

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

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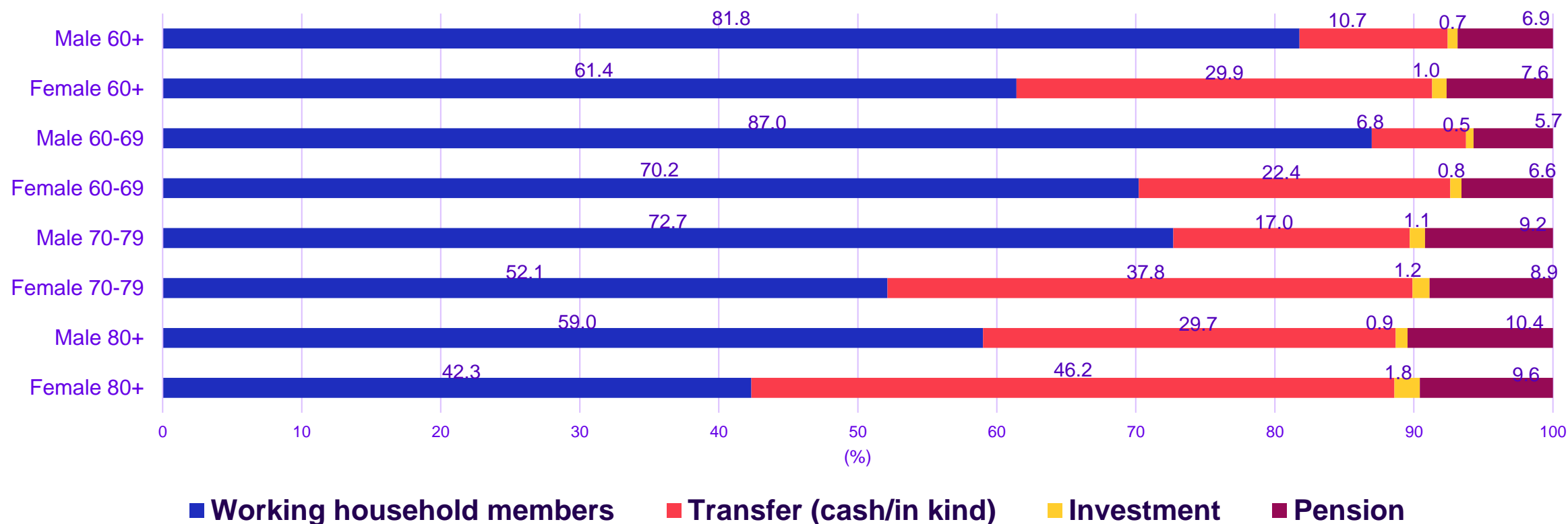


