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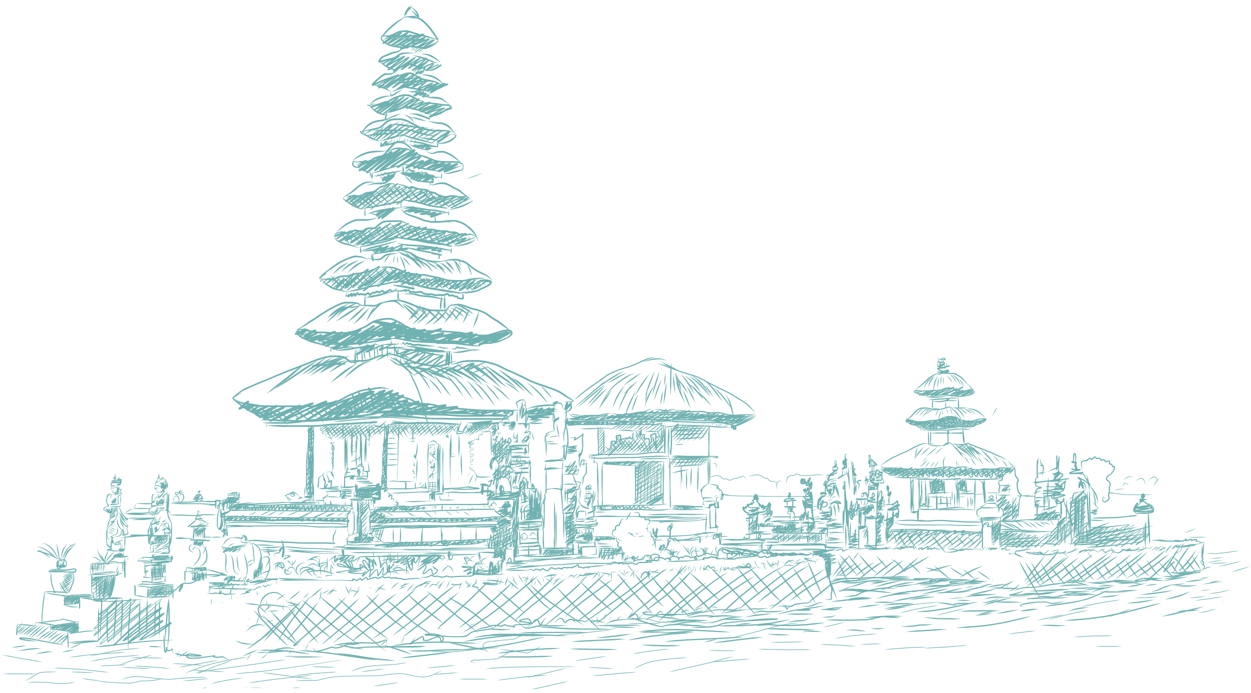
13
PENSION INCLUSION IN **INDONESIA**

YVES GUÉRARD
SENIOR INTERNATIONAL SOCIAL SECURITY EXPERT



INTRODUCTION

Indonesia is the fourth most populous nation with approximately 260 million people, of which about 100 million are living cheek by jowl on the island of Java and the rest scattered between 7,000 inhabited islands north and south of the equator. There are 34 provinces and 415 districts over a distance of 5,120 kilometers from east to west, comprising three time zones.

A new law (40 /2004) was adopted in 2004 to create a National Social Security System (NSSS or SJSN) stipulating five programs: Universal Health Coverage (UHC), Defined Benefit Life Pensions, Old Age Savings (OAS), Workers Accidents & Disability benefits (WC), and Funeral benefits. The implementation has been a long process and the first program was launched on 1st January 2014 providing UHC benefits. The other four programs were launched on 1st July 2015. This chapter focuses on the Pension and OAS programs that are relevant to pension inclusion.

The demographic context is favourable, the IT infrastructure and financial services are well developed and widely accessible. However, various factors contribute to a low pension inclusion level, in particular a large informal sector and within the formal sector the dominance of micro and small business units.

In this chapter we first document the context in which Law 40/2004 was adopted; then the context in which the programs were designed before implementation in 2014-15; third, the history that explains the long path to implementation; before looking at the results; and finally, what lessons we can learn from both the successes, or lack thereof.

DEMOGRAPHIC AND ECONOMIC CONTEXT

Demographic data points to decreasing fertility, increasing life expectancy, slowing population growth, and gradual ageing, all of which makes pension inclusion a timely challenge. Fertility has decreased from about 5.5 children in the 1950-70 period to less than 2.5 at the turn of the century. It is expected to stabilize at 2.1, barely enough to renew the population. According to 2010 UN medium projections the total population is expected to rise slowly to about 300 million by 2050, peak and then remain close to that level. Decreases in infant mortality were an important boost to longevity but in recent years the increase is more from mortality reductions at older ages. Life expectancy at birth jumped from 67.3 to 73.9 between 2000-2005 and 2020-2025 but is only expected to increase to 77.4 in 2045-2050. The difference between male and female life expectancy increased from 4.5 to 4.7. However, for pension programs mortality and life expectancy at higher ages are more important. At age 65, life expectancies for the same period increased from 13.5 to 15.1 and 16.8. The male/female differential increased from 1.5 to 2.3 and 3.6 respectively due to lower increases in life expectancy for males.

Table 13.1
% In higher ages increasingly rapidly

Age	1950	1975	2000	2025	2050
Total					
60+	6.2	5.4	7.6	12.8	22.3
65+	4.0	3.3	4.8	8.4	16.4
80+	0.3	0.3	0.5	1.2	3.2
Female					
60+	6.4	5.8	8.3	13.7	24.2
65+	4.1	3.6	5.3	9.2	18.2
80+	0.4	0.4	0.6	1.4	4.1
Male					
60+	6.1	5.0	7.0	11.9	20.5
65+	3.8	3.0	4.3	7.6	14.6
80+	0.3	0.3	0.4	0.9	2.3

THE EXPECTED DEMOGRAPHIC BONUS

At the time pension design was a work in progress and the net results of these forces had built a favourable demographic outlook.

In the short term there is a beneficial effect because the reduction in child dependency ratio reduces the burden that the working population must support before longevity impacts kick in. For a few years the country could afford to take care of the older vulnerable people and invest in infrastructures more easily that will help a decreasing active population, support future higher dependency ratios. Indonesia is burdened by low pension ages and thus has lots of room to reflect on increasing longevity and further increase the GDP as needed to care for a larger elderly population.

