IOPS COUNTRY PROFILE: INDONESIA

DEMOGRAPHICS AND MACROECONOMICS

Total Population (million) [1]	*261.1*
Percentage 65 or older (%)[1]	*5.3*
Dependency Ratio (%)[1]	*48.8*
Life Expectancy at Birth, Male (years)[2]	*67*
Life Expectancy at Birth (years) for Female[2]	*71,2*
Labour Force (million)[1]	*127,4*
Statutory Pensionable Age - Male	*55*
Statutory Pensionable Age - Female	*55*
GDP per capita (USD, billion)[1]	*932,3*

1. Data taken on 2016, Source: The World Bank

2. Data taken on 2015, Source: The World Bank

COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Mandatory pension

- The government employees saving and insurance scheme (administrated by PT Taspen (Persero))
- The armed forces social insurance plan (administrated by PT Asabri)
- Old age savings and pension benefit for private sector and state-owned enterprises (administrated by BPJS Employment), fully funded, offering DC benefits

Voluntary Occupational pension

- Employer Pension Fund (EPF), operating either on DC or DB basis
- Financial Institution Pension Fund (FIPF), offering DC benefits

Voluntary personal pension

- Financial Institution Pension Fund (FIPF), offering DC benefits

INDONESIA: PENSION SYSTEM'S KEY CHARACTERISTICS

MANDATORY PENSION

The pension program for civil servants is managed by PT Taspen, while the pension program for the national army and police is managed by PT Asabri. Both of them (PT Taspen and PT Asabri) are state-owned enterprises. A new mandatory pension programme for formal sector employees started in July 2015. It is managed by BPJS Employment.

It is estimated that about 18,76 per cent out of the employed labour force, or 13,7 million[1], is entitled to receive old-age benefits from BPJS Ketenagakerjaan.

The government employees saving and insurance scheme

Introduced in 1963, Taspen is a government agency that runs a pension programme and endowment plan for civil servants. The pension fund for civil servants and the endowment plan are managed separately.

Membership in the scheme is mandatory for government civil servants. It is estimated that the Taspen retirement programme covers around four (4) per cent of the employed population.

Taspen operates as a defined benefit (DB) scheme financed largely on pay as you go basis. The scheme is financed for the most part by government revenues complemented by employees' contributions (3.25 per cent to the endowment insurance scheme and 4.7 per cent to the pension scheme).

Pension benefits are paid to civil servants upon retirement at age 56, or at age 50 with 20 years of government service, or in the event of death. The plan is not portable and voluntary termination of public employment prior to accomplishment of 20 years of service will generate a loss of benefits.

At retirement, benefits are paid in the form of a regular pension and a lump sum (the amount of the lump sum is calculated using the formula determined by the Ministry of Finance of Indonesia, and equals between 1.875 and 2.5 of the final salary multiplied by the years of service).

Survivors and disability benefits are also provided under the scheme.

The scheme operates on an 'EET' tax basis.

The Ministry of Finance supervises the pension programme and endowment plan for civil servants.

The Armed Forces Social Insurance Plan

All professional military personnel, civil employees of the Ministry of Defence and the police force are covered by retirement programme, managed by PT ASABRI. The retirement scheme covers less than 1 per cent of the employed population.

Similar to pension scheme for government employees, retirement programme for military personnel is run on a PAYG basis with a small reserve. While contributions, benefit and tax rules are similar to that applied

[1] Employed labour force data of February 2017, Source: Statistics Indonesia (BPS)

to civil servants, retirement age for military personnel is lower (50 years, instead of 56 for civil servants) and claimed retirement benefits are differentiated by rank.

The pension programme and endowment plans for members of armed forces are under direct supervision of the Ministry of Defense.

The old age savings and pension benefit for private sector employees and state-owned enterprises (managed by BPJS Ketenagakerjaan)

The national social security programme for employees of state-owned and private enterprises administrated by a state-owned enterprise, BPJS Ketenagakerjaan, operates on a fully funded defined contribution (DC) basis, providing to the members an old age benefit, work related accident benefit, death benefit and pension benefit. BPJS Ketenagakerjaan collects contributions, administrates benefits and manages the investment of the funds.

Participation in the social security programme is mandatory for all companies with ten or more employees or a monthly payroll of at least 1 million IDR. The programme does not currently provide mandatory coverage to self-employed workers (who can join the scheme on a voluntary basis only), formal sector workers with less than ten employees or informal sector workers. Coverage is being extended to employees of smaller establishments and to organised informal sector.

At the end of 2016, 21 million employees were members of this scheme.

The contribution rate to the old age savings program is set at 5.7 per cent of the salary, where employees contribute 2 per cent of gross monthly earnings and employers contribute an additional 3.7 per cent.

Contribution rates of the self-employed to the old age savings program are based on a certain nominal rate set out in the list in accordance with the Annex I of the Government of Regulation. Contribution rate is selected by participant pursuant to the income of each participant.