► Today and future

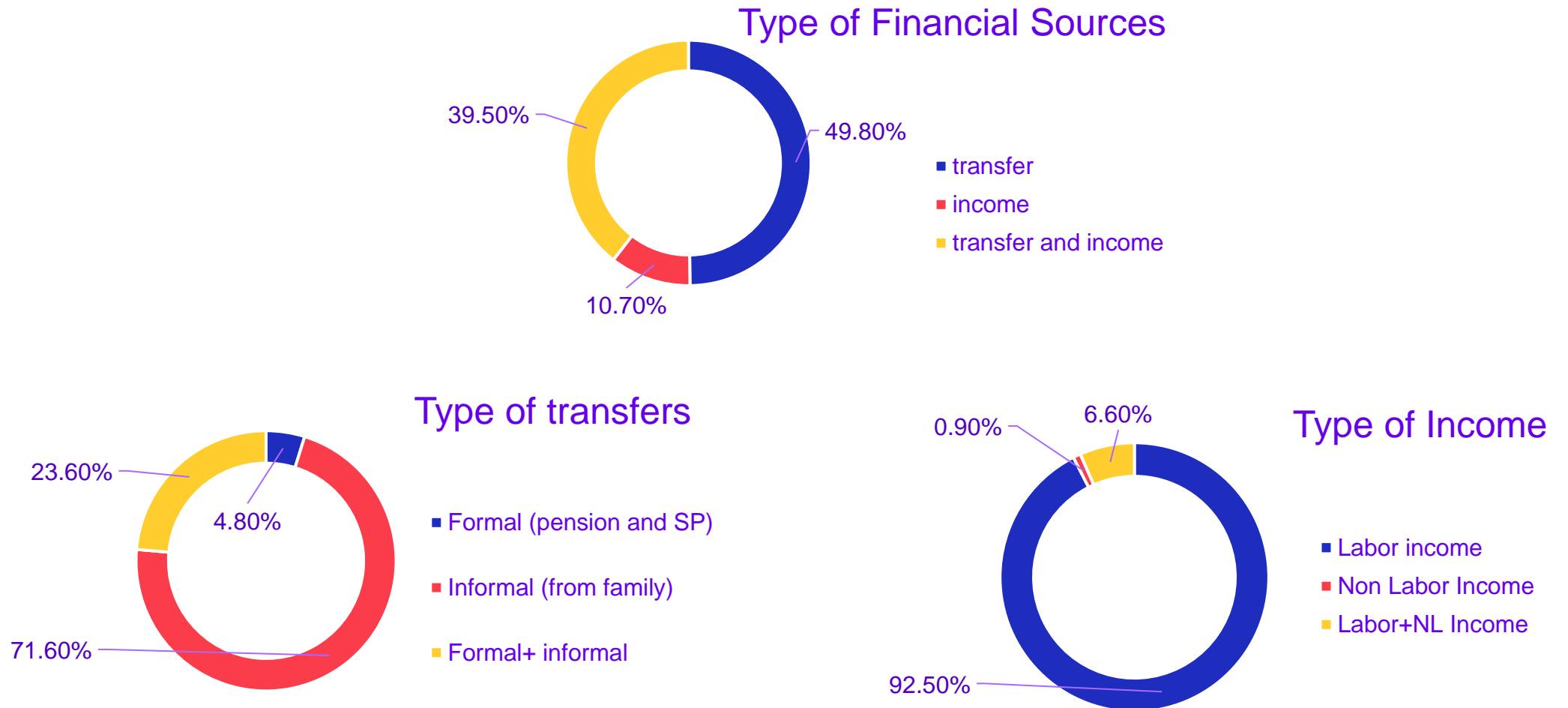
Is “improving” enough?

