

Supervisory Structure of Pension Funds in Indonesia

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Topics

- Overview of retirement benefit systems
- Organizational and functional structure of pension supervision
- Personnel, financing and reporting
- Initiatives for the future

Overview of Retirement Benefit Systems

Focus on
pension and provident funds



Government Employees (1)

- Pension plans
 - Two separate but very much similar pension plans for civil servants and military personnel
 - Employee contributions are required and funds are accumulated from them (administered by a state owned enterprise)
 - Pension benefits are paid mostly from the government budget and, in a little portion, from the accumulation of employee contributions

Government Employees (2)

- Old-age savings plan
 - In addition to pension benefits, government employees also receive a lump sum benefit payment upon retirement
 - Benefits are financed solely by employee contributions and determined in accordance with formula prescribed by Minister of Finance (MOF)
 - An endowment insurance plan managed by a state owned enterprise

Other Employees (1)

- Mandatory provident fund
 - A defined contribution plan providing lump sum benefits at age 55
 - Employer and employee contributions are required
 - The plan is bundled with 3 other programs
 - The plan is managed by a state owned enterprise and supervised by Minister of Labor and Transmigration (MLT)

For Other Employees (2)

- Voluntary occupational pension plans
 - A defined benefit or defined contribution plan can be set up by employers
 - Plans must be fully funded through approved pension funds, either employer pension funds (EPFs) or financial institution pension funds (FIPFs)
 - Benefits are paid monthly
 - Registration and prudential supervision by MOF

Personal Pension Plans

- Everybody, including self-employed, may participate in FIPFs
- FIPFs implement a defined contribution pension plan
- Benefits shall be paid monthly, by purchasing a life annuity from an insurance company
- Supervised by MOF