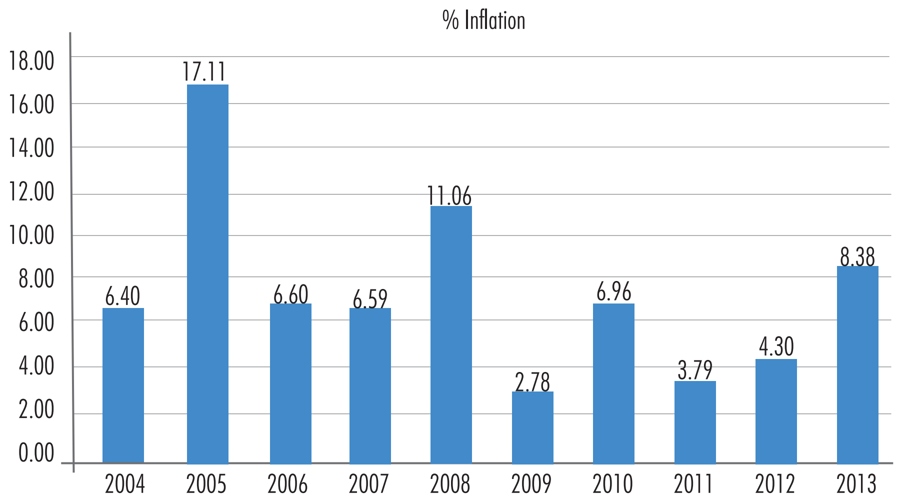
THE GROWTH OF OLDER AGE GROUPS

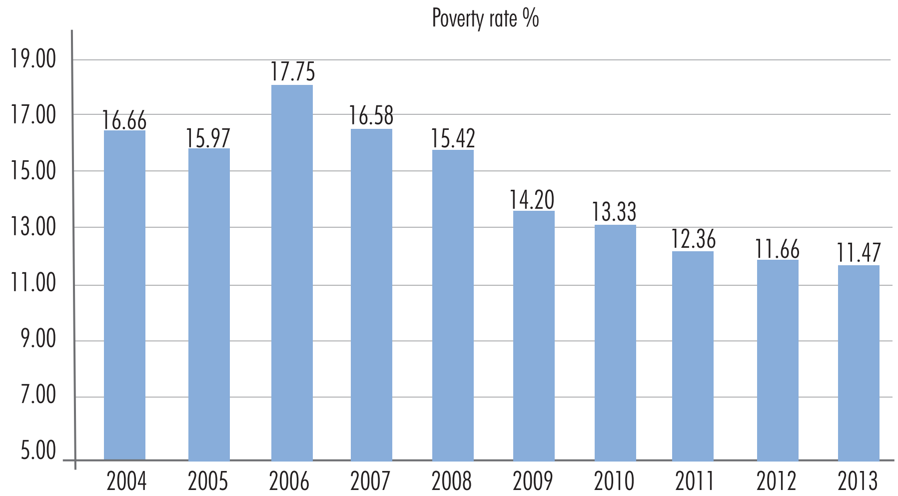
As a matter of fact, the changing shape of the pyramids and the increasing elderly dependency ratio points also to a rapid increase in the number of people surviving to higher ages. The pyramid then morphs into an ice cream cone! The evolution of the fraction of the population at higher ages is further examined in Table 13.1. Other countries faced with the same challenge have responded by increasing the retirement age, (better called the entitlement age), to encourage people to remain longer in the work force. In short, living longer calls for working longer. It has potential impacts not only on the work force, the dependency ratio, and the growth of the economy but also on poverty and inequality since in the absence of inclusion, people leaving the labour force are exposed to a decrease in their purchasing power.

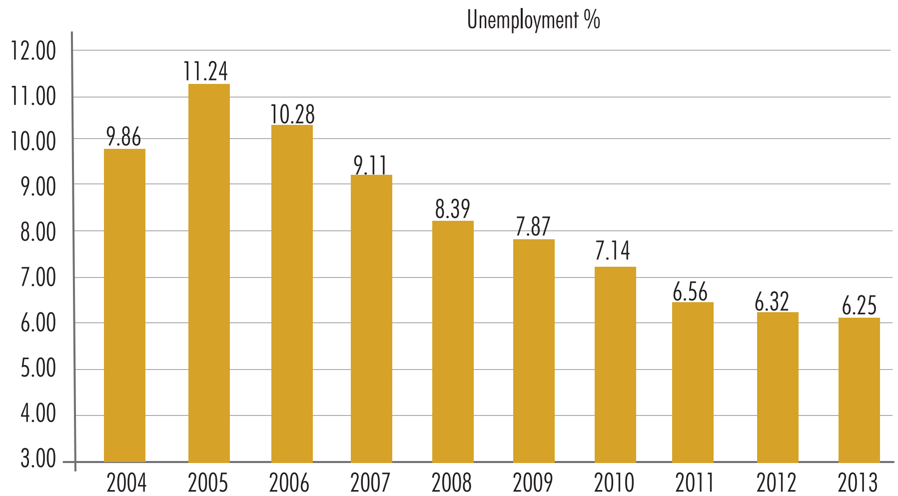
POSITIVE ECONOMIC INDICATORS

Economic indicators for the period following the adoption of Law 40 in 2004 to the years where the design of the SJSN programs took place show a generally positive context.

Figure 13.1
Economic indicators 2004 - 2013







GROWING MIDDLE CLASS

In the period leading to discussions on the design and implementation of social security programs, employment in the formal sector has been growing and unemployment decreasing. The labour force varied from 115 to 121 million and only about 35% is in the formal sector, but that percentage is increasing with urbanization. So when the UHC program was launched on 1st January 2014 and the pension program on 1st July 2015, they benefitted from a favourable context despite the 2008 economic crisis. In 2011 the World Bank estimated that between 2003 and 2010 about 50 million people joined the middle class. A majority of them (38.5 m) were from the lower middle class with average per capita expenditures between 150% and 300% of the poverty line.

INCREASING MINIMUM WAGES

Rising incomes put high pressure on minimum wages and large increases have been negotiated in key regions. A low level of scolarization has an impact on the distribution of wages, which is very concentrated at the low end, with most workers receiving little more than the stipulated minimum wages and sometimes less.

INCREASING DISPARITIES

In 2011, the national poverty rate was estimated at 11%, but this hides major inequalities. Thanks to higher minimum wages the poverty rate was only 4% in the capital, Jakarta, but 28% in the distant easternmost Papua province. 43% of Indonesians live on less than USD 2 a day. So while growth across the board has reduced poverty it has also increased inequality. Available data on poverty and inequality shows mixed results but since 2008 all measures of poverty have declined.

Table 13.2

% In higher ages increasingly rapidly

	2008 March	2009 March	2010 March	2011 March	2011 Sept	2012 March	2012 Sept
Total							
Number of poor (mill.)	34,96	35,53	31,02	30,02	29,89	29,13	28,59
Poverty rate (P0)	15,42	14,15	13,33	12,49	12,86	11,96	11,66
P1	2,77	2,50	2,21	2,08	2,05	1,88	1,90
P2	0,76	0,68	0,58	0,55	0,53	0,47	0,48
RURAL							
Number of poor (mill.)	22,19	20,62	19,93	18,97	18,97	18,48	18,08
Poverty rate (P0)	18,93	17,35	16,56	15,72	15,59	15,12	14,70
P1	3,42	3,05	2,80	2,63	2,61	2,36	2,41
P2	0,95	0,82	0,75	0,70	0,68	0,59	0,61
URBAN							
Number of poor (mill.)	12,77	11,91	11,10	11,05	10,65	10,65	10,51

FINANCIAL INCLUSION INFRASTRUCTURE

Indonesia has clearly entered the digital era and is progressing rapidly towards digital maturity both in the public and private sectors. The country took advantage of good timing to skip the cheque era and go directly from rolls of cash to electronic transfers and online banking. There are no paper invoices for electricity or telephones – one simply inserts the bank card in an ATM, check the amount due, and transfer the payment online. Similarly, cellular phones have pre-empted the need for expanding what would otherwise be an inadequate landline network.

THE PALAPA RING

The Palapa Ring has been on the agenda of Indonesian authorities since the late 1990s. The project, which is the first government-to-business cooperation scheme within the nation's telecommunications industry, involves a vast undersea fiber-optic cable network that stretches across some 13,000 kilometers as well as an onshore network of nearly 22,000 kilometers.

The main aim of the project is to provide fast broadband Internet to all Indonesians, in both urban and rural areas. The whole project (west, central and east sections) should be completed by 2019.

UTILIZATION

According to the Indonesian Internet Service Provider Association (APJII) there are currently 132.7 million Internet users in Indonesia, or approximately 51.8 % of the total Indonesian population. These figures, which are the result of a survey, are much higher compared to 2014 when APJII data showed that there were 88 million Internet users in Indonesia. Meanwhile, APJII confirmed that about 70 % of Indonesian Internet users use mobile devices to access the Internet.

FINTECH PEER-TO-PEER (P2P) LENDING

Building on the high penetration and robust network the Palapa Ring will provide, the financial regulator, Otoritas Jasa Keuangan (OJK), has issued a state-of-the art regulation[1] in December 2016 to provide a clear legal framework supporting the growth of digital financial transactions, Fintech and *Peer-to-Peer* (P2P) Lending, to ensure their security and protect the consumers. This development is particularly important to support inclusion given the geography of Indonesia.