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

Work is the main source of income for older persons

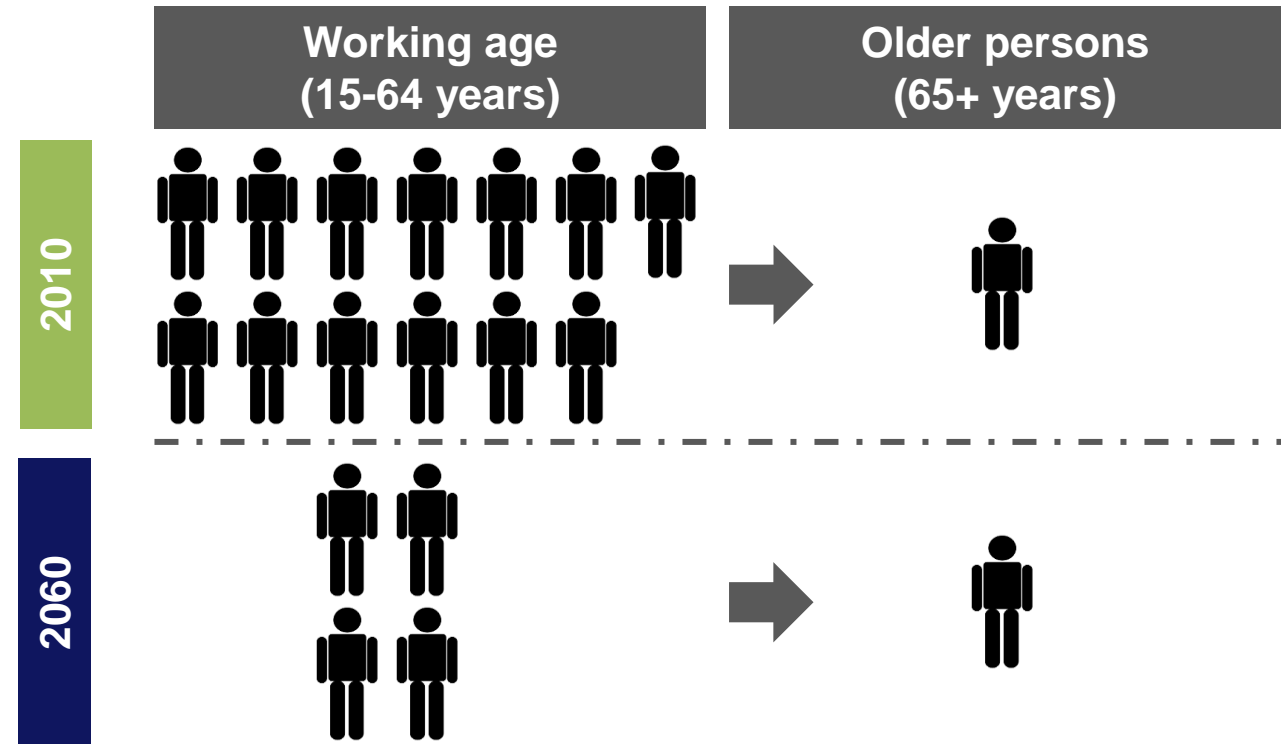


Most older persons depend on income from family members



