



# Pension Fund Policy and Regulation in Indonesia

Strengthening Investment & Asset Allocation Strategy through Financial Sector Development and Strengthening Reform Law (P2SK)



Fiscal Policy Agency  
Ministry of Finance  
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# REFORM ON PENSION SYSTEM IS ESSENTIAL TO ENSURE THE OLD AGE PROTECTION FOR WORKERS IN INDONESIA

## Current Condition

- Low coverage of pension system
  - ✓ Currently, there is **only around 16% of workers** in Indonesia who are protected by the pension program.
- Low pension benefits for retiree
  - ✓ In many condition, the pension benefits **only cover as much as 10%** of the replacement ratio.
- Early pension benefits withdrawal
- Low retirement & pensionable age
  - ✓ Most of workers stop working in their productive age
- Investment policy is not optimal

## Expected Condition

- The majority of workers are protected by the pension system
- The minimum pension benefits is 40% of the last income (ILO recommendation)
- Pension benefits can be accessed when reaching pensionable age
- A more reasonable retirement age
  - ✓ Considering the increasing life expectancy
  - ✓ Considering the unproductive age
- Optimal investment policy

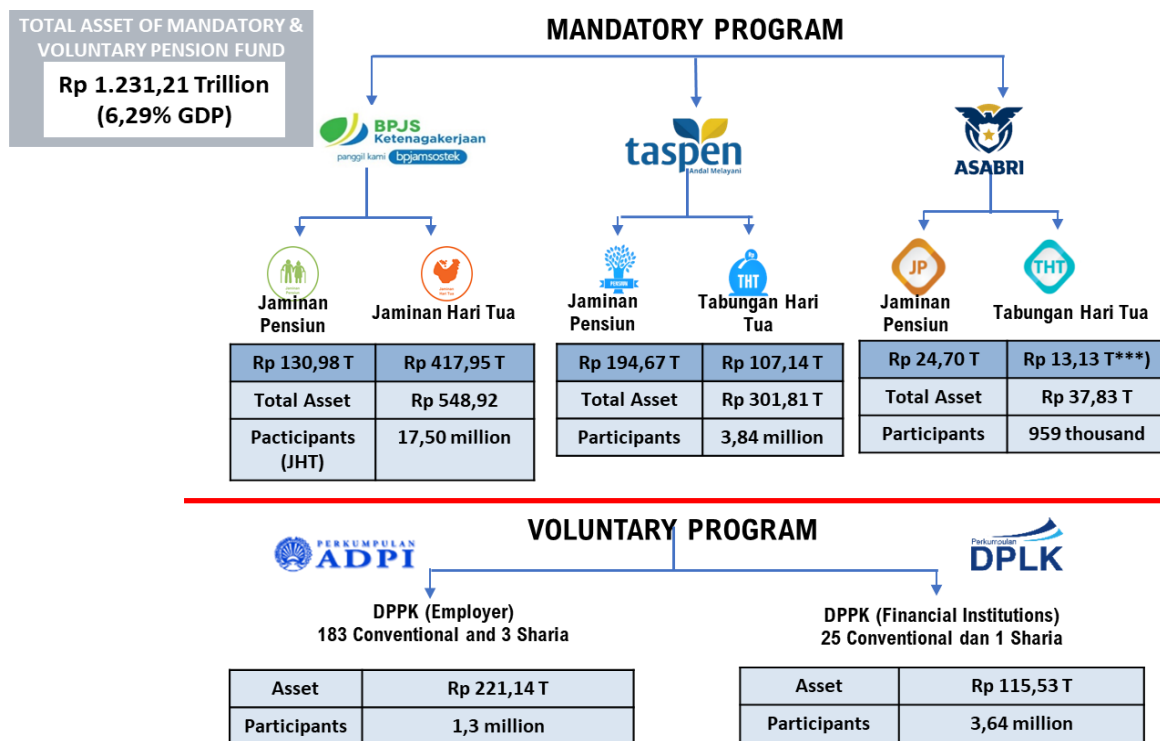
## Reform Needed

- Harmonization of all pension programs
- New design: (i) guaranteeing 40% of replacement ration, while ensure (ii) the affordability of the contribution, and (iii) the sustainability of the program.
  - ✓ Including the policy to limit early withdrawal
- Automatic adjustment for some variables, i.e. pensionable age, minimum and maximum pension benefit.
- Investment policy that follows best practices

