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BPJS Ketenagakerjaan

Indonesia's Pension in 2018 under BPJS Ketenagakerjaan

Introduction: Social Security Reform in Indonesia

At the end of 2004, the government of Indonesia transformed the structure of the country's social security system by passing Law No. 40/2004 on National Social Security System (Sistem Jaminan Sosial Nasional or SJSN law). The SJSN Law also gave all workers the opportunity to receive pension benefits, which previously was the privilege of civil servants and military personnel only.

Based on the SJSN law, there are five national social security programs:

1. Health benefits, which provide protection against health risks;
2. Work accident benefits (JKK), which provide protection against accidents that occur during or as a result of work, including accidents on the way to and from work, and diseases caused by the working environment;
3. Old-age benefits (JHT), which provide protection against the social

and economic risks due to not actively working (retirement, resignation, layoff);

4. Pension benefits, provide guaranteed income in retirement, the amount of money paid each month to participants who have reached retirement age, suffer permanent total disability, or to the heirs of deceased participants; and
5. Death benefits, dedicated to the heirs of participants in the Employment Social Security Administrative Body's program who die in non-work related accidents.

In 2011, Law No. 24 of 2011 on Social Security Administrative Body (Badan Penyelenggara Jaminan Sosial or BPJS law) was passed. The BPJS Law established two administrative bodies that are responsible for the implementation of the national social security programs. BPJS Health (BPJS Kesehatan) manages a health program and BPJS Employment (BPJS Ketenagakerjaan) manages the other four programs (work accident, old-age, pension and death benefits). As mandated by the BPJS Law, PT Askes (Persero), which previously managed health insurance for civil servants, was transformed into BPJS Kesehatan and PT Jamsostek (Persero), which previously managed social security programs for workers in the private sector, was transformed into BPJS Ketenagakerjaan in January 2014. With

the establishment of those two administrative bodies, membership in social security programs will be expanded gradually. The pace of expansion is regulated by Presidential Regulation No. 109/2013 on The Gradual Stages of Social Security Program Participation (Peraturan Presiden No. 109/2013 Pentahapan Kepesertaan Jaminan Sosial). In addition, old-age and pension programs for civil servants and military personnel that are currently handled by PT TASPEN and PT ASABRI will be merged with BPJS Ketenagakerjaan by 2029 at the latest.

Since the establishment of BPJS Ketenagakerjaan, some changes have been made in the programs being managed and in membership coverage. Of the four programs managed under BPJS Ketenagakerjaan, three were existing programs (work accident, old-age and death benefits) and the fourth is a new defined-benefit pension program. The existing health program previously managed by PT Jamsostek (Persero) was transferred to BPJS Kesehatan.

In terms of membership, PT Jamsostek (Persero) was focused on benefits for formal sector workers, while BPJS Ketenagakerjaan provides nationwide SJSN employment programs. BPJS Ketenagakerjaan has to cover the entire Indonesian labour force of about 127 million workers.*¹ Considering only wage earning workers, non-wage earning workers and temporary workers in construction projects, the number is reduced to 86.67 million workers; 38.58 million are

formal sector and 48.09 million informal sector workers.

BPJS Ketenagakerjaan is responsible for:

1. Conducting and/or receiving membership registration;
2. Collecting and gathering contributions from participants and employers;
3. Receiving contribution assistance from the government;
4. Managing Social Security Funds comprising Work Accident Fund, Old Age Fund, Pension Fund and Death Fund for the benefit of participants; and
5. Paying benefits and/or financing health services in accordance with the provisions of the social security program.

The social security programs are implemented based on funded social security by participants. Starting in July 2015, BPJS Ketenagakerjaan has managed the pension program.

The discussion in this paper will be limited to the Indonesian pension program managed by BPJS Ketenagakerjaan.

The Current Status of the Pension Program

With the launch of the new pension program in July 2015, all Indonesian workers have the opportunity to join a pension program, while previously, only civil servants and military personnel had such privilege.

