

# Rationale for establishing an old-age benefit scheme for all in Indonesia

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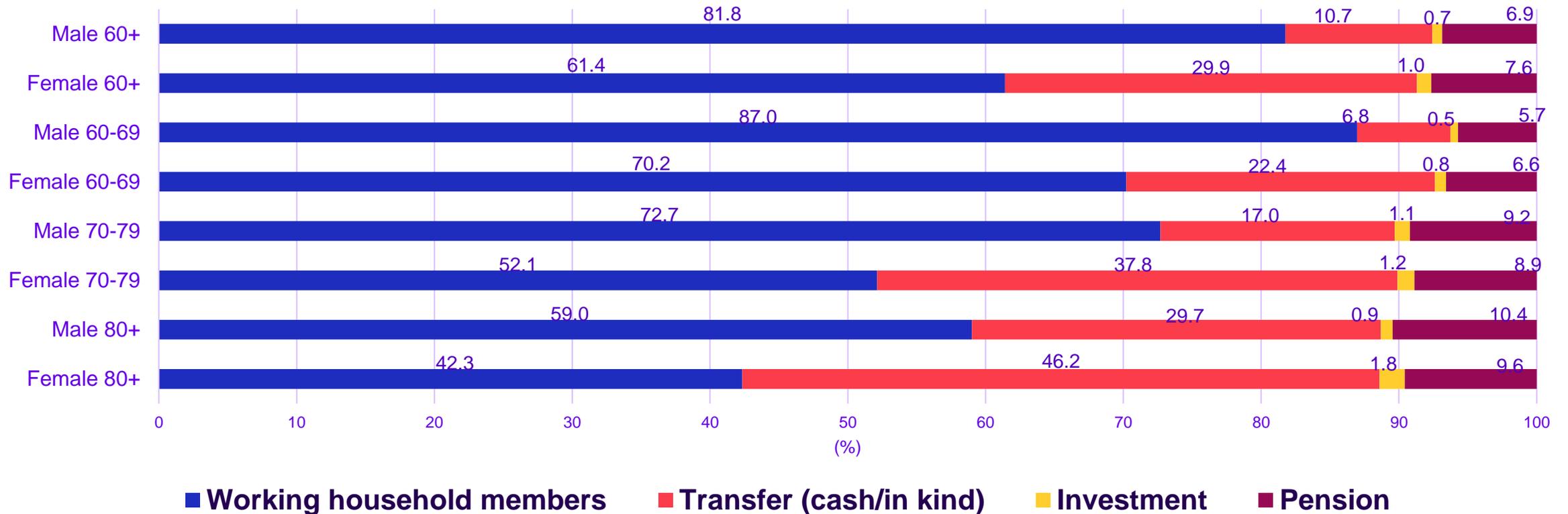


# ▶ Today and future

## ▶ Is “improving” enough?

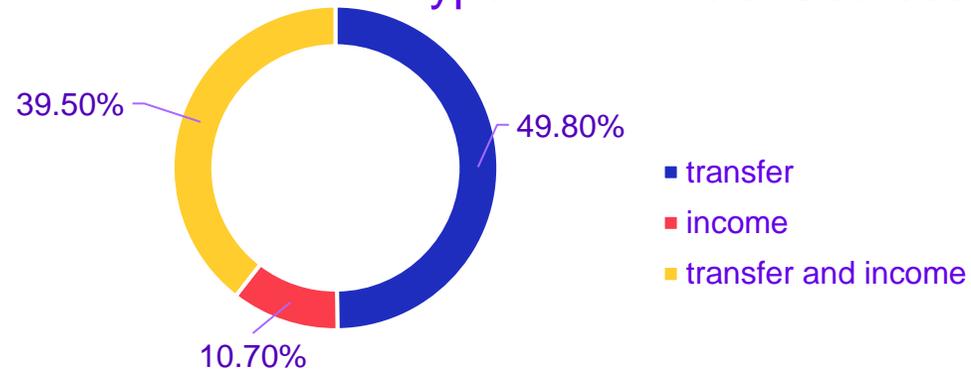
- “Few” older persons?
- “Some” older persons?
- “Most” older persons?
- “All” the older persons?

