	1992	60
South Korea	1966	2013	47
Taiwan	1963	2014	51
Hong Kong	1961	2010	49
Singapore	1964	2012	48
China	1965	2010	45
Thailand	1968	2013	45
Malayasia	1965	2020	55
Indonesia	1971	2025	54
Philippense	1964	2052	88
Nepal	1991	2046	55
Viet Nam	1969	2014	45
Myanmar	1968	2027	59



## Administration of old-age benefit schemes

Finance	Ministry	Institution	Programme
Contribution	Manpower	BPJS-TK	<ul style="list-style-type: none"> <li>Old age savings (defined contributions) (JHT)</li> <li>Pension (defined benefit) (JP)</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>Social assistance for poor elderly (ASLUT)</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>

## 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

## 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> )

## Active participants by pension schemes

Benefit package	Reference year	Active members			
		Wage	Non-wage	Total	% of labour force
BPJS TK (JHT, JP)	December 2018	11.8 million	-	11.8 million	15%
BPJS TK (JHT)	December 2018	15.3 million	0.21 million	15.5 million	
ASABRI	December 2016	1.2 million	-	1.2 million	
TASPEN	December 2018	4.1 million	-	4.1 million	
No coverage or temporarily inactive	-	-	-	115.4 million	85%
Labour force	February 2019	-	-	136.2 million	100%

## 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)

# ► Systemic reforms

## Overall challenges (1)

### The current system limits coverage to better off workers

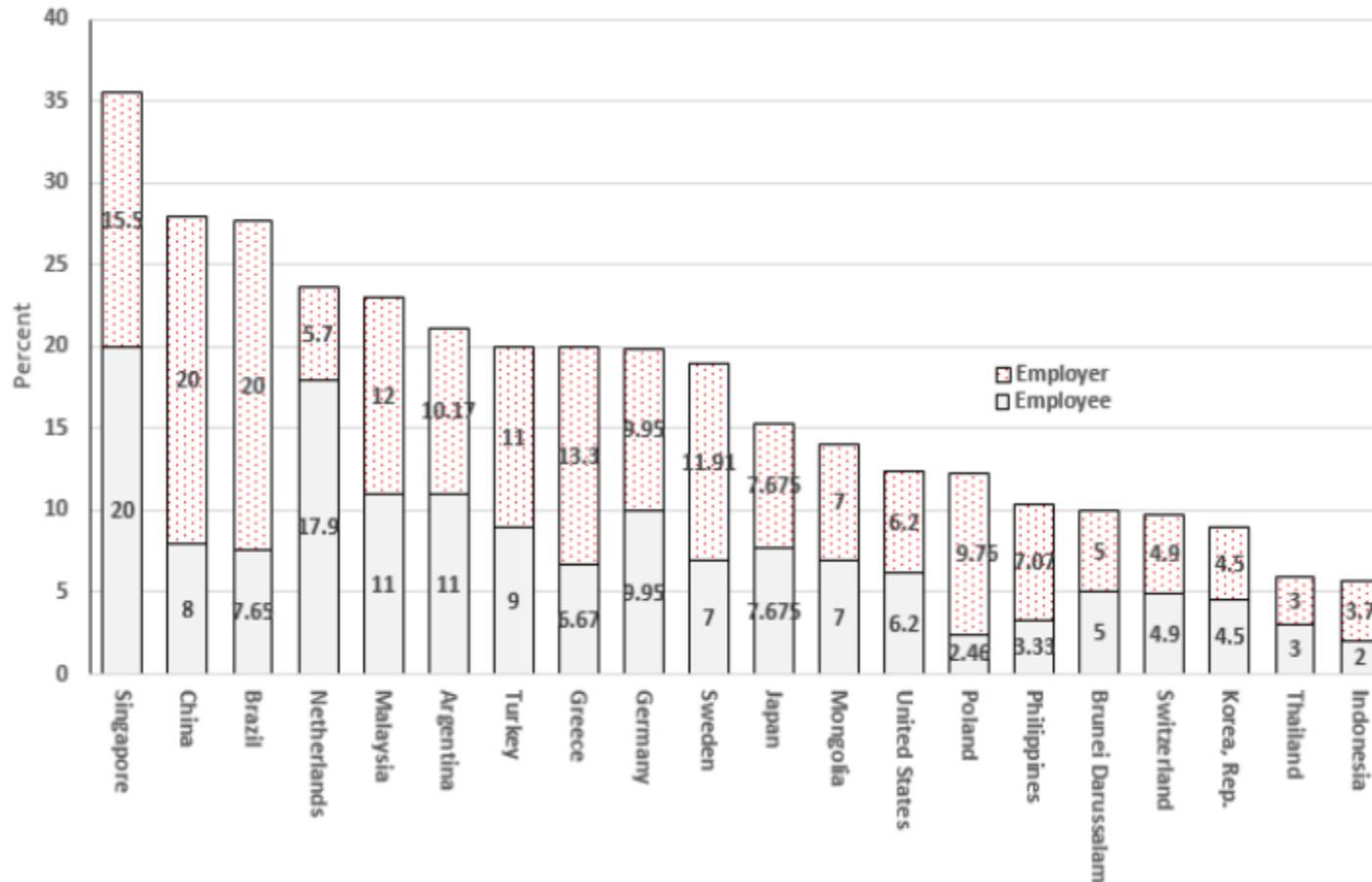
- Limited mandatory coverage by law and regulation
- Voluntary coverage does not help extend coverage (i.e. 0.2 million active participants)
- Workers in micro enterprises or non-wage workers are not allowed to participate in JP

