HOW CAN TAX-FUNDED SCHEMES HELP EXTEND SOCIAL SECURITY COVERAGE?

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Ippei Tsuruga, Technical Officer
Country Office for the Indonesia and Timor-Leste
International Labour Organization
THE ROLE OF TAX-FUNDED SCHEME IS TO...

- Guarantee minimum benefits for all through a life cycle. Universal coverage will not happen only through contributory schemes
  - Long period until everyone is covered (scheme is matured)
  - High prevalence of informal employment

- Create culture of social insurance contributions and experience receiving benefits
DIAGNOSIS: SOCIAL INSURANCE SYSTEM IN INDONESIA
IMAGINE THE END OF DEMOGRAPHIC BONUS
INDONESIA WILL BE RAPIDLY AGEING

Working age (15-64 years) | Older persons (65+ years)

2010

2060

MILLENNIAL’S CHILDREN WILL BECOME A SANDWITCHCH GENERATION
# LEGAL COVERAGE

<table>
<thead>
<tr>
<th>Scheme</th>
<th>Wage worker</th>
<th>Non-wage worker</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Large/Medium 20 +</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Small 5 - 19</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Micro 1 - 4</td>
<td></td>
</tr>
<tr>
<td>Death Benefits</td>
<td>JKm</td>
<td>Mandatory</td>
</tr>
<tr>
<td>Employmnt injury</td>
<td>JKK</td>
<td></td>
</tr>
<tr>
<td>Old-age saving</td>
<td>JHT</td>
<td>Mandatory</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Voluntary</td>
</tr>
<tr>
<td>Pension insurance</td>
<td>JP</td>
<td>Voluntary</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Not eligible</td>
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</tbody>
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## LEGAL COVERAGE

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</tr>
<tr>
<td></td>
<td>(36%) Mandatory</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Voluntary</td>
<td>Not eligible</td>
</tr>
<tr>
<td></td>
<td>48 million</td>
<td>53 million</td>
</tr>
<tr>
<td></td>
<td>(36%)</td>
<td>(40%)</td>
</tr>
</tbody>
</table>

Source: Sakenas 2018 February
## EFFECTIVE COVERAGE (PENSION)

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Number of workers</th>
<th>Effective Coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>JP</td>
<td>10.6 million</td>
<td></td>
</tr>
<tr>
<td>JHT</td>
<td>14.6 million</td>
<td>16%</td>
</tr>
<tr>
<td>Taspen</td>
<td>4.2 million</td>
<td></td>
</tr>
<tr>
<td>Asabri</td>
<td>1.2 million</td>
<td></td>
</tr>
<tr>
<td>No coverage</td>
<td>114 million</td>
<td>84%</td>
</tr>
<tr>
<td>Labour force</td>
<td>127.1 million*</td>
<td>100%</td>
</tr>
</tbody>
</table>

OLD-AGE PENSION SCHEME IN INDONESIA

114 million
- Non-wage workers
- Self-employed
- Informal sector

Extend coverage

11 million
4 million

Low income
Coverage
High income

Benefit level
INTERNATIONAL EXPERIENCES IN THE INTEGRATED DESIGN OF TAX-FUNDED AND CONTRIBUTORY BENEFITS
MULTI-TIER MODEL FOR OLD-AGE PENSION

- Universal pension (Social protection floor)
- Social insurance (mandatory)
- Supplementary scheme (mandatory or voluntary)

Benefit level: Tier 1 (R202), Tier 2 (C102), Tier 3

Coverage:
- Low income
- High income
MULTI-TIER MODEL FOR OLD-AGE PENSION

- Universal pension (Social protection floor)
- Social insurance (mandatory)
- Supplementary scheme (mandatory or voluntary)

Coverage

Low income

High income

Tier 1
R202

Tier 2
C102

Tier 3

Benefit level
MULTI-TIER MODEL FOR OLD-AGE PENSION

Social insurance (mandatory)
Supplementary scheme (mandatory or voluntary)
Universal pension (Social protection floor)

Benefit level

Coverage

Low income
High income
Universal pension (tax-funded)

- Individual wage (% of average wage)
- Benefit level (% of average wage)

Social insurance
- Defined benefit
- Mandatory
- Contributory
- Publicly managed
- Minimum contribution: 15 years

Universal pension (tax-funded)

- Poorer elderly
- Individual wage (% of average wage)
- Richer elderly

Benefit level (% of average wage)

15 years, 20 years, 25 years, 30 years, 35 years, 40 years
AN INTEGRATED MULTI-PILLAR SYSTEM

(All figures valid as of end-March 2014)

National Pension (Basic Pension)

1st Floor Program
- Self-employed persons and some others (18,050,000)

2nd Floor Program
- Company employees (39,670,000)
- Public employees and some others (9,450,000)
- Dependent spouses of Category 2 insured

3rd Floor Program
- Participants 480,000, Defined-Contribution Pension (individual type)
- Participants 180,000, Defined-Benefit Corporate Pension
- Participants 4,640,000, Defined-Contribution Pension (corporate type)
- Participants 7,880,000, Welfare Pension Fund
- Participants 4,080,000 (job category-related addition)

Employee’s Pension Insurance
- Participants 35,270,000

Mutual Aid Pension
- Participants 4,390,000

* “Cat 2 insured and some others” mean those covered by Employee Pension Insurance (including Cat 2 insured and those aged 65 and over or those entitled to pension benefits by reason of retirement).
PENSION TESTED TIER

Social insurance + Minimum pension
- Defined benefit
- Mandatory
- Contributory
- Publicly managed
- Minimum contribution: 15 years

High
Benefit level (% of average wage)

Tax-funded pension
- For those who have not contributed

Pension tested (tax-funded)

Low

Poorer elderly

Individual wage (% of average wage)

Richer elderly

High

30 years
35 years
40 years

25 years
30 years
20 years
15 years
**COST OF UNIVERSAL PENSION**

<table>
<thead>
<tr>
<th>Coverage</th>
<th>All people aged 60 or 65 and over</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit level</td>
<td>The initial amount is the 2014 poverty line adjusted each year according to the inflation rate or salary</td>
</tr>
<tr>
<td>Cost in 2014</td>
<td>0.5 - 0.7% of GDP</td>
</tr>
<tr>
<td>Cost in 2055</td>
<td>0.4 - 1.8% of GDP</td>
</tr>
</tbody>
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HOW CAN TAX-FUNDED SCHEME HELP EXTEND SOCIAL INSURANCE COVERAGE?

- Integrate tax-funded tier (universal pension) into social insurance
- Reduce old-age poverty; guarantee minimum pension for all older persons
- Reduce intergenerational inequality; economic burdens for working age populations
- Let people experience receiving pensions and understand meaning of contributions to Tier 2
Thank you

Ippei Tsuruga – tsuruga@ilo.org