## Work is the main source of income for older persons

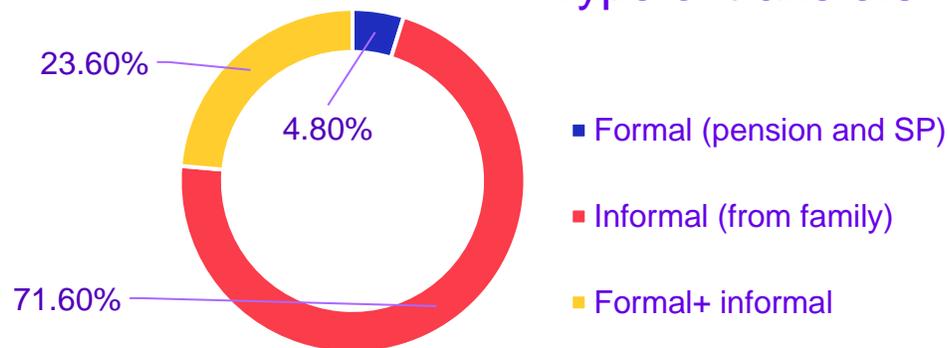


## Most older persons depend on income from family members

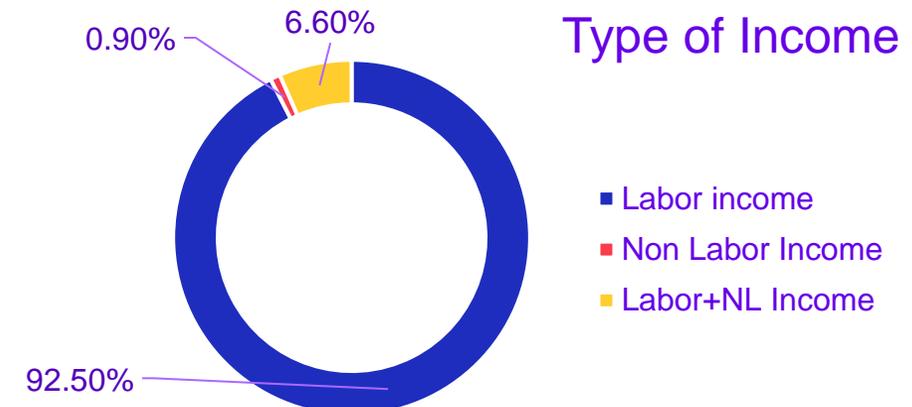
Type of Financial Sources



Type of transfers