Organizational and Functional Structure of Supervision

Focus on Voluntary Occupational
and Personal Pension Plans



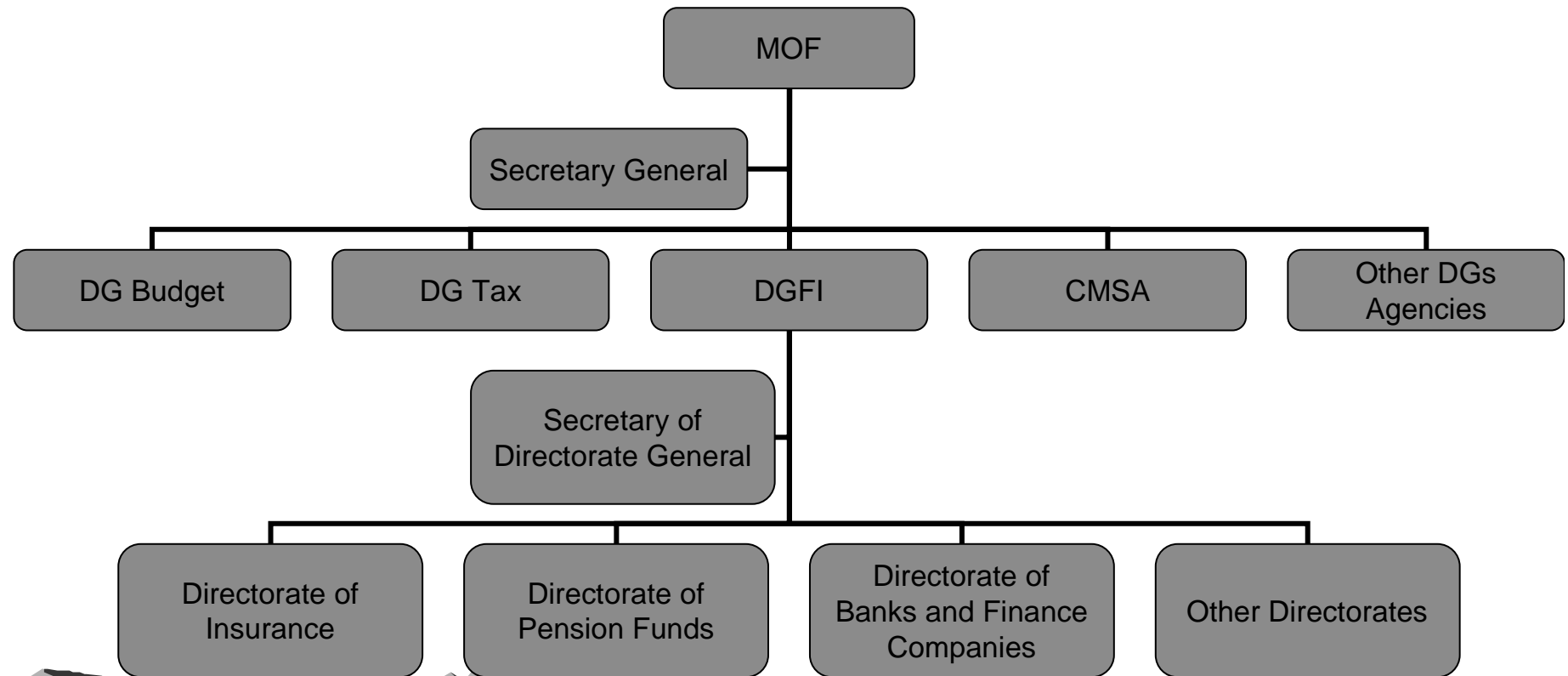
Supervisory Mandate

- Prudential supervision is mandated by Pension Law to MOF
- MOF delegates daily activities to Director General of Financial Institutions (DGFI)
- DGFI heads several directorates, one of which is Directorate of Pension Funds

Separation by Sector

- DGFI supervises insurance, pension funds, and other financial companies except banks and securities companies
- Banks are supervised by Bank Indonesia (the central bank)
- Securities companies are supervised by Capital Market Supervisory Agency (CMSA)

Organizational Structure of MOF



INPRS Regional Meeting, Hyderabad, India

Regulatory Functions of DGFI

- DGFI prepares regulations on pension to be prescribed in the form of Government Regulations or MOF Decrees
- DGFI prescribed standards for financial and investment reporting, information to participants, and knowledge requirements for pension administrators/managers

Supervisory Functions of DGFI

- DGFI gives approval for establishment of pension funds, amendment to pension plans, pension fund dissolution and liquidation
- DGFI conducts off-site analysis and on-site examination
- DGFI imposes administrative sanctions, such as financial charges for late reporting

Pension Tax Regulation and Supervision

- DG Tax prepares regulations on pension taxation to be prescribed in the form of Government Regulations or MOF Decrees
- DG Tax prescribed circulars and decrees on requirements and procedures to qualify for tax exemption
- DG Tax conducts examination on pension taxation

Personnel, Financing and Reporting

Focus on Supervisory Authority of
Voluntary Occupational and
Personal Pension Plans



Director General

- Director General (including DGFI) is the highest career position in a ministerial organization
- DGFI is nominated by MOF and appointed by President
- DGFI can be called to provide explanation or answer questions before the Parliament
- The term for DGFI is not specified
- Replacement can be made by the President for reasonable grounds

Director

- Directorate of Pension Funds is the operational arm of DGFI to supervise pension funds
- Director is nominated by DGFI and appointed by MOF
- The term for Director is not specified
- Replacement can be made by MOF for reasonable grounds

Other Personnel

- Personnel is recruited by Secretary General in accordance with general rules and procedures
- Directorate may request new personnel yearly and propose relevant recruitment criteria
- Remuneration is in accordance with general remuneration structure
- Directorate may impose sanction to improper personnel in accordance with general rules and procedures

Financing of Activities

- Source of financing for Directorate activities are the general budget of government
- There is no specific budget allocation for each Directorate within DGFI
- Directorates propose budget yearly, but it has very little influence on the size and allocation of approved budget

Reporting

- DGFI reports activities to MOF periodically (semester and annual)
- Information on pension supervisory activities is assembled in DGFI reports to MOF
- DGFI reports are not classified, but no evidence that they have been accessed by public

Public Information

- DGFI produces annual report containing statistics of private pension industry
- DGFI administers pension website, updated regularly, containing pension law and regulations, pension statistics and other information
- DGFI announces regulatory initiatives and actively gathers inputs

Initiatives for the Future

Focus on Supervision of Voluntary
Occupational and Personal
Pension Plans



Risk-based Supervision

- Supervisory activities will be concentrated in off-site analysis and on-site examination
- Risks will be defined more clearly and benchmarks will be set. They shall be concurred by relevant stakeholders
- Reporting will be even more standardized without loosing its suppleness
- Analysis and examination procedures and standards will be sharpened up

More Accountability

- DGFI will start to report pension supervisory activities to public through annual report and website
- Reporting to public as regard to profile of pension industry and supervisory activities will be made more frequently
- Hearing on regulatory initiatives will be cultured

Giving More Independence?

- To some extent, collegial decision making process is being practiced occasionally to cope with pressures on independence
- Personnel and remuneration structures are being discussed nationally, but sector-specific issues shall be tackled astutely
- Budget adequacy is central issue, yet there is no brilliant idea to be explored further

Integrated Supervisory Authority

- Inspired by desire to keep conglomeration under control and to establish level playing field
- Has been explored for few years, yet stakeholders responses are still mixed
- Certain issues have to be resolved in equating pension funds to other financial institutions

End of Presentation

DGFI's website:

<http://www.djlk.depkeu.go.id>