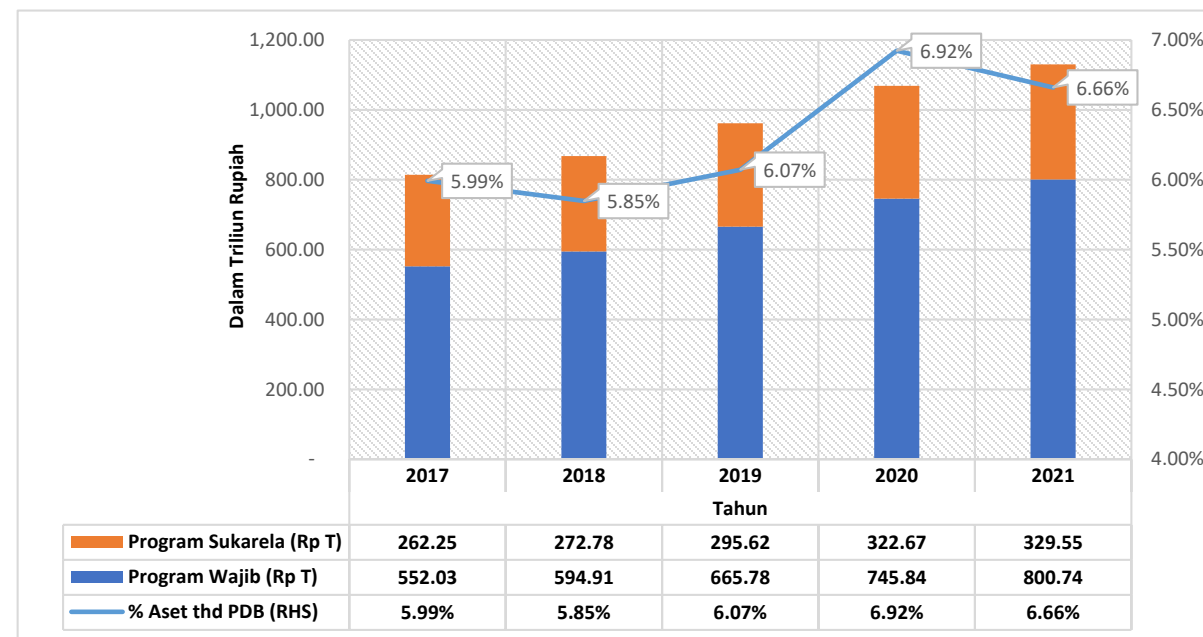
# REFORM ALSO SUPPORTS THE LONG-TERM FINANCING SOURCES FOR NATIONAL DEVELOPMENTS AND INVESTMENTS

The contribution of pension programs to the economy is only around 6.3%. For benchmarking, Australia and Canada are at around 150% of GDP, while Malaysia is at 65%.

## ASSET OF PENSION PROGRAM 2022



## ASSET OF PENSION PROGRAM TO GDP (%) 2017 - 2021

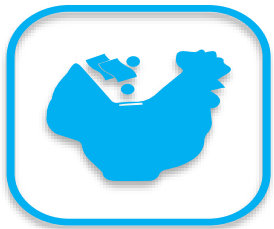


# P2SK LAW STRONGLY AIMS TO DEVELOP AN ADEQUATE, AFFORDABLE, AND SUSTAINABLE PENSION SYSTEM



## ✓ The replacement of Pension Fund regulation (Voluntary)

- Revoking UU 11/1992 on Pension Fund
- In general, it regulates:
  - Increasing option & standards: i.e. some financial institutions other than Banks and Life Insurance can form a pension fund
  - Increasing flexibility: i.e. managing more than one pension scheme & conducting periodic payments
  - Updating the design to fit the current development: i.e. regulating pensionable age for pension fund
- **Enhancing governance, risk management, and investment policy of pension fund**