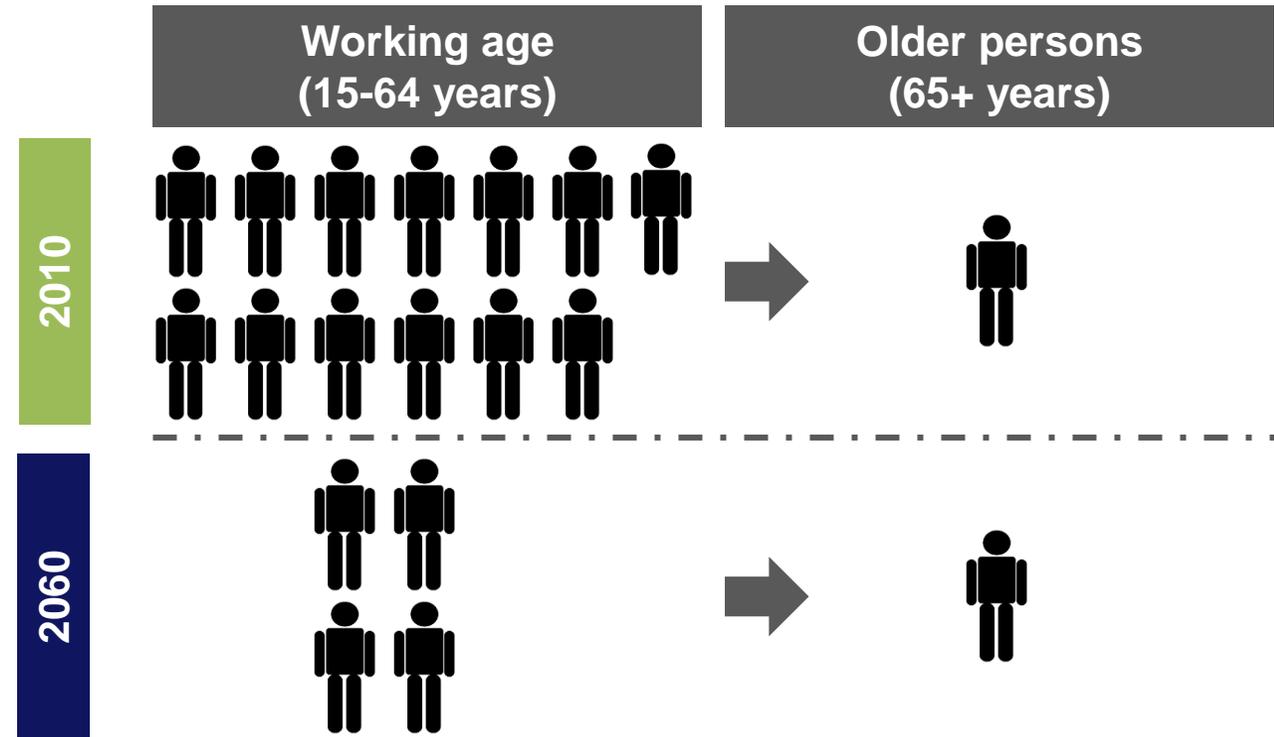


Type of Income



## Children will no longer be able to pay older persons

- 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.



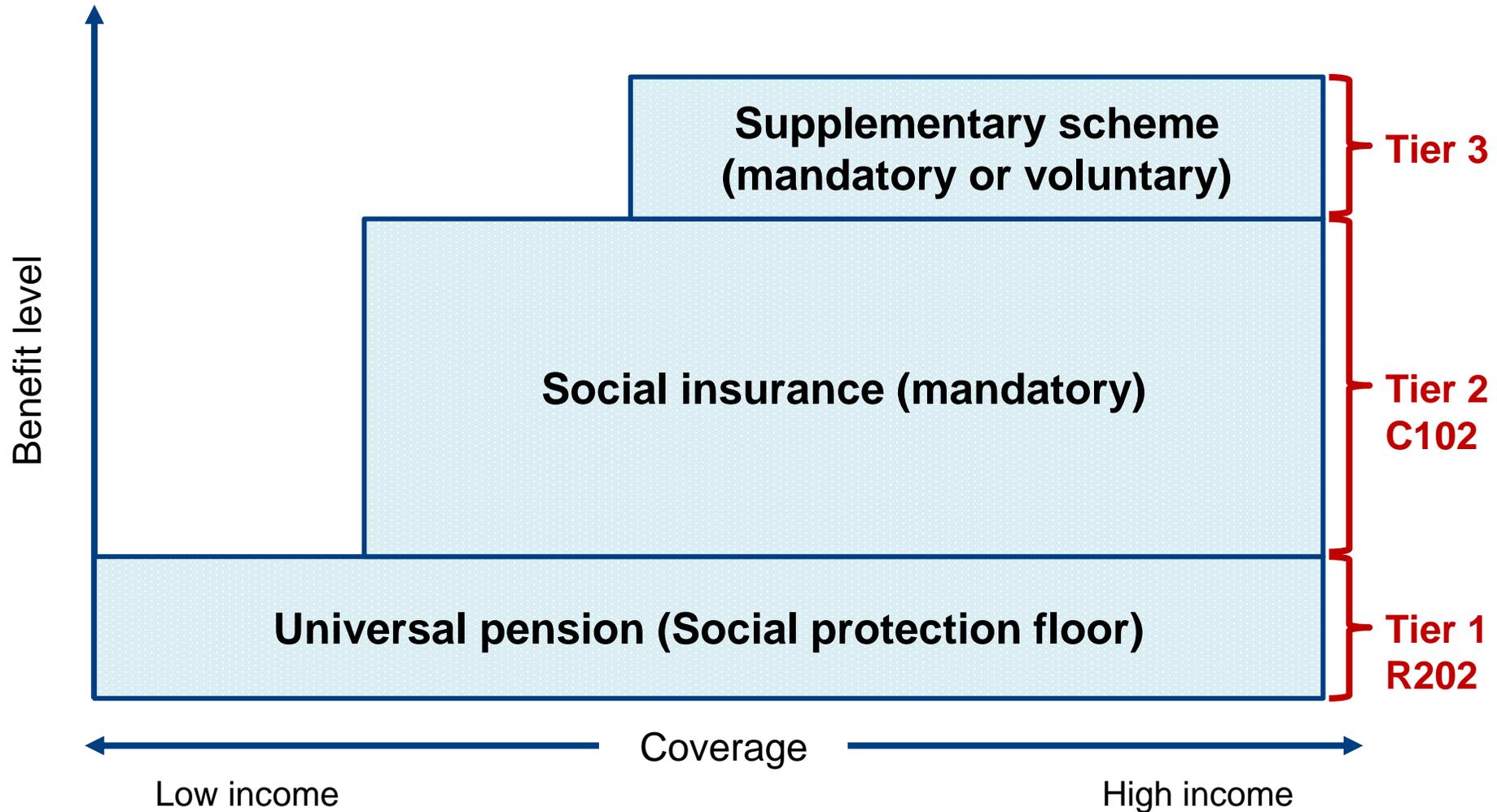
## ► What does Indonesia aim at through the pension reforms?