FINANCIAL AND **OTHER RESOURCES**

Once Law 24, creating the implementing bodies, was adopted in 2011 the focus shifted to the design of the programs. Despite some limitations, Indonesia offered a very favourable context for achieving pension inclusion. The macro-economic indicators were positive and have remained so until now. Inflation was also under control and the MoF inflation assumption for the 2017 budget is 4% down from 4.7% in 2016.

[1] Regulation 77/POJK.01/2016.

More importantly, from the point of view of capacity to contribute, the data on the growth of GDP per capita is a strong positive indicator. The 2017 macro-economic assumptions for the national budget by comparison with 2016, sum up a review of macro-economic indicators. Thanks to a healthy GDP growth and a good fiscal discipline limiting the growth of debt, the debt to GDP ratio was down to 23.2% in 2013. It has increased to 27% in 2015 and the 2017 MoF budget projects a range between 27% and 30% in 2020 depending on GDP growth and infrastructure investments.

FINANCIAL SECTOR

Looking back to 2004, when the National Social Security System law was drafted, financial markets were still under developed. Banks dominated the financial markets comprising almost 80% of assets that in aggregate amounted to IDR 1,844.5 trillion, 67.6% of GDP. Figure 19 summarizes the structure. Comparative figures in 2015 demonstrate significant growth, but the continued dominance of the banking sector still controlling 78.3% of assets, (IDR 6,021 Trillion[2]) versus IDR 1,669 Trillion for NBFIs. In terms of percentage of GDP the total was 66.6% versus 67.6% in 2005.

Indonesia's equity market was also, relatively small, highly concentrated and relatively illiquid.[3] By the end of 2005 the number of companies listed on the Jakarta Stock Exchange had reached 336 versus 238 10 years earlier. Market capitalization stood at IDR 801 trillion, 29.4% of GDP, which is a lower level by comparison with other Asian countries.

Thus, there was great interest in the development of the non-bank financial sector and pension funds were deemed a potential contributor. The decision to create a new integrated financial regulator had been taken and the supervisory role of Bank Indonesia was about to be transferred to the new Supervisory Market Authority, OJK. The central bank, Bank Indonesia, continued to carry a three-fold responsibility as the monetary authority, regulatory, and supervisory authority for the banking system and payment system.

BANKS

There are 120 commercial banks in Indonesia (four state owned banks and 117 private banks). There are probably more banks than necessary in Indonesia but the small depositors are well protected by a Deposit Insurance Institution (LPS) that guarantees deposit of up to IDR 2 billion (about USD 150 000). Many banks offer both conventional and Islamic banking units (syariah products.)

Banking services are accessible through branches and ATMs that are now widely distributed outside the bank's own premises. In addition to these banks, Indonesia also offers access through 1,631 rural banks comprising 6,081 branches. The IMF Financial Access Survey compares the number of points of service per 100,000 adults and the latest survey shows that Indonesians enjoy relatively good accessibility.

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[2] The monthly average exchange rate for the USD in IDR varied between 13,871 and 13,020 in 2016 and 13,366 to 13,303 in 2017 up to August that shows a monthly average of 13,336. At that rate IDR 1 million equals USD 75 and IDR 1,000 trillion equals USD 75 billion.

[3] Unlocking Indonesia's domestic financial resources, World Bank Jakarta Office, December 2006. [3] Unlocking Indonesia's domestic financial resources, World Bank Jakarta Office, December 2006.

OJK, THE INTEGRATED FINANCIAL SUPERVISORY AUTHORITY

OJK is an autonomous Indonesian government agency that regulates and supervises the financial services sector to ensure it is working in an orderly, fair, transparent, and accountable manner. It protects the interests of customers and society. Stability and growth are its two key objectives. It is self-financing from levies payable by supervised financial institutions, and designed to be free from interference. It succeeded Bapepam-LK in 2011 when it took over the role of regulating and supervising the capital market and financial institutions, as well as that of Bank Indonesia a few years later, in regulating and supervising banks. Its role includes protecting consumers of the financial services industry. Financial inclusion is an express mandate and a key performance criteria.

In addition to banks, the main financial institutions are the Jakarta Stock Exchange, the insurers comprising Life, non-Life and Re-insurance companies, Finance companies, Asset management, Pensions Funds, Mutual funds, and two major social security administrative agencies (BPJS).

Scope of OJK Supervision:

- Financial soundness
- Implementation of good corporate governance
- Investment management and performances
- Risk Management and control system
- Financial fraud detection
- Asset Liability valuation
- Compliance and law enforcement
- Transparency and public disclosure
- Customer protection
- Collectibility ratio
- Systemic impact monitoring

INDONESIA STOCK EXCHANGE

Prior to 2007, Jakarta Stock Exchange or, Bursa Efek Jakarta, was a stock exchange based in Jakarta, Indonesia, before it merged with the Surabaya Stock Exchange to form the Indonesian Stock Exchange. (IDX or BEI)[4].

The 2015 annual report shows that the IDX comprises 521 equity issuers and the stock market capitalization was recorded at IDR 4,872.70 trillion by the end of the year, down 6.8% compared to 2014 when it had reached IDR 5,228 trillion.

4 http://www.idx.co.id/Portals/0/StaticData/AboutUs/AnnualReport/FileDownload/20160813_FA_IDX-AR-2015.pdf.

Figure 13.2
Market Capitalization and Jakarta Composite Index (JCI)

**(dalam trillium Rupiah)
**(in trillion Rupiah)

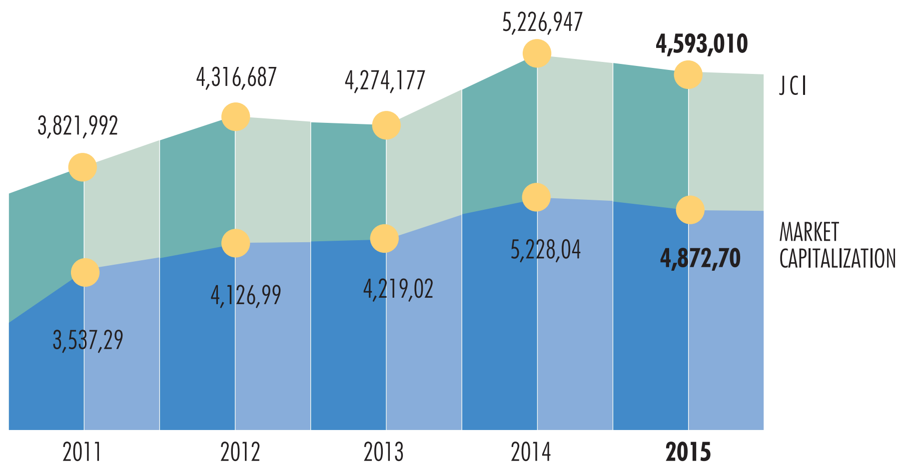


Table 13.3
Trade Summary December 30th 2016 16h00 WIB

Description	Volume	Value	Frequency
ETF	2,715,600	1,694,663,300	40
Stock	16,958,450,459	9,551,001,927,583	211,750
Warrant	228,923,376	76,390,075,366	835
Total	17,190,089,435	9,629,086,666,249	212,625

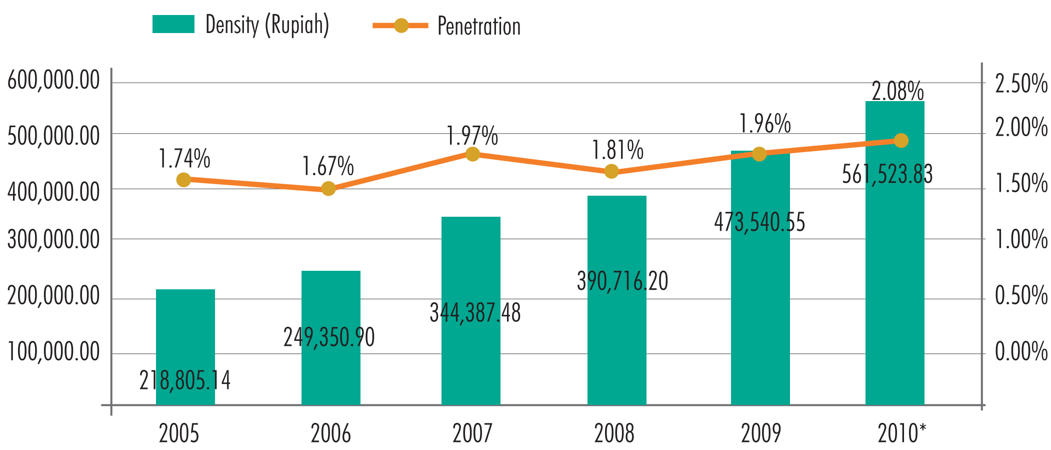
INSURANCE COMPANIES

It is important to note that 45 life insurers and 85 non-life insurers compete to serve Indonesian business units and other entities. Contrary to bank deposits there is no institution guaranteeing insurance products or the solvency of insurers. However, insurers are subject to public supervision by OJK and must comply with quarterly reporting requirements.

