

# P R A K A R S A Policy Brief

February 2021

## Welfare in Old Age: Aspirations of Social Security Contribution Assistance

### Key Points:

- The young generation in Indonesia has not been ready yet to face their old age because of some challenges: a lower income, working in informal sector that does not provide employment social security such as Old Age Security (*Jaminan Hari Tua/JHT*) and Pension Security (*Jaminan Pensiun/JP*), and being a sandwich generation (individual that have to provide the needs of their parents, siblings and other extended family members).
- The Indonesian System of National Social Security has not provided the informal workers an adequate employment social security. A case in a point, its pension scheme has not included the informal workers.
- The GOI (Government of Indonesia) needs to extend the membership of the employment social protection and include the poor informal workers into contribution beneficiaries (*Penerima Bantuan Iuran/PBI*) in the social protection.



Source: PRAKARSA's documentation

### Informality and Sandwich Generation

The population of Indonesia is currently dominated by the productive age group. According to Statistics Indonesia/BPS (2020), the productive age group (aged 15-59 years) is accounted for 171 million people (64%) in 2019. In the next ten years, Indonesia will enjoy a demographic bonus in which the number of productive age people is greater than the number of unproductive age people. The productive age group is now living in the industrial revolution 4.0 emerging the new opportunities and challenges that demands more skills from workers. If the workforce is not skillful enough, they would be excluded from the labor market or entrepreneurship. As a result, unemployment would be the serious problem for Indonesia in the future.

Regarding the Indonesian workforce condition, more than 80% of the total workforce currently hold secondary education or less, and more than 60% unemployed people are in the age range of 15-24 (BPS, 2020). Industrial revolution 4.0 caused a structural shift in the labor market, from the formal to informal sectors. The 2019 data of the National Labor Force Survey released by the Statistics Indonesia shows that from 126.5 million employers, more than 50% works in the informal sector (TNP2K, 2020).

If the possible problem of aging population is not anticipated properly and immediately, the opportunity for Indonesia to enjoy the demographic bonus could not be optimized. Even, this leads Indonesia to the bigger burden caused by the higher number of the poor elderly and subsequently, higher dependency ratio. In 2045, when Indonesia would be turning 100 years old, Indonesia is projected to have double demographic bonus. According to BPS (2020), the number of people with age equal to or greater than 65 is projected to increase from 25 million people (10%) in 2020 to 63 million people (20%) in 2045. In other words, if in 2020, one elderly can depend on six productive people, in 2045, one elderly would only be able to depend on three productive people. The higher the dependency ratio, the bigger the burden borne by the productive population to finance the lives of those who have not been productive yet and those who are not in the productive age anymore.

Currently, most of the productive age group is the *sandwich generation*, namely the productive young generation who have to support the needs of their grandparents, parents, siblings and other extended family members. With a high kinship culture, the extended family that must be borne is broad. In everyday life, this can be seen from the portrait of the productive age group where nearly 70% of

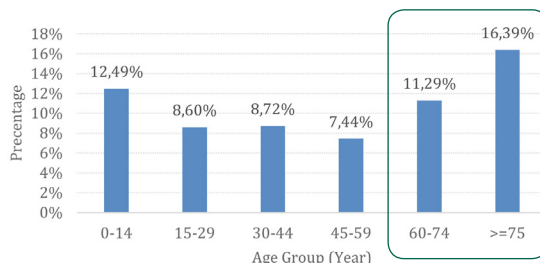
them live in three generation household. More than 50% of the productive age group live in the family owned or rented houses. Based on the employment status, more than 46% of the productive age group are not working, 35% are working and 19% are still in the school. More than 76% of them who are working earning less than IDR 2.5 million per month and most of them need to support other people's lives (PRAKARSA, 2020). Having lower income in the younger age implies the lack of preparation for their old age. This in turn, increase their vulnerability, being poorer when getting older (OECD, Preventing Aging Unequally, 2017). The higher the individuals' income, the greater the possibility to access social security for the old age.

### The Lack of Preparation for Old Age

The young generation in Indonesia has various challenges in preparing for their old age, such as a lower income, the large proportion of informal sector workers who are not protected with Old Age Security and Pension Security, and the burden of being the sandwich generation. the government has explicitly put the quality improvement of human resources for children, women, and youth/ productive age group as the priority program in The Medium-Term Plan of National Development (Rencana Pembangunan Jangka Menengah Nasional/RPJMN) 2020-2024. However, the GOI does not take seriously in implementing the improvement program for the productive age. This can be seen from the budget allocation for vocational training that is still far from adequate, even though the education budget allocation is already 20% of the total State Budget. The government must allocate at least 5% of the total education budget for the vocational training so that the productive age group can boost their productivity and have an opportunity for old age preparation.