### Is “improving” enough?

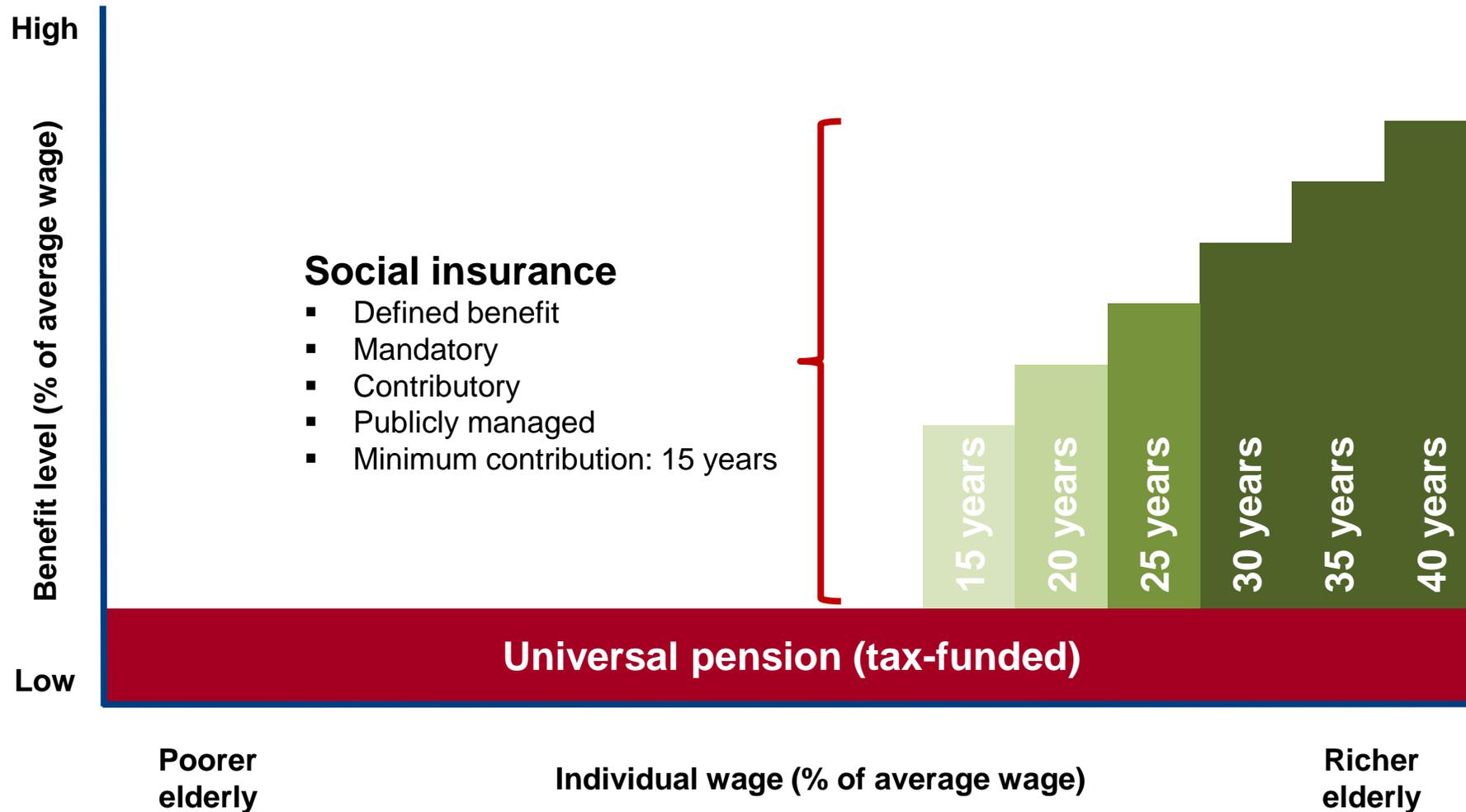
- ~~Cover “few” older persons?~~
- ~~Cover “some” older persons?~~
- ~~Cover “most” older persons?~~
- Cover “all” the older persons, “immediately”?