All insurers must maintain assets equal or greater than their liabilities plus a risk- based capital minimum as a safety margin both calculated in accordance with sound actuarial principles by an actuary who is a fully qualified member of the recognized Indonesian professional association that is a full member of the International Association of Actuaries.

The penetration and density of insurance products in Indonesia is growing rapidly but is still low, not for lack of accessibility but for cultural and other reasons. According to a survey presented at the OECD Asia Regional Seminar in Bangkok in January 2012 the utilization has evolved as follows:

Figure 13.3
Insurance Penetration and Density



PROFESSIONAL SUPPORT

An essential element of pension inclusion is of course pensions, more precisely life pensions that provide an income as long as the retiree survives and often a continuing reduced pension to surviving dependents, especially the spouse. Life pensions in Indonesia are technically life annuities, a product based on the probability of surviving (longevity) and interest returns. Annuities are a more efficient way to provide income for life by pooling mortality experience and channelling the funds to income rather than inheritance. Pricing of annuities must take into account future decreases in mortality and fluctuation in returns on assets, that should be based on sound actuarial calculations. Actuaries play an essential role in design and pricing of pension programs, private or public. They are responsible for reporting on the solvency and sustainability of the programs.

The association of actuaries in Indonesia called Persatuan Aktuaris Indonesia (PAI) comprises over 224 Fellows and 256 Associates. Over 700 students pursue actuarial studies and a few universities offer such courses. PAI was established in 1964 and became a full member of the International Association of Actuaries (IAA) in 2006. Actuaries are bound by professional standards, a code of ethics, and must follow a Continuing Education Program.

MORTALITY TABLES

The PAI in Indonesia, has been promoting the preparation and updating of mortality tables for individual and group life insurance policies. The most recent is TMI 2011 updating TMI II released in 1999[5]. It is based on wider experience data and was developed at the request of the Association of Life Insurance companies by a team of Indonesian actuaries, coordinated by the PAI with the support of Swiss Re and Bapepam-LK the predecessor of OJK. However, there is not yet a specific table for Indonesian annuitants. The annuity market is still in development and insurers have been using external mortality tables like the US GAM83 with adjustments. Although a large amount of experience has been gathered from the Civil Service Pension (CSP) program created in 1969 it seems that no reliable data is available for recent retirees. For the 2012 study of the CSP the table[6] used has been the United Nations Population table that includes projections of future decreases in mortality that result in increased longevity.

Mortality is highly correlated with education levels, income, as well as access and proximity to medical services. On these three accounts Indonesian civil servants are largely favored over the general population. They are better educated, have higher and more regular income than the average Indonesian worker, and live mainly in urban areas where hospitals and other medical care facilities are generally accessible. Civil service working conditions are generally healthier than that of many other categories of employment.

In-house mortality tables have been prepared by both PT Taspen and PT Jamsostek, as administrators of large pension and savings programs, respectively covering public and private sector workers, but the process has not been documented and the tables have neither been validated nor reviewed by peers. The PT Jamsostek mortality experience comes from the savings program. Since the program only pays a lump sum at termination or retirement, thus mainly before age 56, no data is available for ages above the pension age. It is expected, however, that in the near future mortality tables for Indonesian annuitants based on an analysis of the progress of longevity in Indonesia will become available. Recent trends point emphatically towards the inclusion of an analysis of mortality by level of income.

TAX COVERAGE AND TAX INCENTIVES FOR SPECIFIC FINANCIAL PRODUCTS

Income tax levels are low in Indonesia especially at low income levels. There has been a significant reduction from 2015 to 2016 due to an increase in basic exemption most likely related to significant increases in minimum wages. Indonesia uses a "final tax" system whereby employers withhold tax and employees do not submit tax returns unless they have other income or can claim a reimbursement. This is an efficient modern approach but there were only 27 million registered tax payers for a labour force numbering about 120

5 TMI-2 (1999) was originally developed as TMI-1 (1993) with technical assistance from Oriental Life Insurance Cultural Development Centre from Japan based on 1983-85 experience. It was subsequently updated in 1999 to TMI-2 based on 1993-95 experience. Unlike TMI 1, the second table TMI 2 was developed independently in Indonesia by KTM, a division of the Indonesia Insurance Board.

6 This table is part of a series of projections for male and female mortality from 2010 to 2080 at 5 year intervals.

million. Less than 10 million taxpayers filed an income tax return in 2014 and less than 1 million paid tax.

For a registered pension program the EET rules apply meaning contributions are deductible, returns on assets non-taxable but payments taxable. The same rules should apply for the SJSN pension and savings program. In comparison with developed countries the preferential tax treatment does not provide a very strong incentive to contribute:

- -tax rates are 0% for a large tranche of workers due to high basic exemptions
- -the "final pay" approach does not make the tax deduction very visible.
- -transfers out of a pension program to purchase an annuity are taxable

The reality is a bit more complex in that some payroll divisions do not bother with adjusting the withholding and not all assets are eligible for the exemption on returns. But on the positive side PP No68/2009 stipulates a special lower tax rate for pension payments as follows:

- 0% until IDR 50 million
- 5% above IDR 50 million.

That does not create a tax preference at low levels of income but it may motivate higher paid taxpayers to contribute.

IMPEDIMENTS TO **PENSION REFORM**

As demonstrated by the review of the demographic and economic context, and the existence of a robust infrastructure facilitating access to financial products, pension reform in Indonesia benefitted from a favourable context. However, there were a few impediments to overcome.

LEGACY ISSUES

The OAS administered by PT Jamsostek on a profit making basis was a savings program that paid no retirement pension, only lump sums at the termination of employment, retirement being the last termination. Since the Old Age Savings program was not providing social protection in old age there was no real social security programs in place in 2004. Thus, there was no legacy of unfunded liabilities since the benefits were a return of accumulated contributions. Contrary to many other countries, the drafting team did not face the challenge of reforming an existing system having accumulated a large Implicit Pension Debt (IPD).

However, it did not start from an entirely clean slate:

- very low pension ages embedded in public programs and in the public savings program for private sector workers

- the existence of a public program paying lump sums was an insuperable precedent, especially in the regional ASEAN context
- the legacy of an existing SOE administering similar benefits proved to be a serious organisational impediment to a clean start for the administrative bodies tasked with implementing the new National Social Security System;

In addition to legacy issues there are two external impediments worth mentioning:

- high severance pay on termination including retirement
- a large number of very small business units.

LABOUR LAW #13 SEVERANCE PAY

Severance benefits are payable under several articles of the Labour Law. In the absence of pension programs or unemployment insurance, electoral cycles in 1996, 2000, and 2003 pushed severance benefits to expensive levels, increasing significantly payroll costs. Although it is not mandatory to capitalize the promises, accounting rules require an evaluation and the reporting of liabilities in financial statements, adding to the compliance burden.

While these are not pension benefits, they represent a substantial long term financial burden for employers. Estimates of the average incurred expenses converge around 7 or 8% of the payroll but actual costs can vary depending on the causes of termination and the distribution of the labour force.

Moreover, much like the National Old Age Benefits Scheme, they provide lump-sum benefits at termination of employment, including retirement. Workers complain that in many cases they are not paid. It could have been a win-win situation to address the issue of harmonization or integration of these benefits within the new national system but contrary to earlier expectations Law 40 did not.

