



OFFICE OF THE VICE PRESIDENT OF
THE REPUBLIC OF INDONESIA



Social Protection System for Working Age/Productive Age Group

**Office of The Vice President The Republic of Indonesia/
The National Team for the Acceleration of Poverty Reduction (TNP2K)**

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Economic, Social and Demographic Context

Indonesia Population based on Age Group

In 2017, around 149 millions (about 57% of the total population) in Indonesia are coming from the working age group of 19-59 yrs old;

- ❖ 54 million individuals (36 persen) from that group are coming from the bottom 40 per cent

Table 1. Indonesia Population based on Age Group in 2017

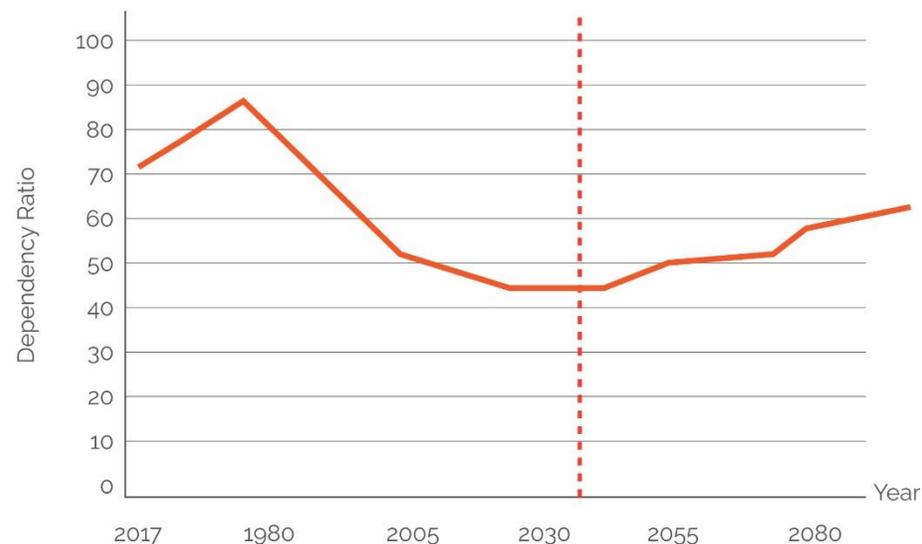
Age Group	All Population			Bottom 40%		
	Male	Female	Total	Male	Female	Total
0-6 yrs	16,937,381	16,193,709	33,131,090	7,939,228	7,591,107	15,530,335
7-18 yrs	28,449,926	27,089,275	55,539,201	12,653,066	12,006,605	24,659,671
19-59 yrs	74,668,140	74,325,574	148,993,714	26,517,115	27,429,334	53,946,449
60+ yrs	11,120,979	12,303,542	23,424,521	4,725,013	5,575,675	10,300,688
Total	131,176,426	129,912,100	261,088,526	51,834,422	52,602,721	104,437,143

Source: Susenas 2017

Strengths and Challenges of the Working Age/Productive Age Group

- At the moment, **Indonesia has the opportunity to benefit from a demographic dividend** especially with such a large numbers of productive age group.
- Thus, Indonesia needs to invest sufficiently in strengthening the capacity of the labour force, particularly its children - the future labour force - so that this opportunity is not squandered.

Figure 1. Dependency Ratio (1950-2100)



Note: the red line represents when the dependency ratio for Indonesia starts to increase in 2035

Source: UN Desa (2017)