# ▶ Systemic reforms

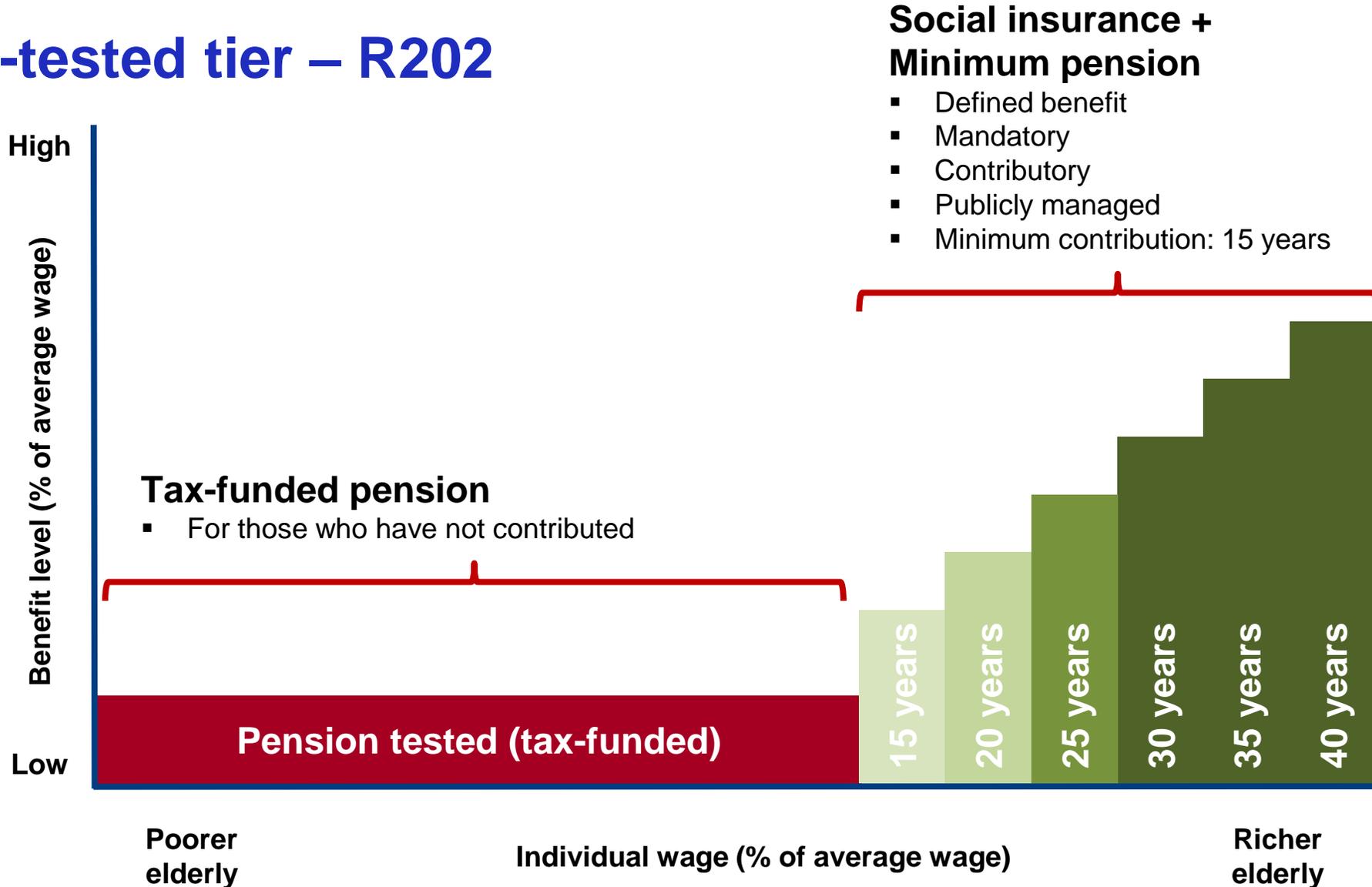
## Multi-tier model for old-age benefit



## ► Universal pension tier – R202



## Pension-tested tier – R202



## Old-age benefit (JP) – C102