The difficulty was left for the design stage as anticipated in the White Paper in these terms: *"When the SJSN pension program is introduced, the severance pay program under Labour Law No. 13 should also be amended. Currently the severance pay program is being used to provide unemployment compensation and a lump-sum pension benefit. Once the SJSN pension program is introduced, the severance pay program will be needed for unemployment compensation only."* [7]

SMALL & MICRO BUSINESS UNITS

Official data allocates over 1/3 of the labour force to the formal sector. However, the distribution includes a very large number of workers in micro/nano business units. And, from the practical point of view of collection and enforcement these very small business unit workers, even if salaried, are like informal sector workers or self-employed. The split between employee and employer contributions would be virtual especially for an owner/spouse business unit.

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[7] White Paper (2009).

Table 13.4
Labour force fragmentation

Distribution of workers by size of business unit				
Category	**Business Units**	**Workers**	**Workers/ unit**	**Percent Workers**
Micro	57,199,292	104,624,466	1,8	88,90
Small	654,222	557,0231	8,5	4,73
Medium	52,106	3,949,385	75,8	3,36
Large	5,066	3,537,362	698,3	3,01
Total	58,900,787	117,681,244	2,0	100,00

Source: State Ministry of cooperative and small and medium-size enterprises. Author calculations

HISTORY OF SJSN PENSION REFORM UNTIL JULY 2015

Although the 1945 constitution as amended (articles 28H[8] & 34) did promise social security for all, the pension programs created in 1969 covered, for decades, only government employees (civil and military), employees of state-owned enterprises, and a few large employers. The pension age for most civil servants remained frozen at 56 until 2014 when it was raised to 58, a timid adjustment still short of reflecting longevity increases.

For good reasons priority was given to health coverage. A basic program was started in the 1960's but it was only in 1984 that it was expanded to cover employers of 10 or more workers for health, accident, life insurance, and some retirement coverage in the form of Old Age Savings (JHT). Performance did not meet expectations and compliance remained extremely low even after it was reorganized, made mandatory, and renamed Jamsostek in 1992. It barely covered 25% of private sector salaried workers and a lower percentage of payrolls due to under reporting. There was no real attempt to implement OAS in the informal sector except for construction workers.

A modern pension law was also adopted in 1992 that included tax incentives for voluntary pension programs in the private sector. It was opened to both formal and informal sector workers via defined contributions programs managed by financial institutions, but it never achieved a satisfactory level of coverage even in the formal sector. This was due in part to

[8] Article 28H: (1) Each person shall have the right to live in physical and spiritual prosperity, to have a home and to enjoy a good and healthy environment, and shall have the right to obtain medical care. (2) Each person shall have the right to receive facilitation and special treatment to have the same opportunity and benefit in order to achieve equality and fairness. (3) Each person shall have the right to social security in order to develop oneself fully as a dignified human being.

competition with the Jamsostek mandatory old age savings program providing lump sums, Law 13 severance benefits, more favourable tax treatment for mutual funds, and in part due to the financial crisis that hit Indonesia in 1997-98. Other contributing factors were, the low retirement age and generous benefit formula enjoyed by the public sector created expectations that could not be matched in the private sector while confidence in long term financial promises was low due to prior currency devaluations .

The participation estimated for mid-2015 can be seen as a baseline from which to measure future growth in coverage or progress in the inclusion. However, the data is a mixed bag of Defined Benefits (DB) and Defined Contributions (DC) programs offering different levels of benefits, in majority payable as a lump sum, thus offering no real social protection in retirement. Only a minority of participants had pension coverage: the 5.4 million civil servants plus a majority of the 3.6 million members of Employer Pension Funds.

A LONG ROAD TO PENSIONS FOR ALL

The origin of the current legal framework is a Multipartite Committee created at the request of the Parliament in 2001, hosted by the Office the Vice-President and mandated to draft a new National Social Security Law. The formation of the Committee created a climate of uncertainty not conducive to the development or even the continuation of existing pension and private savings programs.

In the context of 2001, developing the financial sector was a priority and the mandate was expanded to include pensions as well as old age savings for both the formal and the informal sectors. A draft law was submitted to Parliament in January 2004. It stipulated five programs, hotly debated and amended several times but remained incomplete. It became an electoral tool and was signed into law by the President on 19th October 2004 in an unprecedented high-profile ceremony on her very last day in office.

A VERY SPECIAL CONTEXT: DESIGN COMES LAST

The original draft SJSN law, as it is known by its Indonesian acronym, empowered existing state monopolies to collect and administer assets but had been watered down for political convenience. Although it was meant to provide "social" programs for the population it was an empty framework neither stipulating contributions nor, except to a limited extend for health coverage, benefits and eligibility conditions. There had been no preliminary studies or actuarial estimates and no White Paper circulated to help with the building of a national consensus.

Thus, implementing Law 40 required the drafting and adoption of a number of Presidential and Government regulations to stipulate the amount of benefits, the eligibility rules, and the required contributions for each of the five programs. Clarifications were needed with regards to the transition from existing programs and the harmonization with continuing private occupational programs. But more importantly it required the adoption of a law, latest in 2009, to create the administrative body (ies) that would manage programs yet to be designed.

For the new President who took office in 2005 the SJSN programs were not a priority and the Advisory Council was not appointed until 2008. Although some work continued to be done, little progress was being made on the critical issue of drafting the law to restructure the entities that were granted a monopoly by Law 40 to become the administrative bodies in compliance with the new legal requirements. The source of the difficulties was the infighting for the control of the funds and the political difficulties since the newly decentralized districts saw the creation of national monopolies as an indirect way to re-centralize delegated powers. Thus, the law creating the implementing bodies, known as BPJS, was not adopted before 2011. The programs were to be stipulated by Government Regulations yet to be drafted and retrofitted to the newly created administrative structure.

This long period that lasted over 10 years, during which the economic and political context evolved, was not used to reach a consensus on the benefits packages and the way to finance them. Even though actuarial studies became available as early as 15th May 2005, much of the debate focused instead on how to split the expected contribution cash flows and the resulting assets.[9] It was a long period of uncertainty for enterprises already sponsoring a private pension plan and it obviously provided no incentive to expand or to launch a private pension program.

PUBLIC SECTOR PARTICIPATION STILL AT PLAY

In 2004 it was clear that civil servants and armed forces would join private workers in the national programs. Article 1(13) of Law 40/2004 defines Employers as follows: *"Employers are individuals, entrepreneurs, legal entities, or other entities employing workers or state agencies employing civil servants that provide salaries, wages, or other forms of remuneration."* The preamble of Law 49 affirms a number of basic principles including compulsory participation, portability, and more importantly the *"Principle of Mutual assistance (gotong royong). This principle shall be implemented in a mutual assistance mechanism whereby the able participants are to assist the less able in the form of compulsory membership for all people; the low risk participants are to assist the high risk; and the healthy participants are to assist the sick. Through these principles, the social security may improve social justice for all Indonesian people."*

The way the pie was sliced in Law 24 of 2011 was due to a political decision that did not meet the expectations of PT Taspen named as a Social Security Administrative Body in Article 5(3)b. of Law 40 and to which, for decades, the GoI had out sourced the management of the civil servants occupational pension program. The civil servants pension formula was more generous than what could be expected for a public program, thus, PT Taspen could still expect to continue to administer a significant complementary occupational pension program. Nevertheless, carving out the portion to be provided by the new public program would significantly reduce contribution flows. In the end the arrangement made was that civil servants would not join the national public program until 2029! The reality check has thus been postponed for another 15 years.

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[9] Pisani, "Health policy and planning", (2016) 1-10, page 6: "Though dozens of studies had examined actuarial needs, the burden of disease, the fiscal implications of financing models and other technical aspects of policy options, these were barely considered in the negotiation process; this was a source of considerable frustration to some of our interviewees. Instead, the focus was on institutional arrangements".

