

Increasing the Membership of Employment Insurance for the Missing Middle and the Working Age Group

Background and Context

Indonesia continues to make considerable progress to increase the membership of its social insurance program especially for its wage recipients (*pekerja penerima upah/PU*) who are mostly formal sectors workers. Unfortunately, coverage for the non-wage recipients/*pekerja bukan penerima upah/BPU* who mostly work at the informal sector workers are still very low (about 2.4 million active members as compared to the 28 million active members who are the wage recipients)¹.

In 2018, around 150 million people are aged 19 to 59 years old (working age/productive age group, see **Table 1**). With a total 30.4 million workers (28 million active members from wage recipients/PU and 2.4 million from the non-wage recipients/BPU)² enlisted as the members of Employment Insurance, it only represents around 22.2 percent of the working age group who have access to the employment insurance scheme.

Based on Law No. 40 of 2004 on the national social security system (*Undang-Undang Sistem Jaminan Sosial Nasional – SJSN*), 5 health and employment insurance schemes are currently being implemented: national health insurance (*Jaminan Kesehatan Nasional – JKN*), casualty or work injury compensation (*Jaminan Kecelakaan Kerja – JKK*),

survivors' benefit (*Jaminan Kematian – JKM*), old age savings with disability benefit (*Jaminan Hari Tua – JHT*) and elderly pension (*Jaminan Pensiun – JP*). Under Law No 24 of 2011 the government then established the Social Security Agency for Employment (*BPJS Ketenagakerjaan*) and the Social Security Agency for Health (*BPJS Kesehatan*) to manage these schemes.

Indonesia's contributory schemes within the social protection system are currently reaching the more affluent members of society in the formal sector. For those living in poverty, the government provides social protection through several non-contributory programs and for the National Health Insurance (JKN) through *Penerima Bantuan Iuran (PBI/fully subsidized premiums for the poorest 40 per cent of households)*. However, the 'missing middle' still have limited government support to ensure their basic economic security.

Existing Social Protection System for the Working Age Group

Up to 2018, only a small number of informal workers (the non-wage recipients/BPU) contributes to the employment insurance. There are many factors that contribute to

Table 1: Indonesia Population 2018 (based on Age Group)³

Age Group	All Population			All Bottom 40%		
	Male	Female	Total	Male	Female	Total
0 - 6 yrs	17,036,553	16,283,804	33,320,357	7,869,614	7,638,714	15,508,328
7- 18 yrs	28,523,005	27,185,200	55,708,205	12,027,442	12,027,442	24,054,884
19 - 59 yrs	75,531,974	75,172,671	150,704,645	26,977,797	27,588,032	54,565,829
60+ yrs	11,651,760	12,841,924	24,493,684	4,994,589	5,893,899	10,888,488
Total	132,743,292	131,483,599	264,226,891	51,869,442	53,148,087	105,017,529

¹ BPJS Ketenagakerjaan, December 2018.

² Ibid.

³ Susenas 2018.

the low participation. One of them is due to the existing regulation (Presidential regulation/*Perpres* No 109 of 2013 and Manpower Regulation/*Permenaker* No 1 of 2016)⁴ which obliged contributing members (both PU and BPU) to join the casualty or work injury compensation scheme (JKK) and survivors' benefit scheme (JKM) as a prerequisite prior to joining the old age savings scheme (JHT) in which can potentially discourage workers especially those in the informal sector with limited contribution capacity, from saving for their retirement. Additionally, non-wage workers are still unable to contribute to the elderly pension (JP). While all programs are important for protecting citizens against various risks, the old age saving (JHT) and elderly pension (*Jaminan Pensiun*/JP) are particularly critical in enabling working age population to save for their old-age retirement. The existing regulations have created practical barriers to achieving this for the BPU workers especially the missing middle group who work at the informal sectors.

Indonesians face a wide range of risks throughout their lives, beginning in the womb and continuing through to their final days. Life-cycle risks and challenges can affect people's standard of living, particularly when a comprehensive social protection system is not in place. These risks are exacerbated by widespread low incomes that mean people are less able to respond effectively to a crisis. If these issues are tackled effectively, poverty levels would be reduced significantly, and the wellbeing of all citizens would be enhanced.

With the big number of its working age/productive age group population where many of them are working in the low paid and informal sectors, having a contributory social protection (especially JHT and JP) is thus crucial especially as in the next 25 years, Indonesia is projected to becoming an ageing population.

Towards a Lifecycle Social Protection System

In 2018, TNP2K through its publication "The Future of The Social Protection System in Indonesia: Social Protection for All", recommends a social protection system that will protect poor and vulnerable citizens through social assistance (non-contributory) scheme designed across the life cycle, as well as prevent health and employment related risks through accessible and affordable social insurance (contributory)

⁴ Perpres No. 109/2013 on "*Penahapan Kepesertaan BPJSTK*/Staging of BPJS Employment Membership", and Permenaker No. 1/2016 on "*Tata Cara Penyelenggaraan Program JKK, JKM, dan JHT untuk BPU*/Procedures for Implementing JKK, JKM and JHT Programs for BPU".

scheme. The proposal tries to directly address many of the key challenges faced by Indonesia citizens including the missing middle group, stunting in early childhood, low enrollment in secondary level education, disability and old age poverty.

It is important for Indonesia to gradually move from a social protection system that only targets the poorest through social assistance (non-contributory), towards a system that is inclusive of those on missing middle income. Those in the formal sector and those who can pay into the contributory system will receive benefits from social insurance (contributory). Progressively, the government needs to ensure every citizen is protected, either through contributory or non-contributory schemes.

For the working age citizens, a change in the Presidential Regulation/*Peraturan Presiden*/*Perpres* No 109 of 2013 is required so as to allowing non-wage earners to flexibly join in any social employment insurance that best suits their needs and priorities, enabling them to actively safe for their old-age retirement. Simultaneously, different incentives mechanism such as matching defined contributions (MDCs) into either the Old Age Saving with Disability Benefit (JHT) or the Elderly Pension (JP) should also be initiated to encourage more participation and contribution from the working age group who are the non-wage earners (BPU) with saving capacity into the two programs under the employment insurance/contributory scheme.

Improving and strengthening the socialization as well as ensuring for stronger marketing, registration and collection services are also needed to improve the membership of employment insurance, particularly for those in rural areas where most informal workers reside but have little knowledge of the benefits of employment insurance and incentives existed in the schemes (such as above market interest rates for JHT contributors, of approximately 2 per cent higher than rates offered by the commercial banks, depending on market conditions).

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