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.



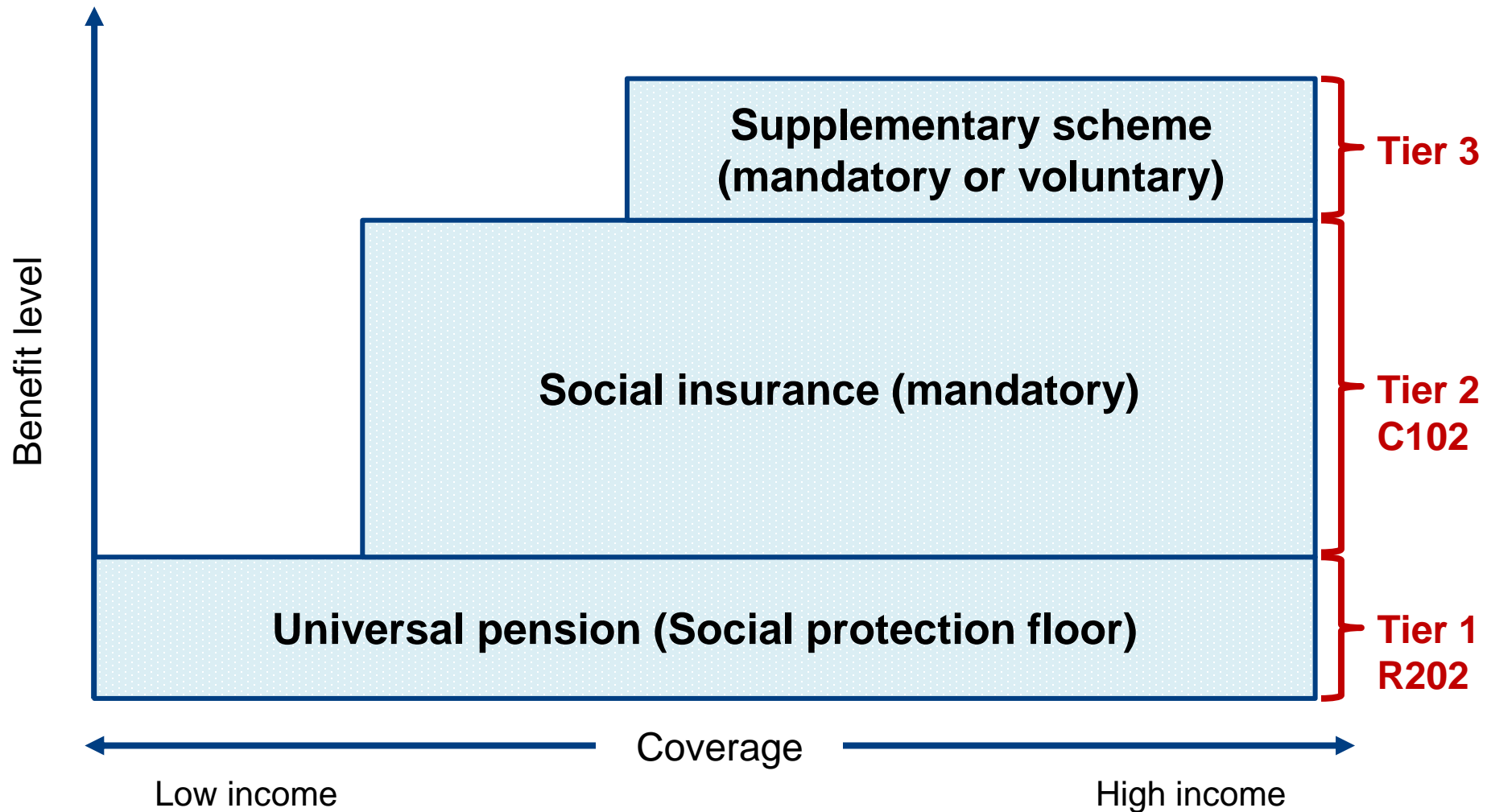
► What does Indonesia aim at through the pension reforms?