## ✓ Amendment of the JHT Law - UU No. 40 / 2004: limit the early withdrawal

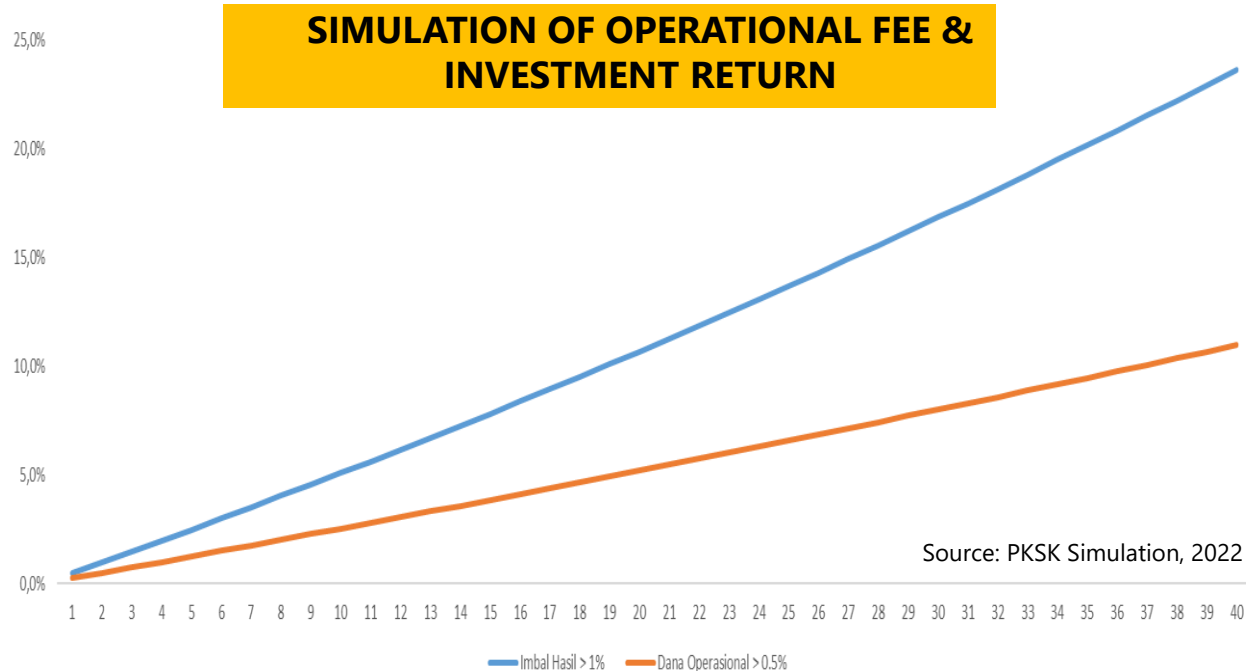
- Introducing 2 accounts on JHT: First account (for pension income, can only be withdrawn after pension age) & Second account (for emergency needs)
- Increasing the option for JHT withdrawal after the pension age



## ✓ New Regulations

- Article 190: Strengthening the governance & investment policy for all pension programs**
- Article 191: Regulating cut loss policy on pension program that relates to budget state**
- Article 192: Creating an actuarial unit within the regulator**
- Article 189: Harmonizing all pension programs

# STRENGTHENIC GOVERNANCE & INVESTMENT POLICY THROUGH P2SK LAW



P2SK Law amends regulation on the UU 11/1992 as well as formulate new regulations (Article 190, Article 191, Article 192) to strengthen the governance and investment policy of Pension programs and Pension management, including but not limited to:

- 1. Obtain an optimal return** for the greatest interest of the participants
  - Slightly higher returns (1%) each year provide a potentially significant increase in benefits in the long term (20% in 35 years)
- 2. Enhance trust** from the participants and all Indonesians to pension programs and pension institutions