## Overall challenges (2)

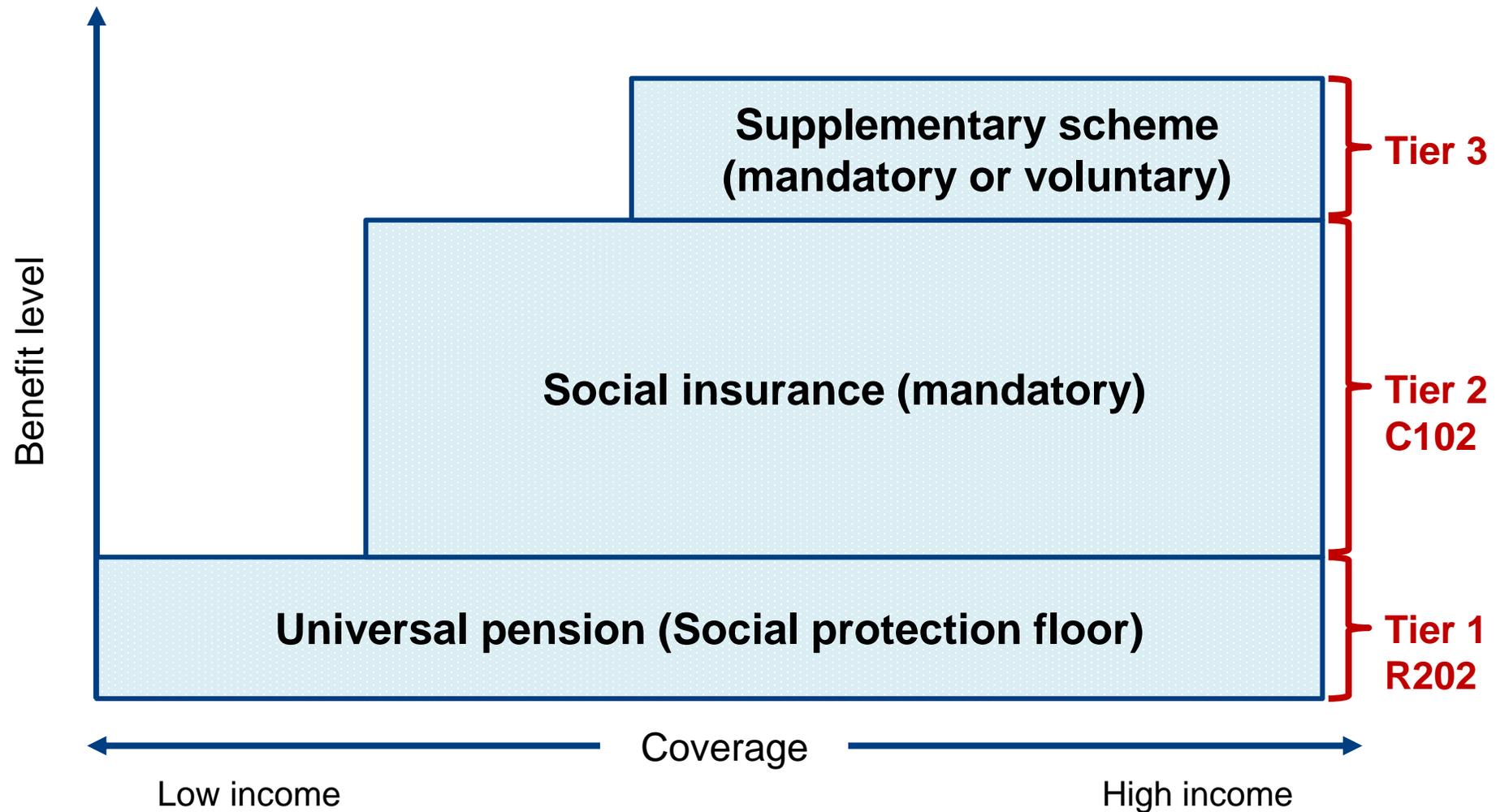
### The current system does not guarantee adequate income by design