Participation in the national pension program has increased significantly since its inception (Figure 1). The number of active participants in the pension program is about 11.49 million as of September 2018, although this number is still only a small fraction of the entire labour force (13%). According to Presidential Regulation No. 109/2013 on The Gradual Stages of Social Security Program Participation currently only large and medium scale enterprises are obliged to participate; smaller scale enterprises are not yet required to participate. At present, about 90% of workers in large enterprises and about 66% of workers in medium-sized enterprises are covered by the pension

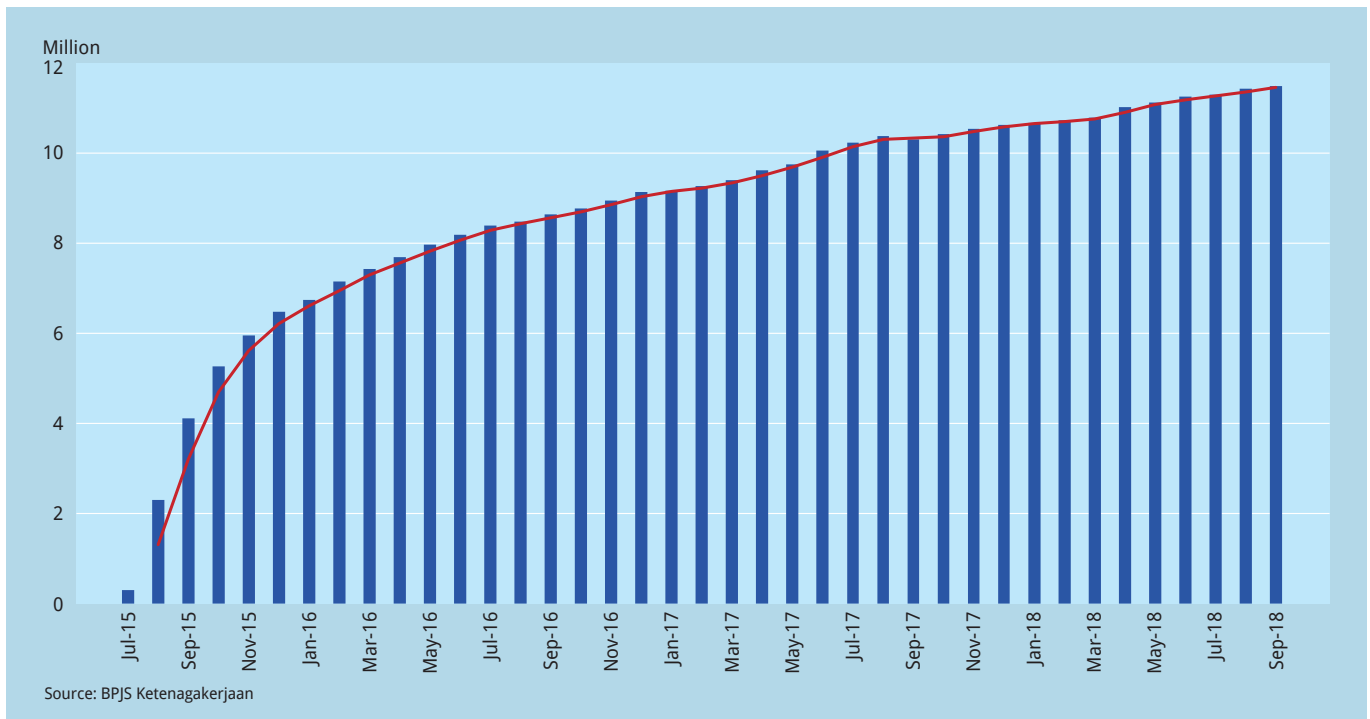
program.*²

The required rate of contribution to fund the pension program is 3% of a worker's monthly wages with 2% paid by the employer and 1% paid by the employee. In 2015, the maximum wage base on which contributions were required was IDR 7,000,000 which provided a minimum monthly pension benefit of IDR 300,000 and a maximum monthly pension benefit of IDR 3,600,000. In March 2018, the maximum wage base for contributions was increased to IDR 8,094,000 and the minimum and maximum monthly benefits became IDR 331,000 and IDR 3,971,400 respectively. Under the current formula, the replacement rate is about 15% for a worker with 15 years of contributions or 30% with 30 years of contributions. This is lower than the minimum replacement rate recommended by the International Labour Organization (ILO) (at least 40% of previous earnings after 30 years of contributions).

The eligibility conditions and benefits for three types of pensions are as follows:

- Old-age Pension: Workers aged 56 with at least 180 months of contribution. In case a worker has less than 180 months of contributions on retirement, a lump sum benefit will be paid. The retirement age will

Figure 1: The Trend in Pension Program Participation



be raised gradually by one year every three years until it reaches age 65 in 2043. The retirement age will be 57 in 2019;

- **Disability Pension:** Workers younger than 56 (retirement age), assessed with a total and permanent disability and least one month of contribution with a density rate*³ of at least 80%. A lump sum is paid if the insured has less than one month of contributions or the density rate is less than 80%; and
- **Survivor Pension:** Survivors of a deceased worker are entitled to a pension benefit when the insured had at least one year of contributions with a density rate of at least 80%.