## P2SK LAW AIMS TO INCREASE THE GOOD GOVERNANCE IN THE PENSION PROGRAM MANAGEMENT, INCLUDING IN THE PENSION FUND

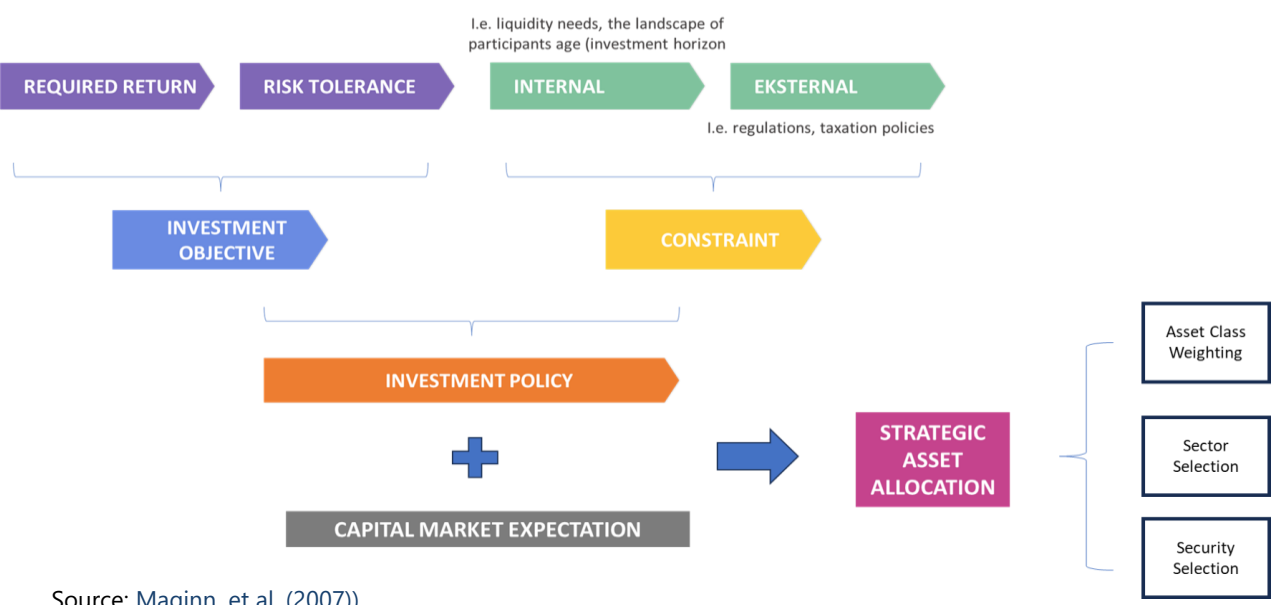
### Best practice:

1. The formulation of pension fund investment policy & its execution **must be done by different parties.**
2. The Board of Commissioner/Supervisory Board and the Board of Directors & Management must have **adequate experience, competence, and better wisdom related to investment policies.**

No	UU No. 11 / 1992	P2SK LAW	OBJECTIVE
1	The executive of DPLK's founding company can hold a position as DPLK's manager.	Article 144: <b>Prohibits managers of DPLK from holding positions</b> as a manager at other pension funds, and member of board of directors or executive at other business entities.	To increase the focus of manager to manage pension funds & avoid conflict of interest for the greatest interest of the participants
2	DPLK is prohibited to hand over asset management to third parties, however many are still allowed on the basis of unstandardized permits.	Article 169: <b>Prohibits DPLK from handing over asset management to third parties.</b>	To ensure optimal investment management: including good governance, efficient optimal management fee & higher investment return for the participants
3	-	Article 143, 169, Article 190: Strengthening the <b>regulation to implement robust risk management and good governance.</b>	
4	-	Article 144, Article 190: Requiring managers and governing body of all pension programs <b>to have adequate competency and experience</b>	



# P2SK LAW AIMS TO INCREASE THE OPTIMAL INVESTMENT POLICY IN THE PENSION PROGRAM MANAGEMENT, INCLUDING IN THE PENSION FUND



Source: Maginn, et al. (2007))

- Best practice:**
1. The formulation of investment policy & strategic asset allocation (SAA) needs to consider the **programs' required return, risk tolerance, program (such as liquidity needs, investment horizon, existing regulation), and capital market expectation.**
  2. SAA will guide the pension program managers to **make investment diversification based on the optimal range of each asset class** – with maximum and minimum thresholds.
  3. The managers also need flexibility to compromise with the macroeconomic & capital market cycle and formulate a tactical asset allocation.