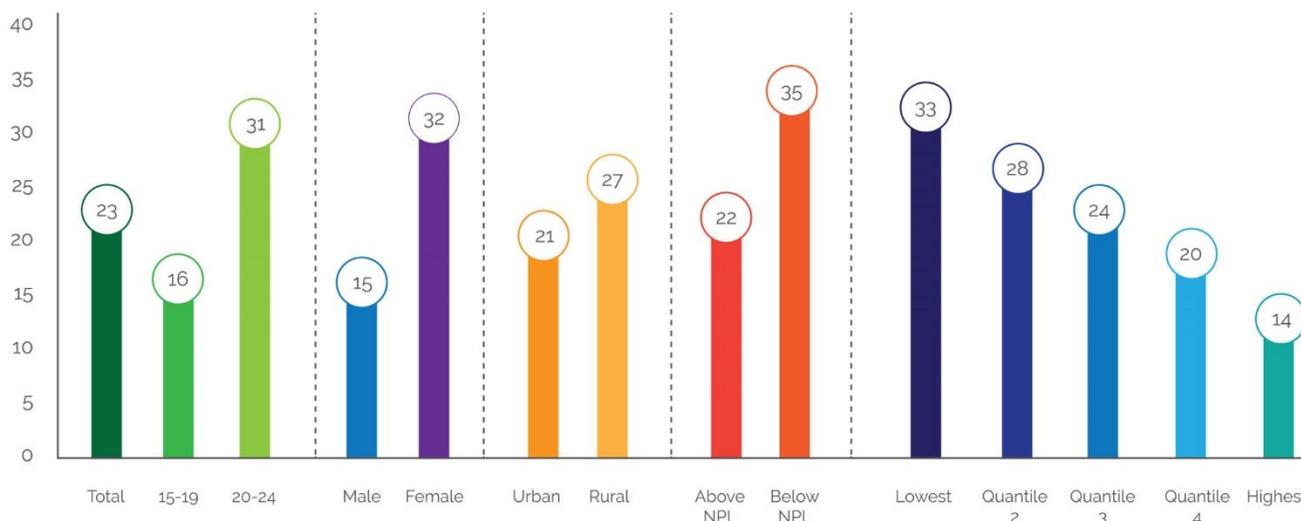
- The working age group will continue to grow until the mid of century; **therefore, ensuring for a productive work opportunity will continue be the greatest challenge.**
- At the moment, **the dependency ratio is still low but the demographic dividend will begin to end in 2035 as the population ages and dependency ratios increase.**

Strengths and Challenges of the Working Age/Productive Age Group

Lack of education and training skills, and there is also gender disparity:

- **Indonesia’s workforce is relatively undereducated** - nearly 50 per cent have obtained only elementary education and 6.3 per cent have a university degree or equivalent (World Bank, 2013)
- **In 2012, around 40 per cent of young people in Indonesia were out of education, training or work.** Those with limited schooling who are working tend to end up in informal jobs that pay below the official minimum wage (World Bank, 2014)
- **Gender disparities are significant** and the proportion of young women who are not in employment, education or training (30 per cent) is twice that of their male counterparts (15 per cent) (Schaner and Das, 2016)

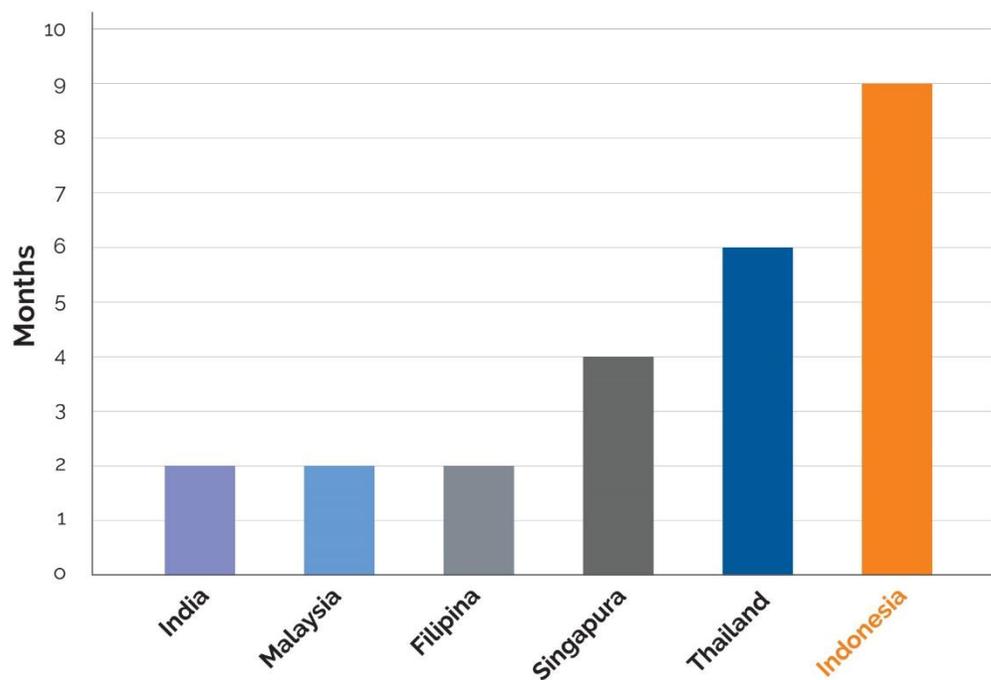
Figure 2. Percentage of young people (15-24 years) who were neither at work nor at school in the week before the survey