A lump sum is paid if the insured had less than one month of contributions or the density rate was less than 80%. Eligible survivors include widow(er)s, children, and parents with the benefit amounts as follows:

1. **Widow(er):** 50% of monthly old age pension,
2. **Child:** 50% of monthly old age pension or 50% of monthly widow(er)'s pension, and
3. **Parent:** 20% of monthly old age pension.

Despite the growth in the number of participants, the increase in the number of lump sum payments, presents a chal-

lenge (Figure 2).

The significant increase in the number of lump sum payouts from the pension program means that more and more participants do not receive the optimum benefit from the pension program.

In addition, the number of beneficiaries receiving a disability pension (MPC), a widow (er) survivor pension (MPJD), a child survivor pension (MPA) and a parent survivor pension (MPOT) has been rising from January to September 2018 (Figure 3). In other words, the BPJS Ketenagakerjaan has had to pay out survivor and disability benefits only a short while since the program began.

With the current contribution rate of 3% of monthly wages, the BPJS Ketenagakerjaan program will face the following milestones (Figure 4):

Figure 2: Trend in Lump Sum Payouts from the Pension Program

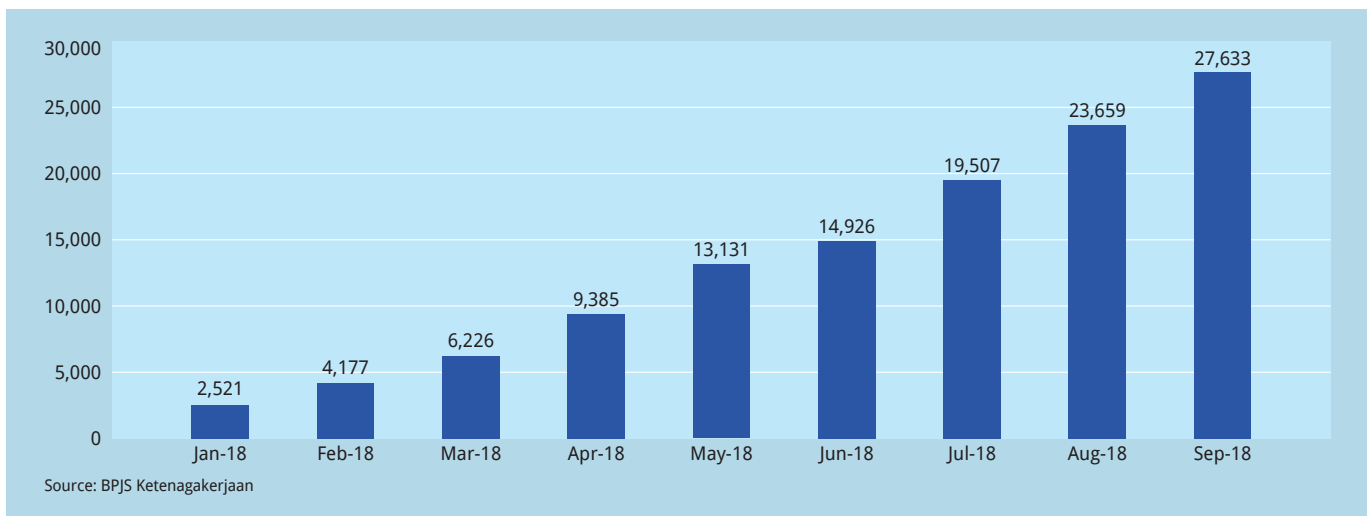
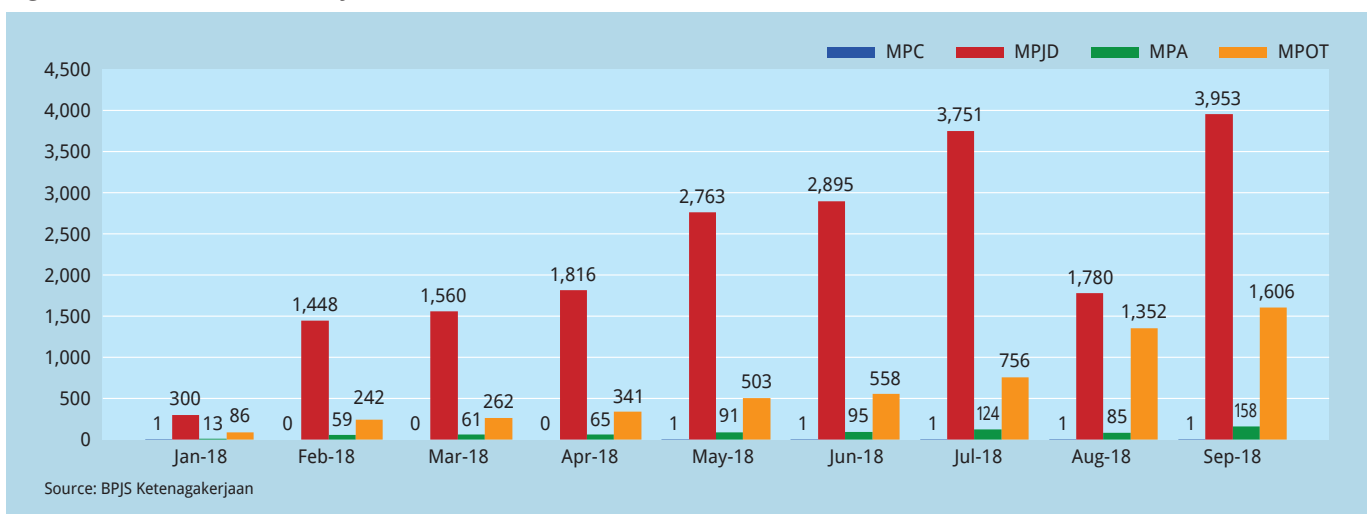