Is “improving” enough?

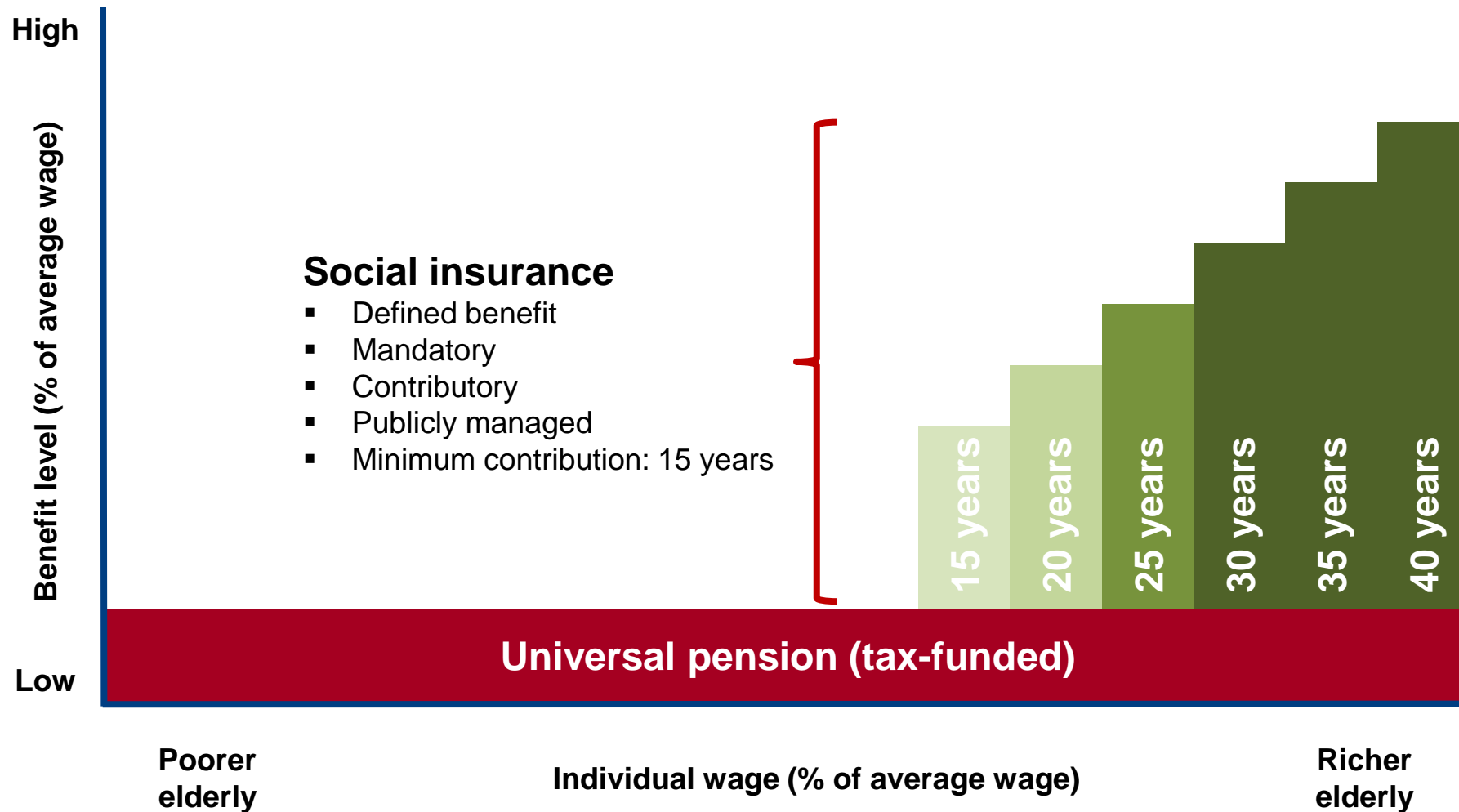
- ~~Cover “few” older persons?~~
- ~~Cover “some” older persons?~~
- ~~Cover “most” older persons?~~
- Cover “all” the older persons, “immediately”?