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

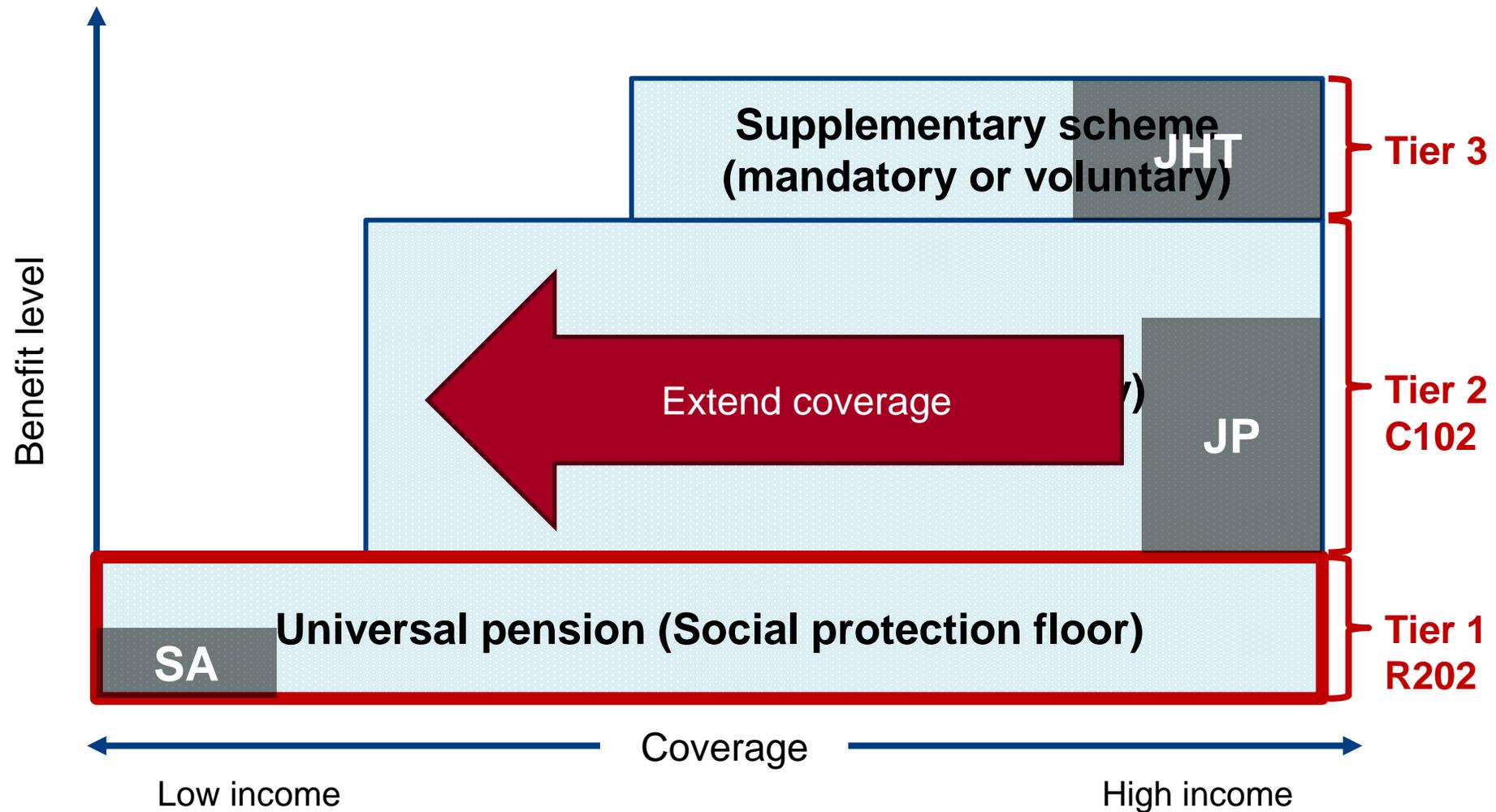
## ▶ Old-age savings (JHT) – C102

### The saving model 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.