- 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, he will exhaust the fund at the age of 63 years old.
- JP: 30% until he dies

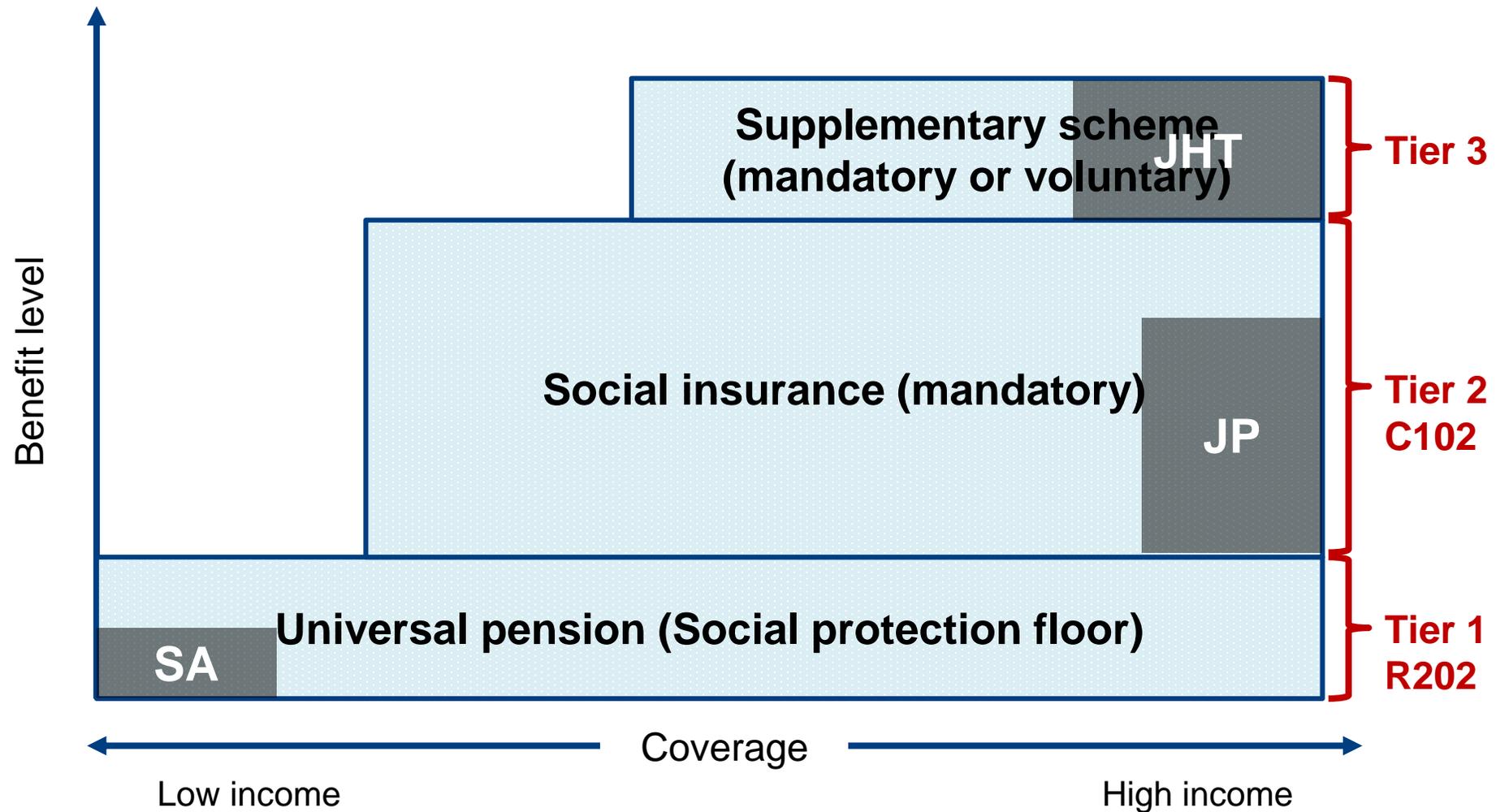
## Contribution rate to old age benefit schemes



