

Jaminan Kehilangan Pekerjaan

Inputs to the Government of Indonesia

This short note sets out key policy and financing principles that we feel should be incorporated in respect of the design of the scheme.

► **Summary: Key messages on scheme design and financing**

- **The scheme should be based on social insurance principles, as enshrined in ILO's international labour standards, to ensure objectives are met.**
- **Benefits should be adequate to meet the needs of insured members and cover as many people as possible.**
- **The scheme should be sustainable (the ILO is currently undertaking an actuarial assessment) and financed by worker, employer (and if required, government) contributions.**
- **The benefit design should be clear and easy to administer and communicate. We believe that the same benefit amount as a percentage of salary should apply throughout the period of payment.**
- **Eligibility conditions and benefit design can be set to avoid abuse of the scheme. The ILO believes this is a better approach than to limit claims by duration or number.**
- **Active Labour Market Policies are an essential complement to an (un)employment insurance scheme.**

▶ A scheme based on the principles of social insurance

The Omnibus Bill states that the Jaminan Kehilangan Pekerjaan (JKP) is **based on the principle of social insurance**. The ILO believes that JKP will increase the effectiveness of the scheme if this principle is followed.

There are **five key mechanisms and structures** to ensure this is done.

▶ (1) Collective financing and risk-pooling

The principle of social insurance is based on collective financing and risk-pooling. Regular contributions are paid by workers, employers (and the government) and pooled. The resulting fund is used to cover the payment of unemployment benefits. Risk-pooling in social insurance is based on the principle of solidarity as opposed to individually calculated risk premiums.

The advantages of such an approach is that it reinforces sustainability, improves adequacy and supports redistribution.

▶ (2) Universality and solidarity

Extending coverage to larger groups of employees has a **positive impact** by creating wider risk pooling, increasing financial sustainability, promoting solidarity and reducing the overall contribution rate. In turn, such schemes **reduce poverty and inequality and support social cohesion and economic growth.**

The ILO therefore recommends not to exempt employees of smaller enterprises or employees with fixed-term contracts from coverage.

International experience demonstrates that mandatory legal coverage for all employees is the best and most cost efficient approach whilst any voluntary coverage leads to selection against the system, low coverage and cost increases.

▶ (3) Adequacy and simplicity of benefit formula

Unemployment benefit is designed to ensure a minimum yet **adequate level of benefits** and is typically set as a percentage of the previous earnings of insured workers before becoming unemployed.

Most countries set a constant replacement rate of at least 50 per cent of previous insurable earnings for a period of at least 6 months subject to qualifying conditions.

International practice shows that simple rules are preferable to complex ones when implementing, managing and communicating to the public. Varying benefit levels and/or complex eligibility requirements may make the scheme too complicated to explain and administer. There is limited evidence that varying benefit levels affects the number or time to return to work.

(4) Financial sustainability & collective financing: importance of employer and employee contributions

The principle of social insurance is based on collective financing between workers, employers (and the government). Such a diversified financing approach **reduces financing risk and supports adequate benefits**. The Government should ensure financial sustainability when designing the scheme.

If the Government is the sole contributor to the scheme, sustainability and adequacy may be threatened during difficult economic times. This may make the scheme ineffective or unattractive leading to the public losing trust in the social security system.

Almost all (un)employment insurance schemes operate through collective financing which facilitates expansion of the scheme to protect workers and guarantees the solvency of the fund.

▶ (5) A fair and effective benefit formula

The principle of social insurance promotes risk-sharing among workers with stable and unstable employment, shorter and longer employment, and high and low earnings. A scheme paying higher relative benefits to those with a better employment status (e.g. longer service) means it no longer follows the principle of social insurance.

Similarly, the scheme should allow insured employees to claim unemployment benefits as long as they satisfy qualifying conditions. *If the scheme limits the number of claims per worker or sets unnecessarily long waiting period for subsequent claims, the scheme will not effectively protect vulnerable workers. Waiting period for subsequent claims shall be made so as to avoid abuse.*



THANK YOU

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