How the transfer will be implemented has not been settled as well as the continuing coverage for civil servants. The pension program for civil servants is governed by a law adopted in 1969 and the creation of a national pension program has been the trigger for a reform of the program that is still pending. Two key issues that exacerbate the difficulty are:

- Will the reformed program apply only to new hires or to those as well who have participated for years after the reform for all civil servants, since eligibility for pensions under the public program requires 15 years of participation how will Civil servants who will be less than 15 years from retirement in 2029 be dealt with. Obviously if existing civil servants remained covered by the current formula and only new hires eventually join SJSN, the flow of contributions would be drastically reduced for a few decades.
- Which financing method will apply for the civil service pensions is undecided and which financing method will apply for the public program is still debated. Thus, depending on how the quandary is resolved for the civil servants can make a huge difference in the amount of assets generated and deciding which entity will administer the larger pie. The significance of the financial impact becomes more obvious when comparing the number of civil servants, 5.4 million, with the number of mandatory participants from the private sector, 7.5 million, as estimated above: it means 72% more participants, with stable earnings, low turnover, and a reliable solvent employer!

Since the civil servants are not a vulnerable group and are not victims of exclusion, those litigious issues will be left out of this chapter. But it makes even clearer that the driving forces in the debate are not the pursuit of an optimal design, serving "social justice", balancing adequacy, and affordability but how fast and where the pension assets would accumulate.

As it damages the credibility of the principles of fairness, equal treatment, and solidarity on which compulsory participation for all has been sold, it obviously does not facilitate the enrolment of participants from the private sector. If harmonization had been done immediately it would have given the proper signal to the private sector: private programs can be maintained with proper adjustment rather than terminated or closed to new employees.

LAST BUT NOT THE LEAST: DESIGN ISSUES

While the focus was on assets, not enough attention was paid to design issues that are of major importance for the country, the government, and the population. There had been no cost estimates made prior to the adoption of the law and no comprehensive White Paper circulated to guide the building of a consensus on major issues. The demographic, labour, and economic context in which design decisions were to be made had been a moving cloud. In an effort to fill the vacuum the MoF took the initiative to get a White Paper drafted and published it on its website in 2009 but it did not get much traction.

In the end Law 24 was promulgated on 25th November 2011, two Social Security Administrative Bodies (BPJS) were created, and the Presidential Regulations for the UHC program were signed on 18th January 2013 stipulating 1st January 2014 as the inception date. The Presidential Regulations for Pensions was signed on 30th June 2015 that is 10 years and eight months after promulgation of the SJSN law, literally hours before its effective date of 1st July 2015.

IMPLEMENTATION OF SJSN PROGRAMS **(LAW 40/2004)**

The transition to the new National Social Security System was completed over a period of 18 months - between 1st January 2014 when the UHC program was launched and 1st July 2015 when the remaining four programs also came into effect. However, the implementation is gradual since full coverage for the UHC is targeted for 2019 while the other programs are phased in over a 10 year period ending in 2029. However, for civil servants the transition may extend until 2029 as well.

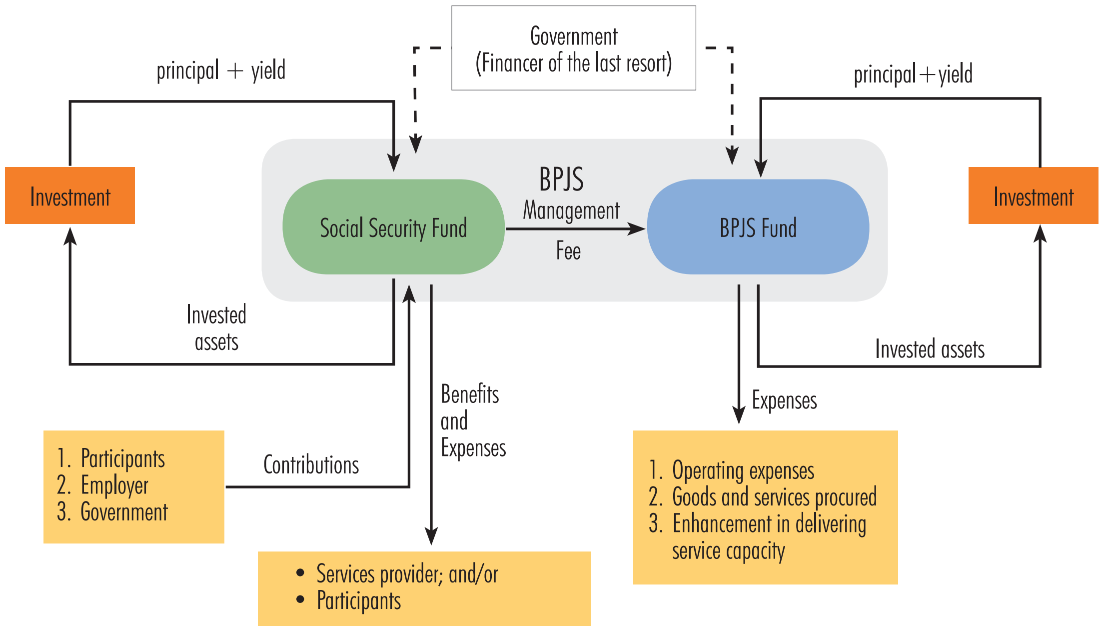
As was the case with the Old Age Savings program administered by PT Jamsostek that provided only lump sums, voluntary private pensions programs registered under Law 11 /1992 as well as termination allowances under Labour Law 13 will continue to exist in parallel as supplementary programs. However, sponsors of private pension programs may, subject to labour contracts, wish to “harmonize” their pension design or benefits formula taking into account SJSN contributions and pension benefits by adjusting parameters or by direct offset. Previous attempts to harmonize the benefits of Law 13 with private pension programs have produced mixed results and it is doubtful it will be done now that the overlap has become a “vested right”.

SEGREGATION OF PROGRAM ASSETS

Jamsostek was a taxable SOE paying dividends to the GoI as owner, and all the assets of the program were coming led with corporate assets. Though, for many years it was a source of profits for the Government, in recent years it, in effect, was operated as a non-profit program.

Thus, an important objective of Law 40 in line with best practices, was the separation of program assets from assets of the implementing agency. A second objective was that each program would be self-supporting, that meant no transfers between programs. That is what the new structure is achieving in a transparent manner.

Figure 13.4
Trustee structure of each SJSN program



THE NEW PENSION AND THE OLD AGE SAVINGS (JHT) PROGRAMS

The program of particular interest from the point of view of pension inclusion is obviously the Pension Program. However, since 1992 Indonesians have considered the Jamsostek OAS/THT program as social security for lack of a better model, even though it provided no financial security in retirement. Unfortunately, the old OAS, a DC savings program, was maintained as a legacy and integrated in SJSN even for future participants, pre-empting fiscal space for more pension.

Another consideration is that the pension program is available only to salaried workers, whereas all workers can participate in the OAS program though at the very low levels of a 2% contribution.

The tabular approach facilitates the comparison of the programs but requires explanations. The OAS/JHT program is simpler: workers and employer contributions, if any, plus compounded accumulated returns are paid out at termination of participation by death, disability, retirement as early as age 56, or leaving the country. After 10 years of participation there is a one-time option to withdraw 10% plus another 30% through a housing program. A worker that simply ceases to participate must wait until age 56 to get the lump sum.