Members are authorized to withdraw accumulated contributions partially before retirement if they have contributed for 10 years.

Pension benefits are provided when a member reaches age 56 or over, in case of death prior to age 56, or in case of total and partial disability.

Pension benefits are paid in the form of monthly payments (those who reached 15 years of contributions or equivalent to 180 months) when entering retirement age until death.

The benefits can be also deferred (no maximum age for deferral is stipulated in legislation).

Social insurance benefits are adjusted every 2 years.

Contributions to the programme are tax-deductible; investment income from certain types of investment is exempt from taxation; pension benefits are taxed as normal income. Lump-sums benefits are taxed at personal income tax rates ranging from 5 per cent to 35 per cent. Lump-sum benefits are taxed at the rates of 5 per cent if the amount is below 25 million IDR, 10 per cent for the lump-sum between 25 million IDR and 50 million IDR, 15 per cent for the part between 50 million IDR and 100 million IDR, 25 per cent for the part between 100 million IDR and 200 million IDR, and 35 per cent for the part of the lump sum exceeding 200 million IDR.

The BPJS Ketenagakerjaan programme is supervised by the Indonesia Financial Services Authority and the Audit Board of the Republic of Indonesia.

PRIVATE OCCUPATIONAL VOLUNTARY

In 1992, the current voluntary private pensions system was introduced as part of a major reform of the national retirement income policy.

A single employer or a group of employers can establish occupational private pension plans for their employees on a voluntary basis to provide additional retirement benefits. In the case of multi-employer funds, only one employer should be the main sponsor and define the plans' rules. It is not mandatory for employees to join the plan and participation cannot be made a condition of employment.

Pension plans sponsored by employers may be defined benefit (DB) or defined contribution (DC) and must be implemented though pension funds set as independent legal entities from the sponsoring employer. The employer can either establish directly a pension fund (employer pension fund) providing DB or DC benefits or through signing a contract with a financial institution pension fund (established by bank or life insurance company) that will set up and manage pension fund operating on DC basis.

The Law gives employers discretion to choose a pension scheme for their employees, in line with their pension policy. Mostly, the employers affiliate their employees to a single scheme, but some employers provide several schemes to their employees, so that the employees may choose between different types of schemes. The Law also permits employers to arrange different scheme for different group of employees, provided that this differentiation is not based on race, religion and faith, gender and other type of discrimination.

Coverage

State-owned enterprises and formal private sector employees can be offered a possibility to join voluntary private pension arrangements. The minimum legal age to join a plan is 18, but this condition is waved for married employees.

On 2015, less than 5 million employees (around 4.2 million) participate in voluntary pension schemes (around 6.16 per cent of employed labour force).

Contributions

Pension funds can be financed either solely by employer(s) or through both employer and employees' contributions with contribution rates determined by the rules of the schemes. If only employer contributes to the scheme, automatic enrollment may be implemented, but workers are left with the choice whether to join the programme (or not).

Employer/employees contributions:

In relation to DB plans: Actuarial calculations should be performed at least once every three years to determine the level of employee contributions to a DB programme. The employee contribution rate should not exceed three times the accrual rate used in order to calculate pension benefit for the related year. In the case of a lump sum formula DB plan, the annual employee contribution rate must not exceed 3 per cent of the multiple pension salary used in order to calculate the pension benefits (rights) for the related year.

In DC plans: Contributions can be paid based on a fixed percentage of salary or on the profits of employers made in a particular year (i.e. profit-based pension plans). The annual total contribution by an employer and employee to define contribution plans shall not exceed 20 per cent of pensionable salary. Employees should not be required to make contributions that equate to more than 60 per cent of their employers' contributions. The maximum limits for members' contributions are also valid for financial institution pension funds.

In the case of profit-based DC plans, the employer contribution must be a percentage of a yearly profit before tax, and must, even in absence of profits, amount to at least 1% of pensionable salary.

Benefits

Waiting period: A minimum waiting period of one year applies for new employees willing to join an employer's pension scheme.

Vesting/portability/transferability: Participants are entitled to receive pension benefits after 3 years of participation in the pension fund and may transfer their rights and accumulated funds to another pension fund upon termination of employment prior to retirement.

Employees' contributions vest immediately and employers' contributions vest after 3 years of plan membership.

Employees who leave contribution plan after less than 3 years of membership receive a refund of their contributions plus interest (corresponding to the interest payable on a time deposit of a state-owned bank).

In case of termination of employment before the retirement age, employees participating in a pension plan can: 1) opt for accrued benefits to be transferred into a deferred pension to be paid by the former employer; 2) transfer present value of accrued benefits to the financial institution pension fund; 3) transfer present value of accrued benefits to the new employer (but no specific rule applies for the calculation of present value of accrued benefits in DB plans).