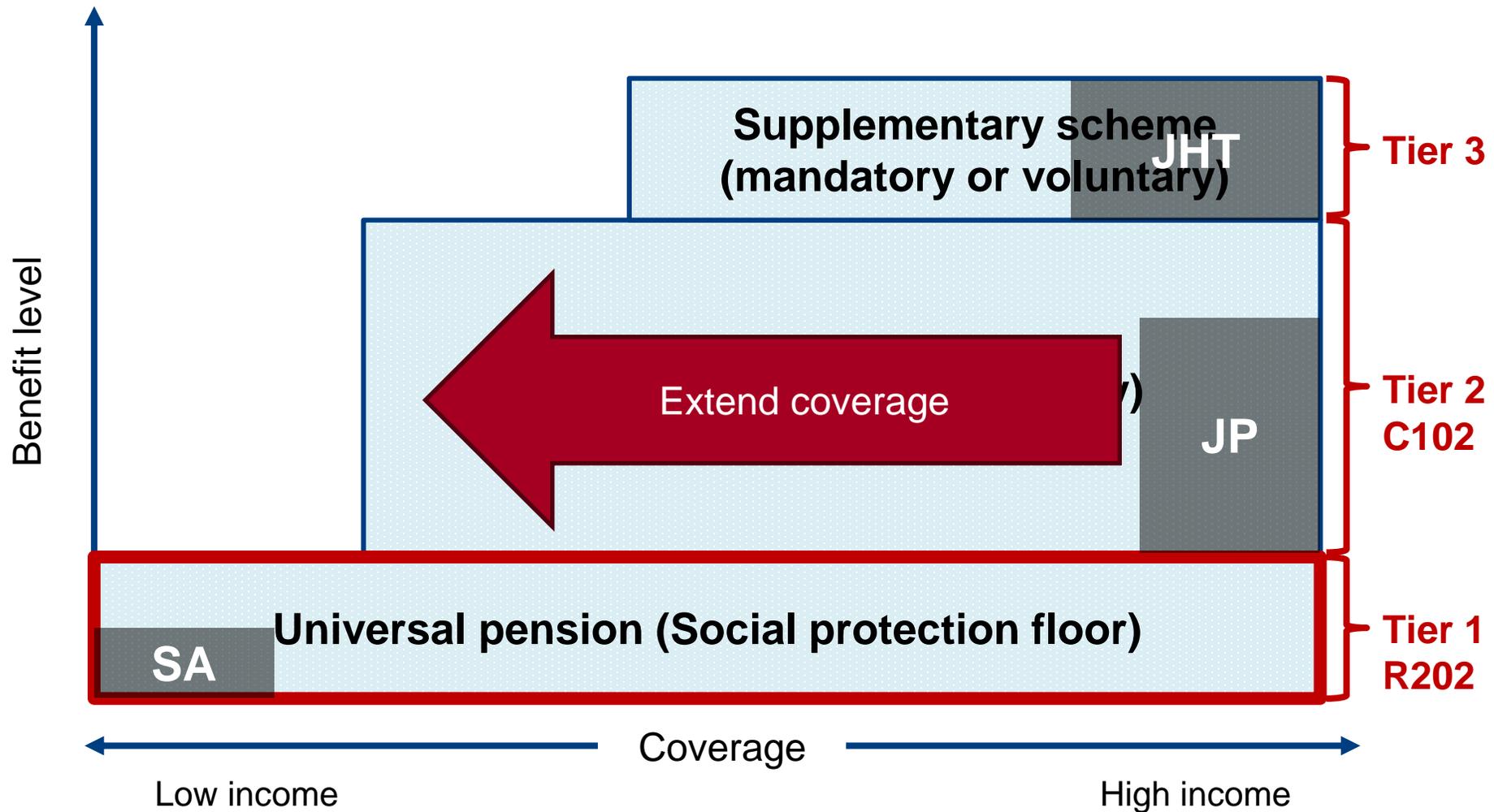
## Multi-tier model for old-age pension



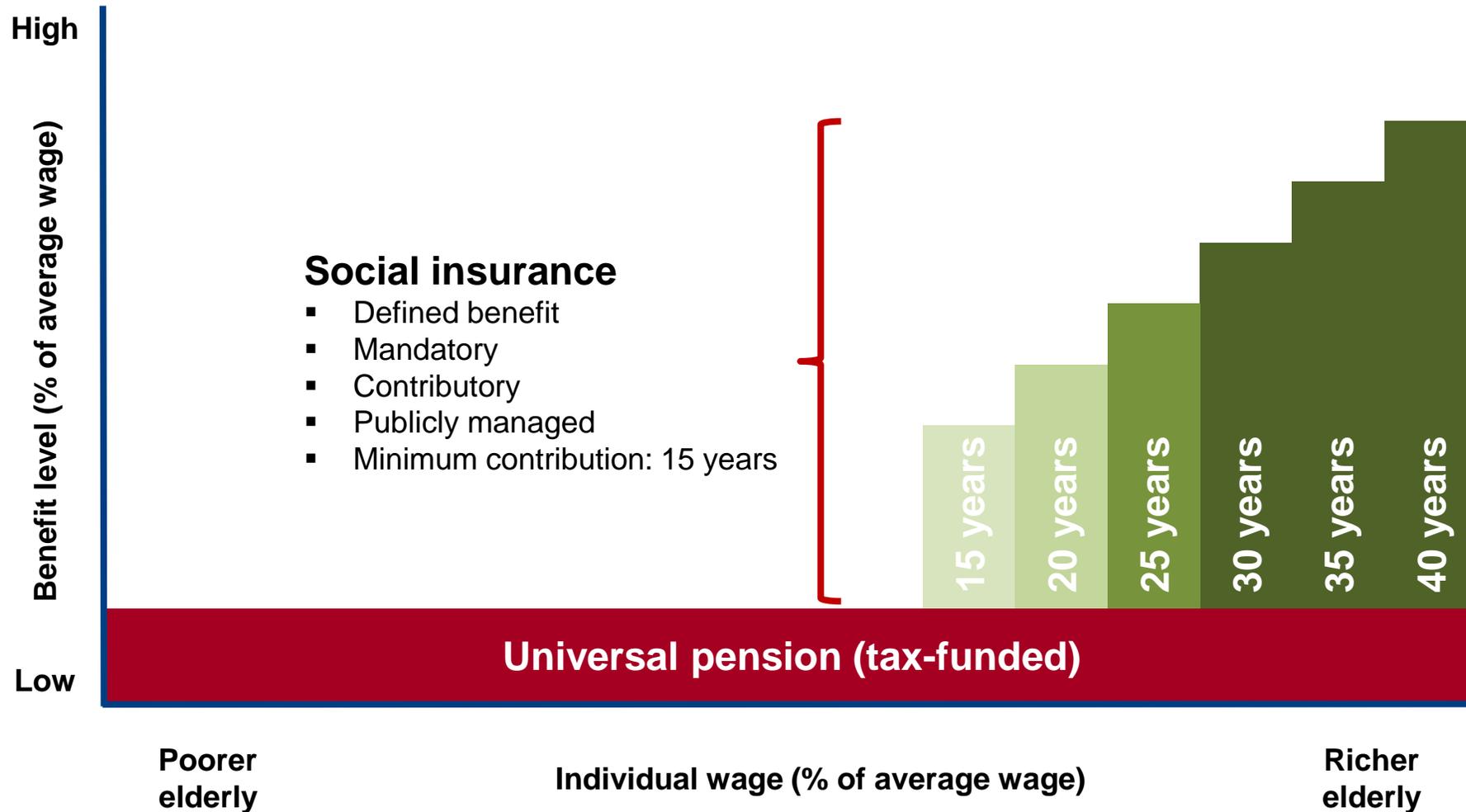
## Multi-tier model for old-age benefit