Table 13.5
SJSN Pension and OAS Summary

Effective 1st July 2015	Pension For Life	Old Age Savings (JHT)
Participation	• Salaried in Large and Medium enterprises: • Civil Servants, Armed forces no later than 2029; • Salaried in Micro and Small enterprises can opt in	• All workers in Large and Medium enterprises; • Civil Servants, Armed forces no later than 2029; • Workers in Micro and Small business units can opt in
Benefit Formula	Monthly pension for life = 1% Indexed career average monthly wages times years of contributions*	Lump sum** accumulated contributions with returns
Maximum salary	IDR 7,000,000**	none
• Maximum benefits	IDR 3,600,000/ month*	none
• Minimum benefits	IDR 300,000/ month*	none
Contributions	Adjusted actuarially every 3 years up to 8%	fixed until modified
• Worker	1/3	2%
• Employer	2/3	3.7%
• Calculation base	Wages plus regular allowances	Wages including regular allowances otherwise table based on 2% of earnings
Age of entitlement	2015-2018 56	Fixed 56
• Increasing	1 per 3 years (max 65)	None
• Deferral option	Up to 3 years	Until actual retirement
Benefits		
• Termination before eligibility	Lump sum* accumulated contributions with returns	100% formula at age 56
• Retirement	Monthly Payments	Lump sum
• 15 years or more	100% formula	n/a
• Prior withdrawals	none	after at least 10 years 10% + 30% housing
• Total disability	after 15 yrs contribution or 1 month & 80% yrs 100% formula***	100% formula
• Surviving spouse see notes	after 15 yrs contribution or 1 yr & 80% yrs 50% formula***	100% formula
• Surviving child see notes	after 15 yrs contribution or 1 yr & 80% yrs 50% formula*** (Max 2)	100% formula
• Surviving parents see notes	after 15 yrs contribution or 1 yr & 80% yrs 20% formula***	100% formula

* Indexed annually according to inflation.
** Indexed annually according to GDP.
*** Formula to be calculated using 15 years as minimum.

Notes: Spousal pension ceases on death or remarriage.
Children pension payable only if no spousal pension.
Parents pension payable only if no spousal and no children pension.

INDEXED CAREER AVERAGE (ICA) PENSION FORMULA

While the description of the pension program may look more complex it is reasonably simple. In words it is a 1% per year of participation to an Indexed Career Average (ICA) program payable for life at a pension age that increases to catch up with longevity. However, in case one retires before 15 years of participation the only benefit is a lump sum equal to contributions plus compounded accumulated returns.

An ICA pension program is a modern formula that has been replacing final pay formulas. The risks of manipulation are lower since all years are taken into account. This reflects in a fairer manner the economic contribution of the worker during the whole career and adjusts automatically for fluctuations in income or interruptions. The indexation continues after the pension becomes payable and before retirement it maintains the purchasing power of the accruing benefits by "revaluing" the accumulation each year to compensate for inflation. A worker that contributed on average wages over the entire career will get a pension based on the average while someone who contributed on lower or higher wages will get a correspondingly lower or higher pension.

A LEGACY ISSUE PARTIALLY RESOLVED: THE PENSION ENTITLEMENT AGE

Another legacy issue to resolve was the entitlement age. For most civil servants the mandatory retirement age had been 56 since the creation of the Civil Service Pension (CSP) program in 1969. However, for some categories it was 60, and even higher for top officials. With the CSP having been the model, most private sector programs stipulated a low pension age, as low as 55 in many whereas others using age 60, at least for males.

Actuarial and demographic studies were persuasive. The Indonesian population was ageing rapidly. Pushing able and willing workers into retirement at low ages in a context of increasing longevity was expensive for a pension program and catastrophic for the economy.

Unfortunately, age 56 was carried over for the OAS program which weakens the message "Live longer, work longer!" Nonetheless, it being a defined contributions program, the direct financial consequences are supported by the individuals. Some see merit in the availability of lumps sums to facilitate the transition from the earnings level of an active worker to lower retirement income. As the lump sum is available at age 56, in the medium term, it can help bridge the gap between actual retirement and the age of entitlement to an age that will gradually reach 65.

With regards to the pension program's costs and benefit levels, strategic considerations led to hard coding, increasing entitlement ages in the regulations. The experience of other countries demonstrated that increasing a set pension age was challenging. The precedent of countries that linked the pension to longevity was considered but deemed complex and more vulnerable to interpretation. So a scale of periodic increases of one year of age per three calendar years was built in.

The objective was to control the dependency ratio by moving up the pension age since the financing of public pension programs is directly related to that ratio. As a rough approximation, if the dependency ratio is around 20% then providing a replacement ratio of 40% will require a contribution of 8% from the active workers assuming full participation. Building in increases of one year every three years, pushing the pension age to 65 for 2043-2045 is not a perfect fit with the projections but a reasonable approximation. No further pension age increases are stipulated after 2045 but the precedent will have been established and at that point if longevity has increased significantly, there will be more countries, than currently, that will have adopted ages higher than 65. Starting with age 60 would have been a better fit but it was deemed necessary to show the initial pension age as 56, aligned with the CSP but as no pensions were payable before 2030, de facto the initial pension age was 60!

HOW MUCH INCLUSION **HAS BEEN ACHIEVED?**

PENSION AND OAS PROGRAMS

Before July 2015 only about 1 million workers, outside the civil service and armed forces, could look forward to the financial security in retirement that a wages indexed life pension can provide. As of the end of 2016, 18 months after implementation on 1st July 2015, pension coverage had reached around 9 million formal sector workers, 21% of salaried formal sector workers. However given the 15 year eligibility requirement, improvements in pension inclusion will come slowly since no retirement pensions will become payable before 2030.

Particular attention must be paid to the description of participation. For practical reasons the program is implemented gradually starting with larger employers, and for GoI employees it may be delayed until 2029, since they are already covered by more generous programs that need to be reformed to become complementary occupational programs. Participation is still voluntary for workers in micro and small enterprises: this is of the utmost importance because as recently as 2013 these two categories included over 93% of the workers. Participation is, thus, mandatory only for 6.4% of the private sector work force, about 7.5 million workers in medium or large business units assuming all these workers are salaried. Consequently, the 9 million participants should include about 1.5 million workers in small and micro enterprises. Salaried workers in the small and micro enterprises have a strong incentive to join since the employer contributions represent an immediate return of 200% on the 1% contribution to the pension program and 185% on the 2% contribution to the OAS program.

Participation in the OAS program includes participants who are a legacy of the PT Jamsostek program. It has increased by 9% from 13.1 to 14.4 million, 33% of the formal sector workforce but has expanded very modestly into the informal sector remaining as low as 360,000 workers, about 0.5% of informal sector workers.

BPJS-TK has launched a pilot project called Perisai (modelled on Sharousi in Japan) in 11 branches to stimulate enrolment of workers in smaller business units. Success with salaried workers would help with enrolment of the larger number of non-salaried workers in the informal sector.

PENSION COVERAGE FOR VULNERABLE GROUPS

Participation is mandatory for the formal sector workers in large and medium business units. Even though vulnerable workers should be found mostly in the informal sector, they include formal sector workers at low wages employed in micro and small business units. Employees of large and medium size enterprises may also include vulnerable workers. In 2013, assuming the formal sector made up 35% of the labour force (123 million including 5.3 million civil servants) the formal private sector should have reached over 37.7 million workers. Large, medium, and small enterprises comprised only 13 million workers thus there should have been almost ¼ of the workers in micro enterprises, nearly 25 million, who were salaried but for whom participation was optional. Vulnerable groups in the informal sector have no pension coverage since only salaried workers are eligible.

OLD AGE SAVINGS COVERAGE FOR VULNERABLE GROUPS

The Presidential regulations for Old Age Savings apply to both formal and informal sector workers. They reproduce essentially the pre-existing Jamsostek design providing lump sums, whereas combining pensions and a partial lump sum option in a single retirement program would have been simpler and offered individuals more flexibility in the allocation of resources between pension and lump sum.

The contributions are set at 2% of earnings for the workers plus 3.7% from the employer, if any. Thus, informal sector workers not only do not benefit from the safety net of a pension income for life but accumulate only 35% of the Old Age Savings accruing to formal sector workers.

At the end of 2016, 14.3 million salaried workers (about 33%) were contributing to the JHT program. Since the program started to be implemented on 1st July 2015 and is voluntary in the informal sector, participation at the end of 2016 is still not significant: only 359, 785 informal workers (less than 0.5%). The Health Program was launched on 1st January 2014; three years after the start of its implementation, it is comforting that the number of non-salaried workers and dependents that are covered, has reached 19.3 million. On the basis of two dependents per worker, that would mean 6.4 million non-salaried workers participating voluntarily, almost 18 times the number having joined OAS so far. The significant level of voluntary participation in the health program indicates that there is a potential for the expansion of the OAS program to non-salaried workers.