The payment of retirement benefits can be claimed when a member reaches the normal retirement age, usually set at 55. Members may also opt for early retirement. The early retirement age must be 10 years before the normal retirement age. The full retirement age as well as early and deferred retirement ages must be defined in the plan rules.

In DB plans benefits can be calculated based either on a pension accrual rate formula (pension formula plans) or a lump-sum formula (lump sum formula plans). The yearly pension accrual rate in the case of define benefit pension formula plans must not exceed 2.5 per cent of pensionable salary with a maximum career accrual of 80 per cent. In the case of DB lump-sum formula plans, the benefit accrues as a multiple of monthly pensionable salary, which must not exceed 2.5 with a maximum career accrual of 80 time's monthly pensionable salary. They usually represent one to two months' salary per year of service (where the salary used to calculate the benefit at retirement represents the average salary over the last 12-36 moths of service).

Upon retirement, accumulated funds in a DC scheme, (which represent the amount of contributions and investment income), can be paid by the employer pension fund or life insurance company chosen by the employee trough annuity scheme.

The Pension Fund Law stipulates for both DB and DC plans that benefits be paid as an annuity after a possible lump sum payment equal to 20 per cent of the value of the benefit. When total funds accumulated in a DB pension formula plan are less than 1,600,000 IDR, a lump sum can be paid for both employer pension funds and financial institutions pension funds. In case the total funds accumulated in DB lump-sum formula plan or accumulated capital in DC plans are less than 500,000,000 IDR or over 1,500,000,000 IDR, the benefits are paid as a lump sum. However, for the case when the total pension benefit is over 1,500,000,000, only the excess value will be paid as a lump sum.

Survivors and disability benefits are also available under the programme.

Fees

There are no legal limits on fees and operational costs. For an employer pension fund (EPF), the sponsoring employer has to include the type of expenses that can be charged by administrators as part of operational costs in the plan text. The amount of operational cost is usually agreed by the employer and fund administrator on a periodical basis and included in the investment directives. For financial institutions pension funds (FIPF), the plan text has to state the amount of fees that can be charged by administrators to its participants. The supervisory authority does not approve these fees and the level of fees charged by private pension providers is determined by the market.

Taxation

Taxation of members' contributions:

Tax-deductible

Taxation of employers' contributions:

Tax-deductible

Taxation of investment income:

Certain types of investment income are tax-exempt (interest and discount from time deposits, certificates of deposit and savings including certificates from the Bank of Indonesia; interest from bonds traded on the Indonesian stock exchange; dividends from companies listed on an Indonesian stock exchange). Other investment income is taxed as corporate income.

Taxation of benefits:

Pension benefits (lump-sums) are taxed at personal income tax rates ranging from 5 per cent to 35 per cent. Lump-sum benefits are taxed at the rate of 5 per cent if the amount is below 25 million IDR, 10 per cent for the lump-sum between 25 million IDR and 50 million IDR, 15 per cent for the part between 50 million IDR and 100 million IDR, 25 per cent for the part between 100 million IDR and 200 million IDR, and 35 per cent for the part of the lump sum exceeding 200 million IDR.

PRIVATE PERSONAL VOLUNTARY

Financial institutions pension funds (established by banks or life insurance companies) may also establish private pension funds, open to any individuals (employed, self-employed, or without employment) willing to make retirement savings, known as FIPF schemes**.** This scheme can only operate in a defined contribution (DC) form.

Coverage

Any individuals can establish a voluntary private pension plan managed by private financial institutions.

Contributions

Contribution rate is usually defined in the contract established between an individual and the financial institution.

Benefits

Members are entitled to receive benefits upon reaching the legal retirement age set in a range of 45 to 65.

Members may also opt for early retirement.

Retirement benefits are paid on a monthly basis through purchasing a life annuity from an insurance company.

The Pension Fund Law stipulates that benefits be paid as an annuity after a possible lump sum payment equal to 20 per cent of the value of the benefit. In case the accumulated capital in DC plans is less than 500,000,000 IDR or more than 1,500,000,000 IDR, the benefits are paid as a lump sum both of employer pension funds and Financial Institution Pension Funds. However, for the case when the total pension benefit is over 1,500,000,000, only the excess value will be paid as a lump sum.

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REGULATORY AND SUPERVISORY AUTHORITIES

The Indonesia Financial Services Authority (Indonesia FSA or OJK):

OJK approves and supervises private pension funds. Risk Based Supervision Framework for Pension Funds was developed in 2008.. The supervisory assessment is related to each pension fund based on the regular reports submitted by the administrator and others relevant sources of information. The oversight consists of the collection and evaluation of information on a pension fund in order to determine:

- the periodical reports submitted by the Pension Fund are correct;
- the Pension Fund complies with the legal requirements; and
- the organizational structure of the Pension Fund is effective and efficient.

Oversights can also be carried out on an ad hoc basis if there are reasonable grounds for the supervisory authority to believe that a pension fund does not comply with legal requirements.

Indonesia Financial Services Authority

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