NPL = national poverty line
Source: Susenas (March 2017)

Strengths and Challenges of the Working Age/Productive Age Group

Figure 3. Severance pay rates after four years of employment across a range of Asian countries



Source: Manning and Cohen (undated) and ILO (2013)

Labour market challenges:

1. Indonesia's hiring and firing regulations are among the most inflexible in the world → In 2009, Indonesia was ranked 157th out of 181 countries and 23rd out of 24 countries in Asia and the Pacific (World Bank, 2014).
2. Severance pay rates are particularly high and rise significantly with years of service which resulted in limited access to formal sector employment → Severance pay rises to around 30 months of salary beyond 20 years of service (Manning dan Corden - undated & ILO, 2013, World Bank 2014).

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Existing Social Protection for the Working Age/Productive Age Group

Social Protection Coverage for the Working Age Group

- **Non-contributory scheme:**
Only around 0.12 per cent of the working age group receive protection from the non-contributory scheme (such as from PKH and APSBD/Social Assistance for PwDs Program).
- **Contributory scheme:**
 - ❖ **Health Insurance:**
the working age group has the highest coverage to the health insurance scheme, especially for those who are from the bottom 40 per cent with access to JKN-PBI (100 per cent); and around 66 per cent also has contributed to the non-PBI health insurance.

Figure 4. Indonesia's social protection programs across the life cycle, bottom 40 per cent and all of the population, 2017 (percentages)



Source: Susenas 2017 and 2017 program administrative data - compiled and calculated by TNP2K (2018)

Notes:

- The percentage calculation of PKH and PIP outreach in the early childhood and school age groups assume perfect targeting among the poorest 40% of households;
- For the contributory schemes, the coverage among the elderly and productive age groups only represents contributions made into the schemes as there are very limited benefit pay-outs to date

Social Protection Coverage for the Working Age Group

- ❖ **Contributory scheme → Employment Insurance:** approximately 16 per cent of the working age group population (around 24 mill individuals) has access to the employment insurance (where most are those who work for the formal sectors); and pension especially for the government employees (PNS, military and police force (through PT. Taspen and PT. ASABRI)).
 - ✓ **Most working age group with disability who work have no access to social protection, too** either from the contributory or the non-contributory scheme.

Table 2. Coverage of Social Protection for the Working Age Population with Disability

Programs	Number of beneficiaries	Percentage of people with disabilities with access to social protection programs for people with disabilities
PKH	47.087	1.24
ASPDB	22.500	0.59
Social security for employment programs	112.490	2.95
Taspen/Asabri	N/A	
Total	182.077	4.78

Notes: The number of people with disability is simulated using SUPAS 2015 data, with a total of 3,810,094 people with disabilities. Using this data, we can derive the distribution of disabled individuals across age group and province and apply this to SUSENAS (2017)

Source: Bappenas (2016 and 2017) for ASPDB and PKH beneficiaries and Social Security Agency for Employment (2017)