CRITICAL REVIEW OF **OUTCOMES**

Contrary to the recommendations in the 2009 White Paper there is no recognition of past service or provision for social pensions for the existing old age population nor for active workers born before 1970. They will not be eligible to a pension and will receive only a lump sum equal to accumulated contributions since 2015. Assets accumulate quickly until 2030 but the first retirement pensions will be paid for July 2030, almost 26 years after the adoption of Law 40!

NO SOCIAL PENSIONS, NO PAST SERVICE

The appetite for accumulating assets contributed also to the rejection of the White Paper recommendation to provide social pensions for the older segment of the population and accelerate the transition to full pension by crediting past service for active workers already close to the retirement age. That would have increased disbursements in the early years but not ultimate costs. In combination with a gradual increase in retirement ages it would have reduced ultimate required contributions from 9.8% to 8.3% almost in line with the "8% dream". More importantly, "social justice", solidarity, and redistribution were the key justification for the Government mandate. Even in 2015, 70+ represented only 6% of the people in the age-group 20-69 of the population. Providing these people who built Indonesia through its difficult years with a modest social pension, recognition, and dignity for their remaining years of life would have given a deeper meaning to the promise of social justice.

Many countries accelerated the maturity of newly created social security programs by crediting years of participation to workers already close to retirement as a social bonus. Given the large amounts of Law 13 benefits accumulated by workers reaching pension age, an option to purchase years of past service to meet the 15 years requirement would have been an efficient way to put these assets to a good use.

FINANCING PATH AND CONTRIBUTION RATE

In a defined contribution program like the OAS what needs to be stipulated is the contribution rate. For the Pension Program Article 39(3) of Law 40 clearly stipulates a defined benefit formula, thus the contributions that can be collected are limited to what is for "fulfilling its future payments obligations" as per the elucidation of Article 50(1). BPJS actuarial simulations indicated that a low rate of 1.5% shared ½ % by participants and 1% by employers would be more than sufficient initially. A practical approach to future contribution increases was to make small increments every three years, synchronized with the increase in pension age. An increase of 0.3%, split 0.1%/ 0.2%, every three years would not be heavy on enterprises, would keep the rate above Paygo outflows, and was sufficient to finance the program well past 2050.

Given the uncertainties about the participation of civil servants and workers in small and micro enterprises as well as the compliance rate for large and medium enterprises it was deemed preferable to provide more certainty to individuals and enterprises while gradually moving up the rate towards a range that would facilitate a smooth transition to rates based on reliable actuarial estimates for a more mature program.

The fact that even before the design was finalized a rate of 8% had been proposed without regard to actuarial estimates[10] and endorsed by the BPJS became a source of difficulties that have not yet been resolved. It was obvious to many that 8% was not justified in 2015 nor desirable in the economic circumstances. Employers and other groups challenged the 8% proposal, pointing out that a defined benefit program does not entail the right to collect an arbitrary amount of contributions. Also, an arbitrary decision was seen as a dangerous precedent. The debate on PERPEM 45 escalated up to the President who signed it on 30th June 30th 2015. The compromise was an initial contribution rate of 3% split 1%/2% to be revised in the future.

The next revision is be due on 1st July 2018. An actuarial estimate of Paygo costs will obviously be still very low, well under 3%, as will be the case for the next few triennial actuarial valuations, despite the margin of uncertainty. Increasing the rate of contributions faster than necessary may choke the expansion of coverage whereas keeping it flat at 3% too long can create false expectations that will have to be overcome when catching up becomes necessary. So a sound financing strategy is necessary.

EXPLAINING THE INDONESIAN PARADOX: FINANCIAL VS SOCIAL VISION

How come Indonesia, a reasonably prosperous country, having adopted, over 12 years ago, a law creating a National Social Security System still has to overcome a pension inclusion challenge? The history of social security in Indonesia, since 2004 in particular, is still developing but is already rich in lessons to be learned.

The political process is well adapted to balancing affordability and adequacy in order to achieve the redistribution necessary to support the social contract. The justification for using the coercive power of the state is the need to achieve risks reduction through wider pooling and provide benefits that could not be sold for a fair premium on a competitive basis by the financial institutions licensed and supervised by the state itself. A pension program providing minimum benefits, socially designed survivor benefits, mandatory life annuities to pool mortality risks, and financed on an open group basis by taking advantage of the continuity of a sovereign government is a good example of intervention serving the public interest.

Management of assets and benefit administration require different skill sets and appropriate governance. A better practice is to have the management of assets done separately and independently on a competitive professional basis. The independent OAS program has little justification. The flexibility added by the availability of lump sums could

[10] Dr. Chazali H. Situmorang, Reformasi Jaminan Sosial di Indonesia, June 2013.

have been achieved more efficiently through a partial commutation option in the pension program letting individuals decide the balance between pension and lump sums subject to appropriate limits to control financial myopia.

CHALLENGES AND TAKE AWAY

LESSONS LEARNED

As summarized above there are still wide gaps to be filled to achieve reasonable pension coverage for vulnerable groups in Indonesia. Some lessons to be learned from the historical development include:

- Universal Health Coverage is easier to achieve than pension coverage and can be a useful locomotive to pull pension coverage forward;
- Deadlines can help prevent political procrastination that delay social benefits until it is too late for many vulnerable individuals;
- Old Age Savings lump sums programs are easier to sell but can draw attention and pull resources away from the financial security in retirement that pensions can provide;
- Legacy can become an impediment to optimal design and tend to preserve fragmentation; it may interfere with the social purpose of risk pooling and redistribution;
- Assets are a tool to finance income protection, but should not become an objective and pre-empt the original mission of social security bodies. There are normally multiple financial institutions in a country but for a given segment of population only one public program;
- Competition for the management of assets can dominate the social purpose, entail exposure to conflicts of interest, and distract attention from pension design and delivery issues that require different skill sets; a better approach is to allocate the responsibilities for assets and benefits to different institutions each with appropriate governance structure;
- Design that fits the needs for salaried workers of large enterprises well may not be an optimal model to extend to other groups of workers; more consultation with the stakeholders could lead to a better fit and easier enforcement;
- Generous pension coverage for public sector workers entails a double handicap for inclusivity:
    - » It creates targets that cannot be extended to the general population especially at low retirement ages
    - » It reduces the incentive for the leadership to address the needs of people that are not in the privileged groups

ACTIONABLE OPTIONS FOR ENHANCEMENT

Rethinking the structure would be a long term objective but other initiatives can be considered to achieve inclusion of more vulnerable groups.

SOCIAL PENSIONS FOR VULNERABLE GROUPS

Given that the 3% pension contribution rate is redundant in the short term modest social pensions for the older segments of the population is easily financeable. It would put excess assets to a useful purpose, increase the credibility of pension promises and thus promote participation and compliance.

The negative impact of the 15 year waiting period has already been mitigated by waiving it in case of death or total disability. Instead of returning accumulated contributions to workers reaching the pension age within the 15 year period, the accrued pension for the year contributed since July 2015 could be payable and a social pension added for the gap to 15 years. That would create a smooth transition between workers already retired and those just about to retire. Those workers could also be offered the option to fill the gap between social pensions for the missing years and a full ICA pension by “purchasing” the difference using Law 13 payments.

INTEGRATING THE OAS PROGRAM WITH PENSION

Managing two separate programs is an inefficient legacy that increases administrative costs, communication difficulties, and limits the flexibility workers could be offered in balancing life income and lump sums. It would also pre-empt difficulties that implementing the two asset management policy can generate. The pension formula could be increased to reflect the addition of a contribution of 5.7% but a commutation option made available from age 56 upwards to amounts comparable to current OAS accumulations.

STRUCTURED SETTLEMENTS

The OAS legacy program could be repaired by the BPJS offering structured settlements as a more efficient option than a lump sum. Alternatives would include paying over a five year or 10 year period for example so that workers used to manage a monthly pay are not suddenly pushed into irrational spending.

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