No	UU No. 11 / 1992	P2SK LAW	OBJECTIVE
1	Only Banks and Life Insurance allowed to form DPLK. → <b>Investment Practice Standard</b>	Article 137: • Investment Manager can form a DPLK. • Possibilities for other financial institutions to for DPLK (regulated further in the POJK).	To increase flexibility and convenience to join pension funds & increase pension fund investment standards (following the best practices)
2	Normal retirement age is regulated individually on each pension fund regulation → <b>Investment Horizon</b>	Article 146: Setting a minimum normal retirement age of 55 years (reviewed every 3 years)	Adequate accumulation period to ensure optimal investment management. However, flexibility is still provided for informal workers & for emergency conditions determined by the OJK.
3	Participants who stopped working a maximum of 10 years before the normal retirement age are entitled to "accelerated" pension benefits. → <b>Investment Horizon</b>	Article 162: Change the condition to a maximum 5 years before the normal retirement age, with some exceptions such as for informal workers	

## P2SK LAW AIMS TO INCREASE THE OPTIMAL INVESTMENT POLICY IN THE PENSION PROGRAM MANAGEMENT, INCLUDING IN THE PENSION FUND

No	UU No. 11 / 1992	P2SK LAW	OBJECTIVE
4	→ <b>Accountability</b>	Article 152 <ul style="list-style-type: none"> <li>• Ensuring a standardized and fair actuarial interest rate</li> <li>• The method and assumption for actuarial interest rate is regulates by OJK</li> </ul>	Increase accountability
5	Pension Funds are required to announce financial conditions and calculation of business results in a transparent manner to Participant  → <b>Transparency</b>	Article 182: <ul style="list-style-type: none"> <li>• The Pension Fund is obliged to announce its financial condition and its business financial performance in a transparent manner to Participant.</li> <li>• Pension Funds are required to submit information to Participants regarding matters related to their participation, such as the accumulation fund and the projection of the benefits.</li> </ul>	Increase transparency
6	-  → <b>Investment Practice Standard</b>	Article 191: Managers on state budget-related pension programs (at the time this law came into force included BPJS TK, PT Asabri, and PT Taspen) can carry out <b>cut losses</b> so long they meet certain conditions	Avoid bigger realized loss, if cut loss is not done
7	-  → <b>Accountability</b>	Article 192: Requires OJK and ministries administering affairs government in finance to form an actuarial unit.	Strengthening supervision



## OTHER REGULATIONS ON P2SK LAW

No	UU No. 11 / 1992	P2SK LAW	OBJECTIVE
1	DPPK is only allowed to implement 1 scheme program (Defined Contribution, DC. or Defined Benefits, DB).	Article 138: DPPK can administer one or both at once.	To increase flexibility for people to join pension funds & stimulate pension fund investment standards
2	A pension fund must transfer pension benefits of its DC pension plan to a lifetime annuity product through life insurance.	Article 163: In addition to the lifetime annuity scheme, pension fund can do periodic payments	
3.	There are regulations regarding the tax subject, tax object, and provision of tax facilities.	Article 171: Implementation of the pension program and Other Benefits by the Pension Fund can be given appropriate tax incentives; and be regulated by separate taxation law.	To improve participation as well as to encourage participants to accumulate their savings in the longer term.
4.		Article 138: Allowing Pension Funds to provide Other Benefits, besides the Pension Program.	To improve participation
5		Article 166: Separate the accounting for inactive funds & transfer of inactive funds (unowned funds) to the national heritage hall	To provide clarity for the management of inactive funds
6.		For DPPK: Article 184: Transfer of employer's payable contribution from claim right of pension fund to claim right from participants	To give direct power to participants
7	<ul style="list-style-type: none"> <li>UU no. 40/2004 (UU SJSN) regulates that the JHT withdrawal can only be conducted at the retirement age. In practice, the benefits of JHT can be withdrawn at any time.</li> <li>According to the SJSN Law, JHT benefits can only be withdrawn in a lump sum</li> </ul>	<ul style="list-style-type: none"> <li>Introducing 2 accounts on JHT: First account (for pension income, can only be withdrawn after pension age) &amp; Second account (for emergency needs)</li> <li>Participants have the option to withdraw JHT funds at the time of retirement in a lumpsum or periodic payments.</li> </ul>	Strengthen the old age protection while also create program flexibility for emergency.
8		<ul style="list-style-type: none"> <li>The government harmonizes all pension plans.</li> <li>Conducting an additional mandatory pension program for workers with certain incomes</li> </ul>	To increase old age protection and advancing general welfare

A close-up photograph of a hand dropping a coin into a glass jar. The jar has a white label with the word 'PENSION' written in blue marker. The scene is set on a wooden surface, and the background is blurred, showing a person in a blue plaid shirt. The text 'THANK YOU' is overlaid in large, white, bold letters across the center of the image.

**THANK YOU**