Challenges in accessing the Contributory Scheme through Employment Insurance

- **Social security for employment is managed by the Social Security Agency for Employment (BPJS *Ketenagakerjaan*)** which provides old age savings with disability benefit (JHT), survivors' benefit (JKM), work injury compensation (JKK) and elderly pensions (JP), for 2 groups:
 1. Wage-recipient workers/*Pekerja Penerima Upah* (PPU) and;
 2. Non-wage recipient workers/*Pekerja Bukan Penerima Upah* (BPU).
- Participation in all programs is mandatory for wage-recipient workers, excluding civil servants, military personnel and the police.
- **Unfortunately, based on the existing regulation (Perpres No. 109 of 2013 and Permenaker No. 1 of 2016*)** if non-wage recipient workers wish to contribute to the old age savings with disability benefit scheme (JHT), they must join the survivors' benefits and work injury compensation schemes (JKM and JKK) as pre-conditions.
 - ❖ Additionally, non-wage recipient workers are unable to contribute to the elderly pension (JP).
- While all programs are important for protecting citizens against various risks, **JHT and JP are particularly critical in enabling working age citizens to save for their old-age retirement.** These regulation have created practical barriers to achieving this for the informal sector.

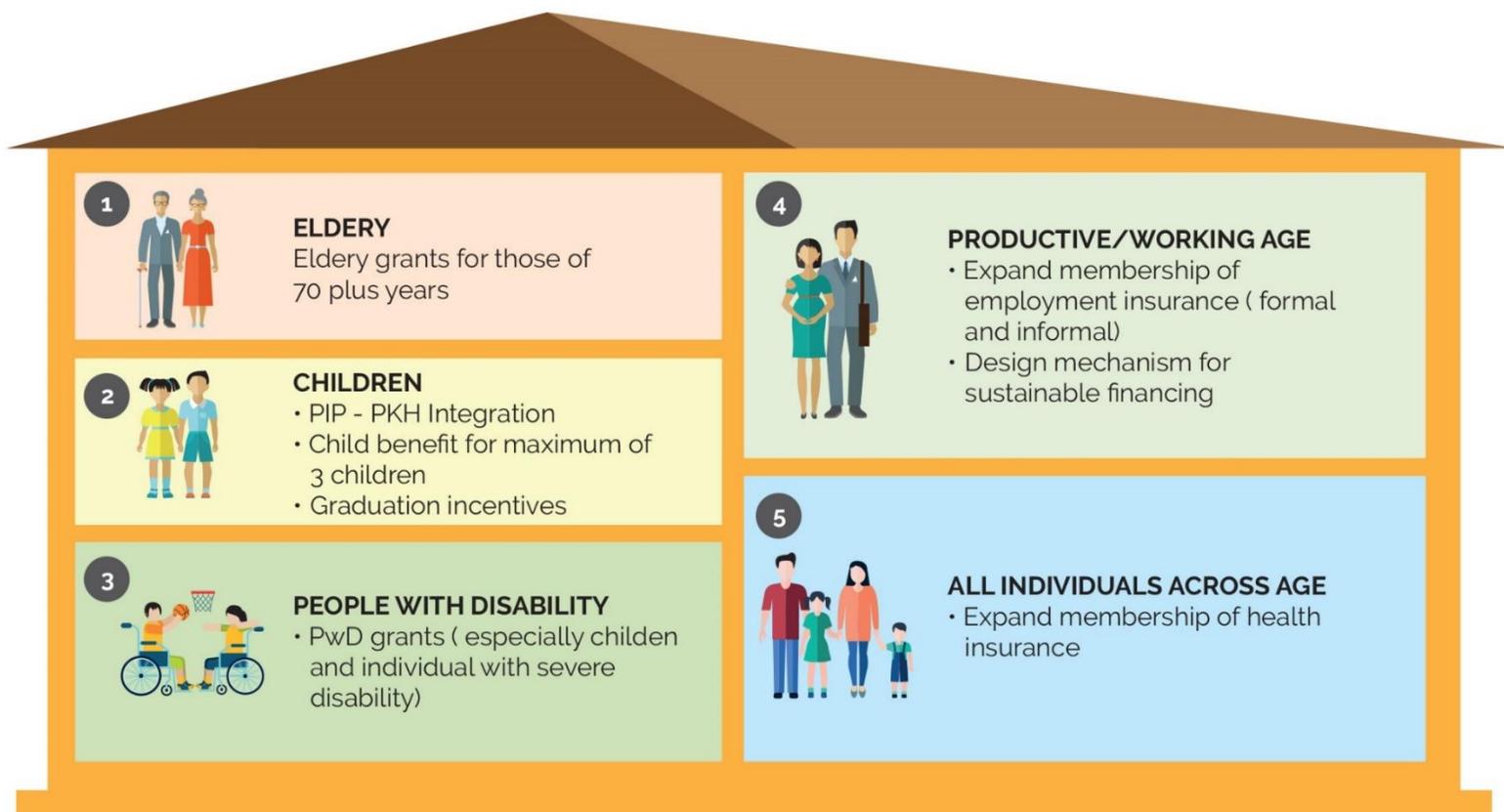
* Perpres No 109/2013 on “*Penetapan Kepesertaan BPJSTK/BPJS TK Membership Staging*”, and Permenaker No. 1/2016 on “*Guidelines to the Implementation of JKK, JKM, JHT for BPU/Tata Cara Penyelenggaraan Program JKK, JKM, dan JHT untuk BPU*”.