Figure 1 shows the percentage of the poor based on the age group. The figure shows that the number of poor elderly is the highest among other age groups. The poor elderly aged 60-74 years old is 11.29% of the total, and the poor elderly with age equals to or greater than 75 is 16.39% of the total. The poverty based on the age in the figure exceeds the percentage of poverty in Indonesia, that is 9.82%.

Figure 1 Percentage of poverty by age



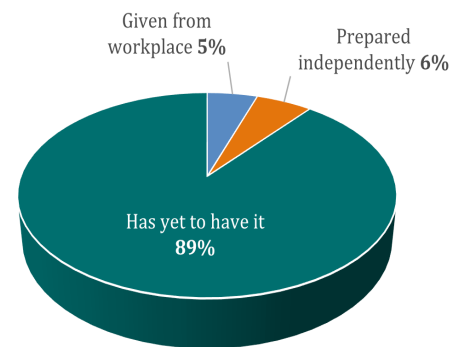
Source: National Socio-Economic Survey (Susenas) March 2018, processed  
 Note: Determination of poverty based on District / City poverty line

Recently, only few elderly have stable income and Pension Plan. Based on research results by PRAKARSA (2020), only 4% of the total elderly respondents have pension security. To meet their daily needs, almost 30% of the elderly must work, and most of them in the informal

sector as small retailers, farmers, and doing odd/ casual jobs. This research finds that almost 70% of the elderly people are depending on others to fund their living cost. This condition would happen to the next elderly considering the current membership of Old Age Security (JHT) or Pension Security (JP) hold by the productive age group.

In addition, the membership of the productive age group in employment social security program is still low. The National Team for the Acceleration of Poverty Reduction (based on the 2019 the National Labor Force Survey) highlights that only 38.4% of formal workers and only 0.2% of informal workers have participated in Employment Social Security programs. The membership in Old Age Security from the formal workers is only about 10%, and those from informal sectors is only 2%. Pension Security participation in the formal sector is extremely low (only 8%) while workers in the informal sector have not been covered by this scheme.

Figure 2 Ownership of preparation for old age



Source: The PRAKARSA, 2020

Furthermore, research by PRAKARSA (2020) found 93% of the productive age group agree that the Old Age Security or Pension Security is important. However, based on the graph 2 above only 11% of respondents have prepared for their old age. These respondents are workers with income IDR 2.5 million or more per month. In details, as much as 5 % receive Old Age Security or Pension Security from their workplace in the formal sector and as much as 6 % of workers in the informal sector prepare independently in the form of savings. Preparations in the form of savings or investments are chosen because the saving rate (the range between IDR 200,000-IDR 500,000 per month) is easier to set from the income, and savings can be used in difficult situations. Surprisingly, about 40% of the productive age group who have this preparation does not know whether the amount of their savings is sufficient for their daily needs in old age. Meanwhile, respondents who do not have any preparation for old age state that they would depend on the other family members or children and the government to finance their basic needs when they are not productive anymore.

### The Old Age Security and Pension Security Policies Have Not Been in Favor of Informal Workers

Law No. 40 year 2004 Article 3 states that the National Social Security System (Sistem Jaminan Sosial Nasional/ SJSN) aims to guarantee the basic need fulfillment and

the right to have a social security. The Old Age Security and Pension Security programs in Indonesia have been implemented since 2014. However, Pension Security has not covered informal workers. The law of National Social Security System has not put informal workers into their social protection scheme. Wage Recipient Workers (Pekerja Penerima Upah/ PU) can access both Old Age Security and Pension Security services, while non-Wage Recipient Workers (Pekerja Bukan Penerima Upah/ BPU) can only access Old Age Security.

In Law No. 40 year 2004 on the National Social Security System Article 42 states that "the amount of Pension Security contributions for wage recipients is determined based on the certain percentage of income or the certain amount that is borne jointly between the employer and the employee". This means that the article only accommodates Pension Security for wage earners or formal workers, while workers who are not wage earners or informal workers cannot participate in the Pension Security program organized by BPJS Ketenagakerjaan. Government Regulation No. 45 year 2015 about Pension Security does not regulate the participation of informal workers. However, more than a half of the employees in Indonesia work in informal sectors with a lower income. A survey by PRAKARSA (2020) finds that 70% workers earn less than IDR 2.5 million per month and only those earn IDR 2.5 million per month or more have preparations for old age.

Currently, contribution beneficiaries (*Penerima Bantuan Iuran/PBI*) scheme has only been implemented in the National Health Insurance program. Article 14 of the National Social Security System Law states that "the government gradually registers the memberships of the contribution beneficiaries to the Social Security Management Agency (*Badan Penyelenggara Jaminan Sosial/BPJS*)". In the 2nd act, the law states that "the intended contribution beneficiaries are the poor and needy people". This implies that the government can pay contributions for the poor informal workers who are unable to pay it, including the social security program. In order to translate this National Social Security System Law article 14 above into a solid implementation, the National Social Security Council (DJSN) has an authority to include the PBI and its operational cost into the budget plan of social security.