# ► Way forward

## Multi-tier model for old-age benefit



## ► 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)

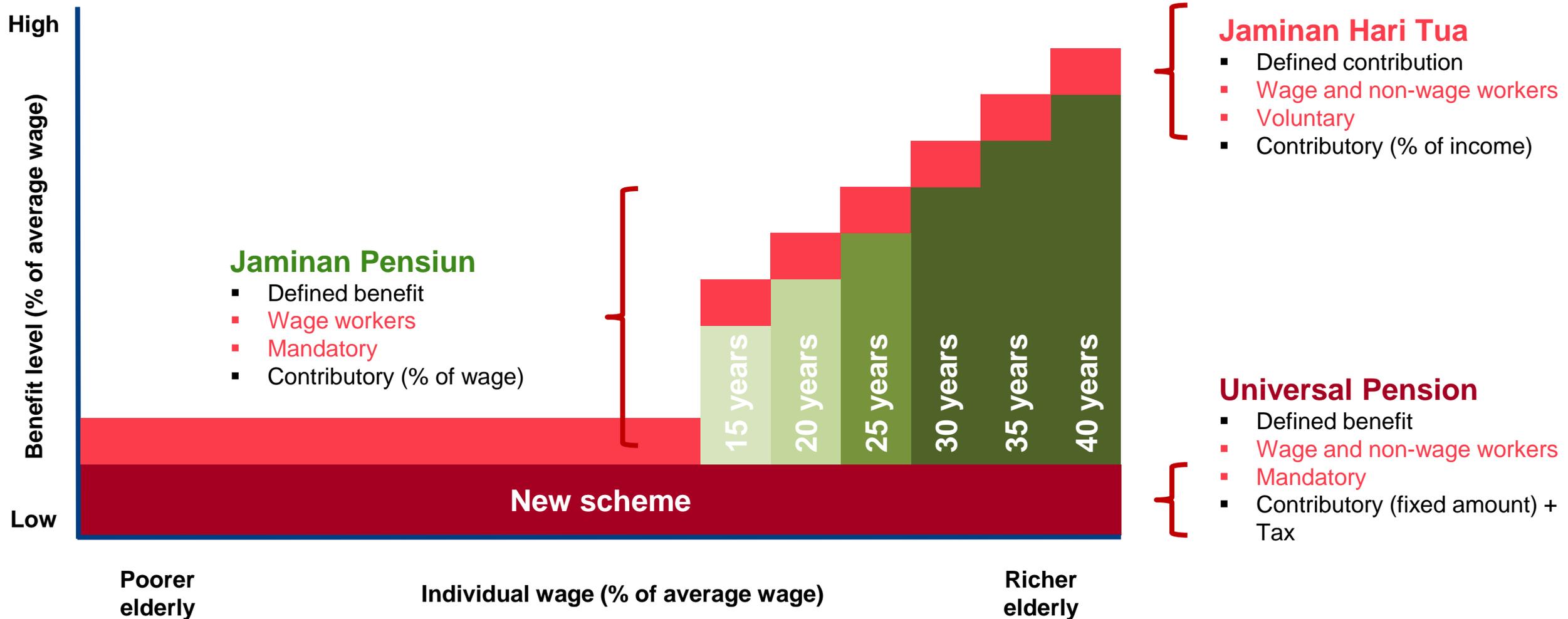
### Mandatory pension for all wage workers