► Systemic reforms

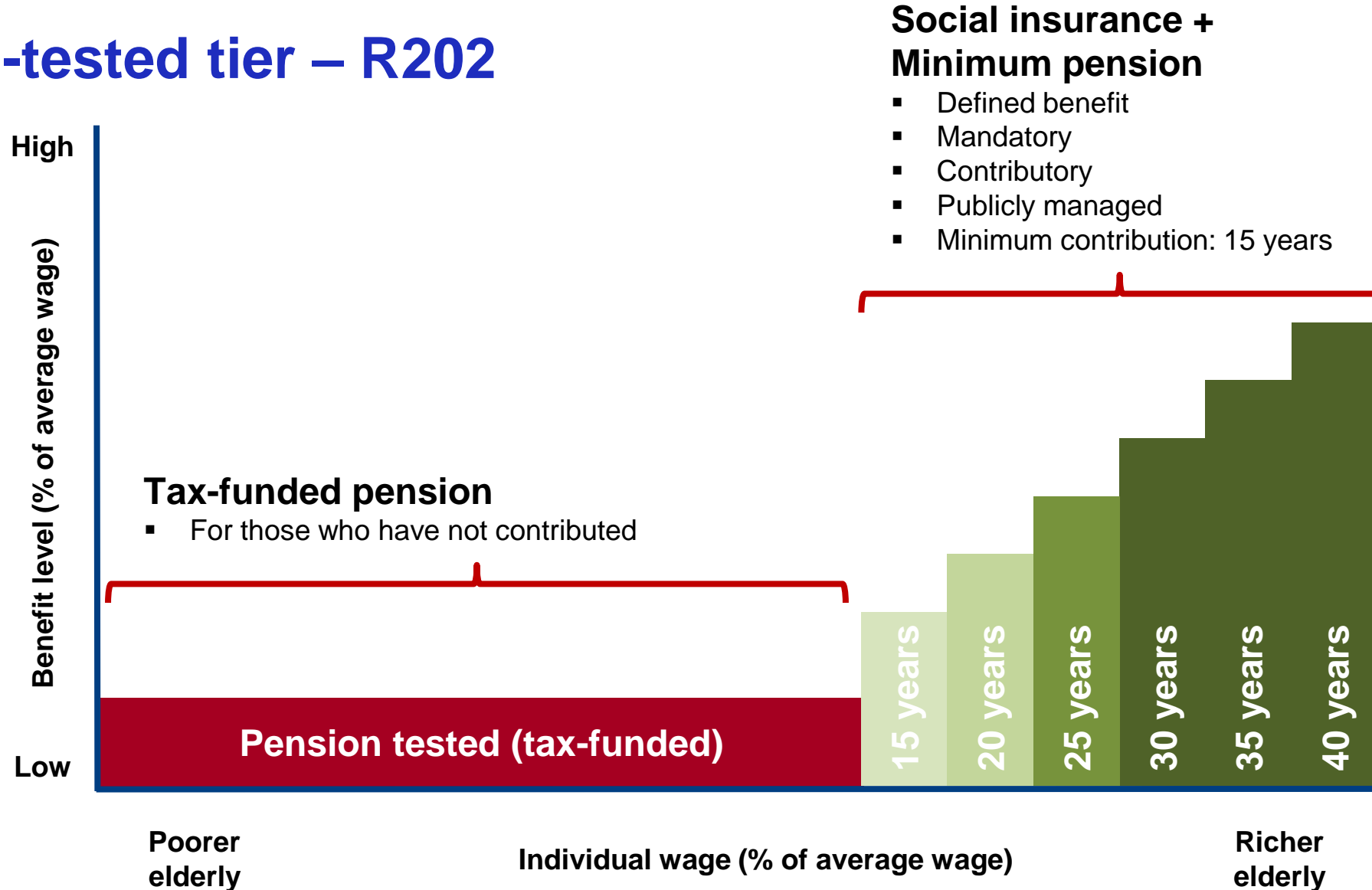
Multi-tier model for old-age benefit



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 medium or large scale enterprises .
Qualifying condition	15 years of contributions	15 years of contributions
Replacement rate	40% for 30 years of contributions	30% for 30 years of contributions
Duration	Lifetime	Lifetime
Payment	Periodical	Periodical