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Proposed Social Protection System for the Working Age/Productive Age Group

Social Protection Recommendation For the Working Age Group

Expanding membership of employment insurance (formal and informal)
For both the wage-recipient workers/*pekerja Penerima Upah/PU* and
non-wage recipient workers/*Bukan Penerima Upah (BPU)*



Source: TNP2K 2018 Publication

Social Protection Recommendation For the Working Age Group

1. **Revised the existing regulations (Perpres 109 of 2013 and Permenaker No. 1 of 2016)**, allowing non-wage earners to flexibly join any Social Security Agency for Employment program that best suits their needs and priorities, enabling them to actively save for old-age retirement.
2. **Design alternative mechanism for sustainable financing** for employment insurance programs, for instance:
 - Incentive mechanisms such as **matching defined contributions (MDCs)** into the old age savings with disability benefit (JHT) and elderly pension scheme (JP) should also be established to encourage contributions from non-wage earners (BPU) with savings capacity
3. **Improving and strengthening the socialization as well as ensuring for stronger marketing, registration and collection services** → particularly in rural areas where most informal workers reside but have little knowledge of the benefits of employment insurance and incentives existed in the schemes

MDC Scheme Illustration in Low and Middle Income Countries

- **Turkey** introduced a match of up to 25% of minimum wage in January 2013.
- **Thailand** has recently introduced a 1:2 match for the self employed which pays a lump sum.
- **India** matches 1:1 up to a low flat amount for informal sector workers.
- **China** recently introduced new rural pension which matches contributions up to a low flat amount at 30:100 and offers a non-contributory pension for elderly parents of contributors.
- **Costa Rica** since early 2000s pays 27% of the contributions for self-employed workers with less than 2x the minimum wage with lower shares as incomes rise.

Potentials and Challenges in the MDC Scheme

No	Potentials	Challenges
1	Matching contributions are being considered or started in a number of countries with low coverage.	MDCs take a long time to mature and have no impact on old age poverty; it does nothing for the current or soon to be old.
2	MDC policy and social pensions can be linked and harmonized to achieve clear objectives over time.	Matching contribution policies alone do not address the current coverage gap - social pensions can play that role in the short run until MDC matures.
3	Social pension dependence will be greater for older workers and gradually be replaced by dependence of younger workers on MDCs.	
4	Careful analysis of fiscal tradeoffs between the two types of program can only be done with long term projections and studies of take up elasticity.	
5	It may be especially attractive in countries with DC schemes for formal sector workers to reduce start up costs and allow for a seamless system.	

Source: Robert Palacios, World Bank Pension Core Course, 2015

Thank You