Figure 3: Number of Disability and Survivor Pension Beneficiaries



1. In 2048, benefit payments will exceed contributions;
2. In 2055, benefit payments will exceed the total of contributions and return on investment; and
3. In 2062, program assets will run out.

The program administration will re-evaluate the required contribution rate every three years with consideration of national economic conditions and calculation of the adequacy of actuarial liabilities. The result of the evaluation will be used as a basis for gradually raising the contribution rate toward 8%.

reached IDR 343.48 trillion about 10% of which comes from Pension Fund. While investing the funds, strict regulations must be followed. Based on Indonesia Financial Services Authority (POJK No. 1/2016, POJK No. 36/2016 and POJK No. 56/2017), BPJS Ketenagakerjaan must invest a minimum of 50% of Social Security Funds and 30% of its institution assets (i.e. assets owned by BPJS Ketenagakerjaan for daily operation, etc.) in government securities. The management of assets in the Social Security Funds also must comply with Government Regulations of the Republic of Indonesia No. 55/2015 on Asset Management of Social Security Fund (Peraturan Presiden No. 55/2015 Pengelolaan Aset Jaminan Sosial) (Table 1).

pension coverage such as the level of national economic development, political stability, national labour markets, the size of the rural economy and geographic conditions.

Indonesia is the world's largest country comprised solely of islands. The archipelago consists of more than 17 thousand islands, more than two thousand of which are inhabited. Indonesia's population is also highly diverse with more than 500 local languages. This geographic and linguistic diversity clearly illustrates the challenges to extending social security coverage to the entire Indonesian population.

BPJS Ketenagakerjaan has 11 regional offices, 325 branch offices and 5,575 employees to provide social security services. It also collaborates with other institutions, both government and non-government, to provide such services and it also utilises technology to reach as many workers as possible. Many challenges still remain, however, including as follow:

1. Low coverage compared to the size of the labour force;
2. Design of the pension program (contribution, benefit, scheme);
3. Low literacy of workers regarding