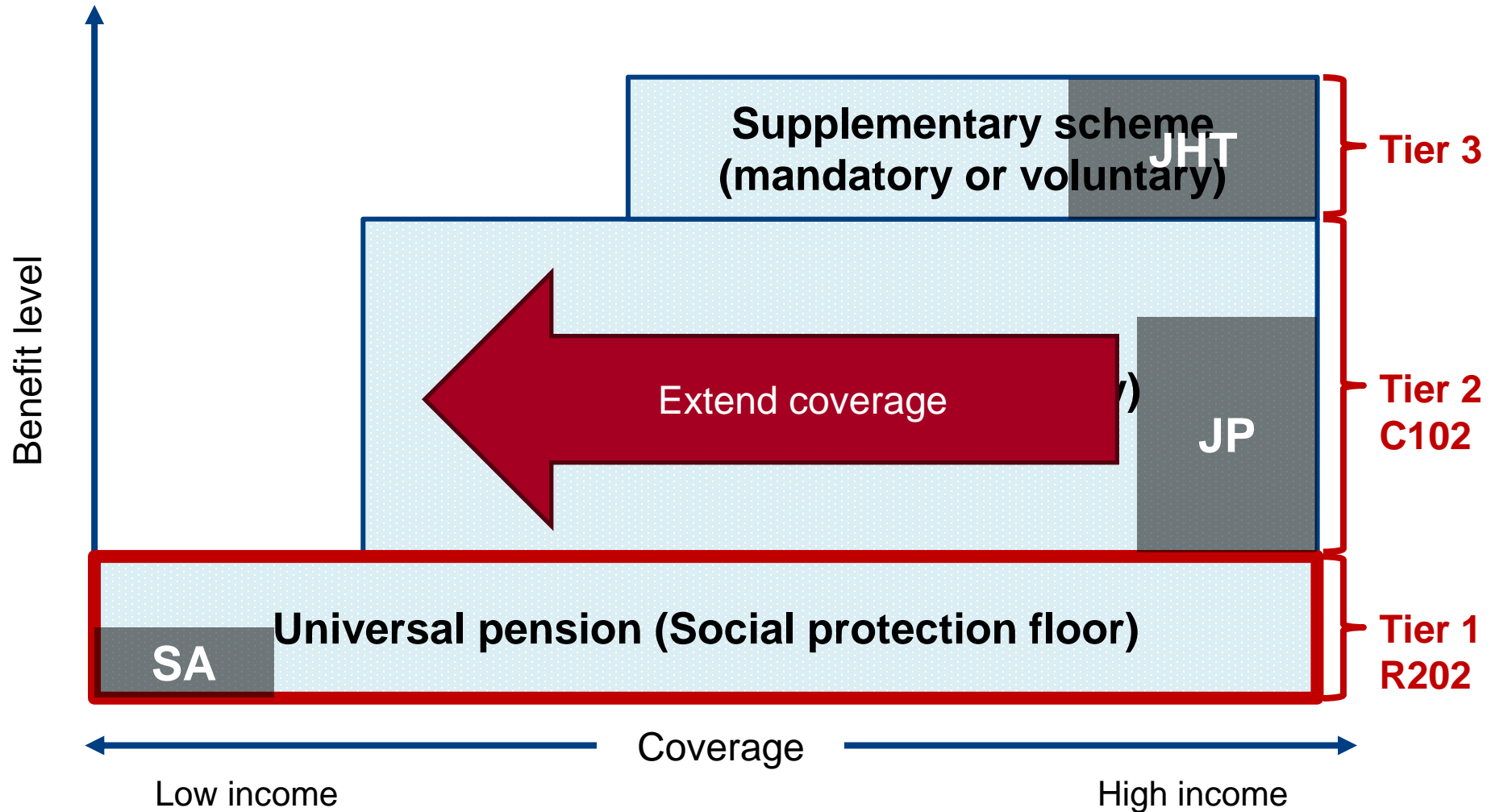
► Old-age savings (JHT) – C102

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)