- Jaminan Pension (JP): Employment based pension to be extended to all wage workers.

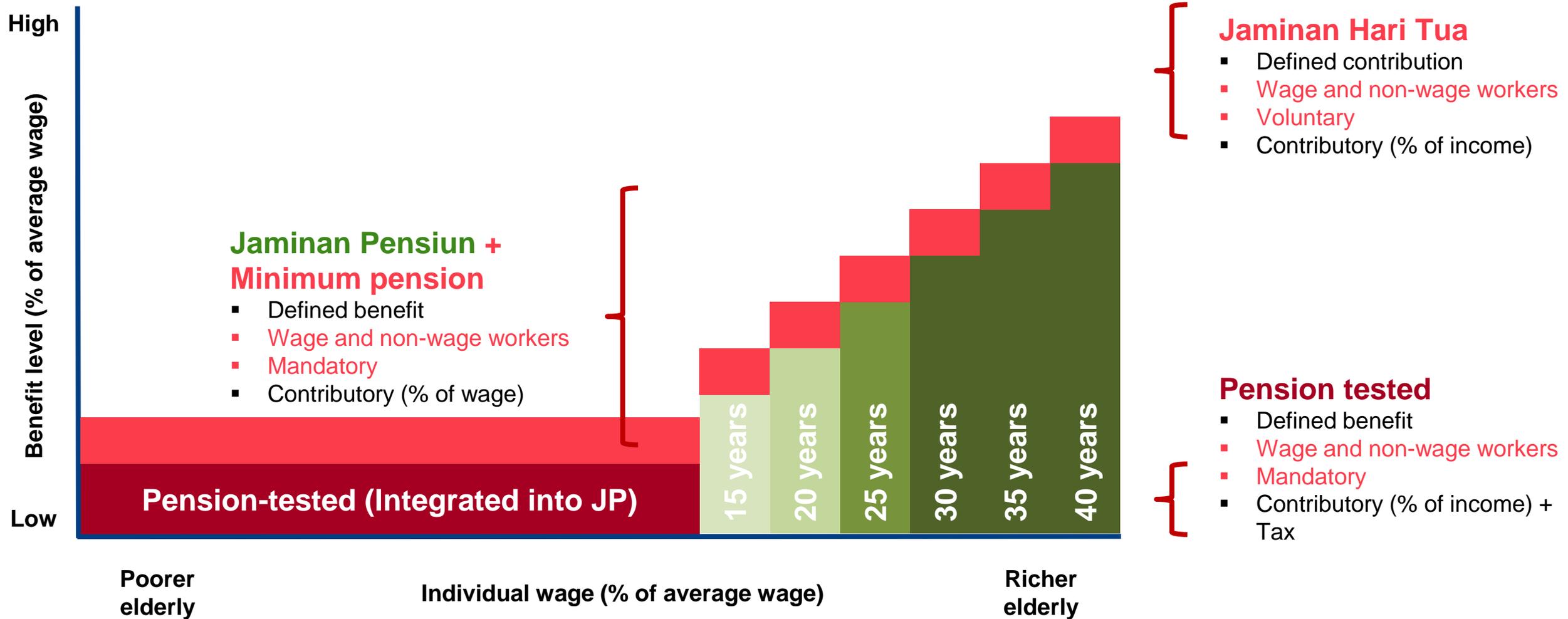
### Voluntary pension for wage and non-wage workers

- Jaminan Hari Tua (JHT): A defined contribution scheme could remain as a voluntary tier to top up pensions.

# Universal pension tier



## Pension-tested tier



 **THANK YOU**