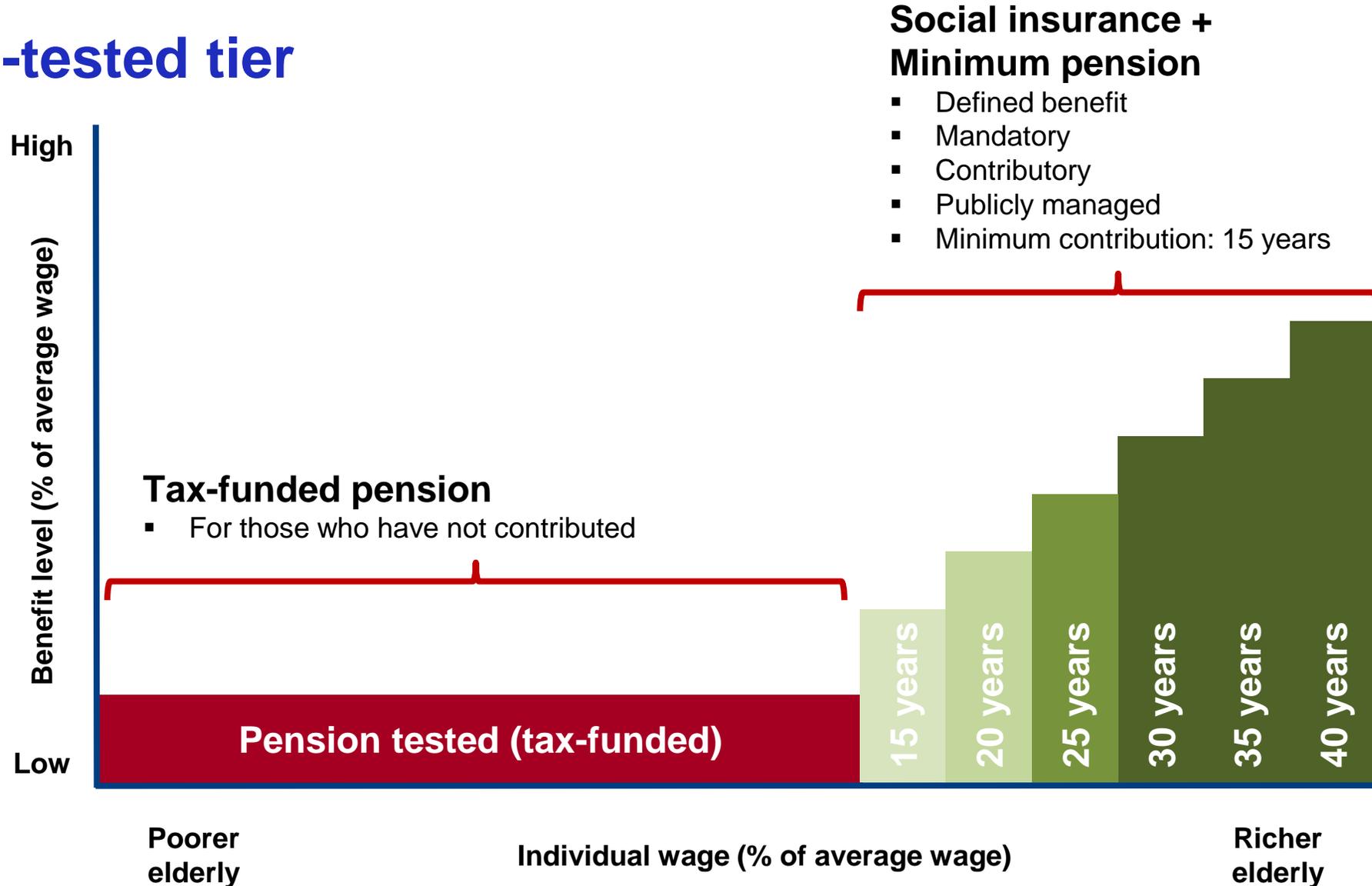
## Multi-tier model for old-age benefit



## 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.

### 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.

# ▶ 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

## ► 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**