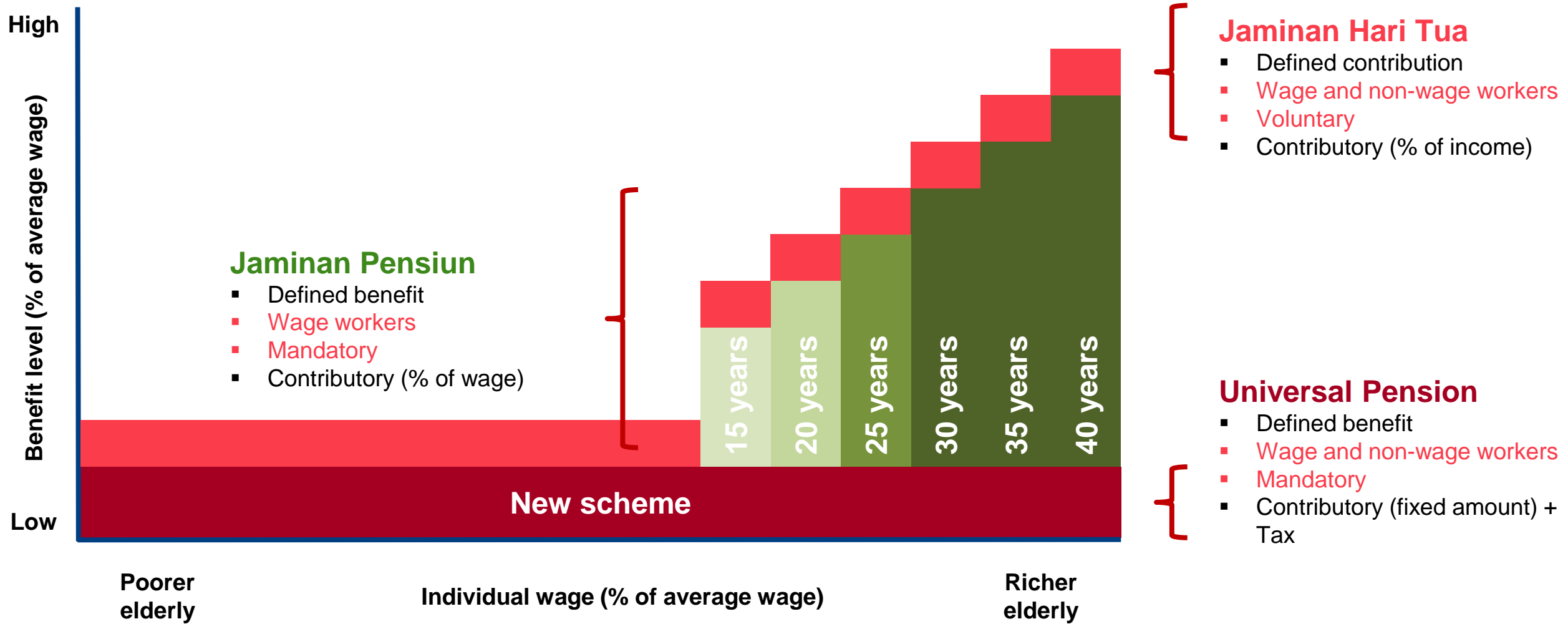
Mandatory pension for all wage workers

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

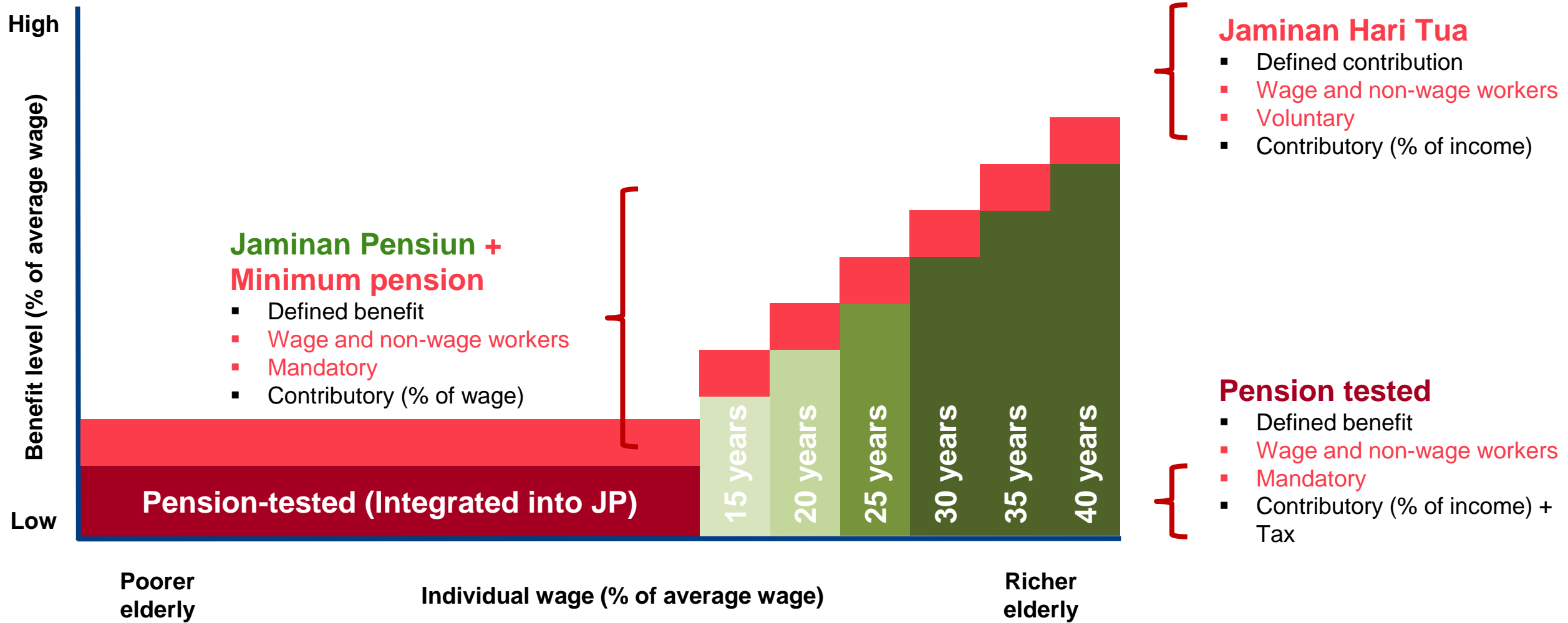
Voluntary pension for wage and non-wage workers

- 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