Investment

As of September 2018, the BPJS Ketenagakerjaan's total assets under management

Challenges

Many factors can influence efforts to extend

Figure 4: Pension Funding Milestones

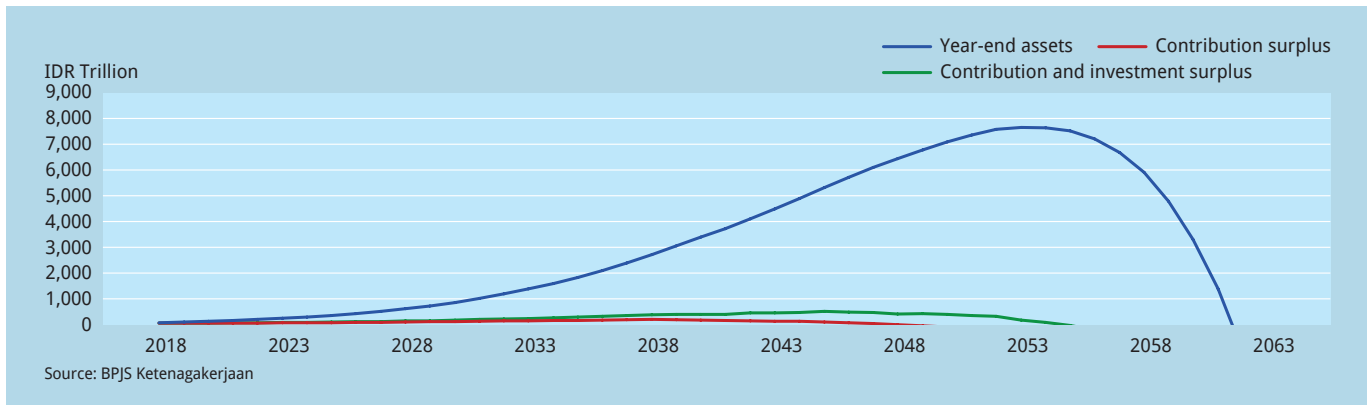


Table 1: Investment Rules on Peraturan Presiden No. 55/2015 Pengelolaan Aset Jaminan Sosial

Investment Instruments	Maximum Placement
Time deposits, Government bonds, Treasury bonds	100% of total investment fund
Corporate bonds, Equities, Mutual funds, Municipal bonds	50% of total investment fund
Asset-Backed Securities (KIK EBA), Real Estate Investment Trusts (REITs)	20% of total investment fund
Repurchase agreements (repo), Direct investments	5% of total investment fund
Real property	10% of total investment fund

Source: Government of Republic of Indonesia

the importance of social protection;

4. Compliance by employers; and
5. Disharmony in regulations regarding social protection.

Conclusion

The implementation of a pension program must consider the principles of balance and sustainability:

1. **Affordability:** the benefit has to be designed so that it can be funded by employers and employees;
2. **Adequacy:** the benefit has to be able to replace a suitable minimum income. Moreover, the amount of the output (benefit) should be in accordance with the amount of input (contribution rate and period); and
3. **Sustainability:** the financial stability of the pension program must be ensured to guarantee the program's sustainability.

An imbalance in funding may increase the risk of failure of the funding program. Not only the government and BPJS

Ketenagakerjaan but also employers and employees' representatives must be proactively involved in deciding the appropriate contribution and benefit parameters while aiming to fulfil the mandate of the SJSN Law.

Considering the remaining challenges, Indonesia needs to continue to strengthen collaboration among governmental and non-governmental bodies in order to deliver adequate welfare to all workers. The utilisation of technology must be optimised to provide the social protection effectively and efficiently.

Notes

- *1 National Statistic Agency, February 2018
- *2 BPJS Ketenagakerjaan. (2018) "Membership Management Report September 2018"
- *3 Density rate is a proportion of actual contribution payment to full amount of contribution for each payment period.

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Agus Susanto

President Director of BPJS Ketenagakerjaan

Agus Susanto has been CEO of BPJS Ketenagakerjaan since February 2016 with his term lasting to 2021. Under his leadership BPJS Ketenagakerjaan has a vision "to be a national pride social security organization, trusted, with good governance and excelling in operations and services".

He was a professional for about 25 years in the capital market and banking industry. He has been closely involved in the development of Indonesia's capital market. He used to be active member in some international capital markets and banking professional associations such as: Indonesia Mutual Fund Managers Association (APRDI), Indonesian Custodian Bank Association (ABKI), Indonesian Trustee Association (AWAI), Indonesia Pension Fund Association (ADPI), and International Securities Services Association (ISSA) in Luxemburg.

Since December 2016, he became head of the Asian Workers' Compensation Forum (AWCF) for the next two years.

He earned a bachelor's degree from Gajah Mada University, Indonesia, as well as an MA in economics. He completed a Global Executive Master of Business Administration from INSEAD Fontainebleau, France. He completed courses in the field of business from MIT Sloan School of Management, USA. Currently, he is pursuing doctoral degree on Public Administration from Brawijaya University, Indonesia.