Pension Security can improve Indonesians' welfare because this help people smoothing their consumptions and providing income security, especially for the aging population. Social pension plan must focus on the poverty alleviation, pension adequacy, benefit/sustainability of the contribution, income equity and wealth distribution (Brown, 2008). The membership of pension security should be expanded and cover all categories of workers, particularly informal workers. According to the International Labor Organization/ ILO (2014), the key to reduce poverty in the old age is the accurate contribution of pension and affordability of pension scheme by all segments in the society.

Furthermore, Government Regulation (PP) No. 46 year 2015 about Old Age Security states that Old Age Security benefit can be cashed at the minimum of 10 years of memberships or at retirement age. Subsequently, the

government issued PP No. 60 year 2015 about the amendments of PP No. 46 year 2015 which was derived in Ministerial Regulations No. 7 year 2017 about the social security program, Article 36 allows workers to cash their Old Age Security when the work agreement period ends. This regulation is contradictory with the purpose of implementing the Old Age Security. Moreover, the latest law on the Job Creation (UU Cipta Kerja), article 46C, regulates an unemployment benefit which implementation is also based on the scheme of the Old Age Security in the National Social Security System Law. However, this unemployment benefit scheme does not accommodate informal workers because it is only granted to the formal workers or terminated workers.

## Productive Age Groups Expect to Keep Working in Old Age

The willingness of the current young group to work in old age is quite high. More than 60 % of the productive respondent state that they would prefer to work in their old age. They think that they have to keep working at the old age in order to fulfill their needs, help their family, and actualize themselves. The willingness to work in old age is not affected by the current employment status (employed or unemployed), and being an entrepreneur is the most favorable job they choose.

The productive age group sees that retirement should not be limited by a certain age but based on the type of work and a person's ability to work. Indonesia does not have a clear regulation about pension requirements, there are different definitions of the retirement age between private workers and civil servants. In Law no. 13 year 2003 about Employment does not regulate the time for retirement and the Retirement Age Limit (*Batas Usia Pensiun/ BUP*) for private sector workers. Article 154 letter c of the Employment Law does also not clearly and explicitly regulate at what age the retirement age limit applies. Regarding the private workers, the determination of the retirement age usually refers to the previous experience of the company or following several laws. Particularly, Law no. 45 year 2015 article 15 states that as of January 1, 2019, the pension age limit is 57 years and increasing by one every three years up to the maximum 65 years old. In terms of civil servants, based on Government Regulation Number 11 of 2017 about the management of Civil Servants (PNS), the retirement age limit for functional PNS is 58 years and for high-level leaders is between 60 - 65 years.

## Policy Recommendations

1. The government have to revise their policies immediately, including:
  - Law no. 40 year 2004 about the National Social Security System in article 42 regarding social security is paid by companies and/or workers. The policy should provide provisions so that payments can be made independently by workers, so that the program can protect informal workers whose higher vulnerabilities.
  - Government Regulation No. 45 year 2015 about the implementation of the Pension



### Managing Director :

Ah Maftuchan

The PRAKARSA Executive Director

### Written by :

- Eka Afrina Djamhari
- Aqilatul Layyinah
- Herni Ramdlaningrum

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**PRAKARSA**  
Welfare Initiative for Better Societies

Jl. Rawa Bambu I Blok A No.8-E  
Pasar Minggu, Jakarta Selatan  
Indonesia 12520

Phone +6221 781 1798  
perkumpulan@theprakarsa.org

Jl. Rawa Bambu I Blok A No.8-E  
Pasar Minggu, Jakarta Selatan  
Indonesia 12520

Phone +6221 781 1798  
perkumpulan@theprakarsa.org

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Security program. Policies should expand the pension benefits to workers in the informal sector and make adjustments to nominal contributions periodically.

- The government needs to review Government Regulation (PP) No 60 of 2015 about the amendments of government regulation No. 46 year 2015 about the implementation of the Old Age Security program, especially about the disbursement of Old Age Security benefit once people stop working. This policy is contradictory to the principle of the Old Age Security, where an old-age savings must be distinguished from unemployment benefit. Unemployment benefit is regulated in Article 46C of Job Creation Law, but this policy is also limited to formal workers.

2. The government must plan a system that can protect and support all low-income workers with social security. The National Social Security Council needs to urge the application of the Contribution Beneficiaries (PBI) scheme for the social security program immediately. Contribution assistance is provided to groups of informal workers whose nominal wages or income do not have enough purchasing power to participate in the social security as mandated in the law no. 40 of 2004.
3. The government and BPJS Ketenagakerjaan need to increase public awareness regarding the ownership of Old Age Security and Pension Security by involving multi-stakeholders through various socialization and media campaign.

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