

Indonesia

Indonesia: Pension system in 2018

Employees are covered by both an earnings-related social insurance scheme and a defined contribution plan.

Key indicators: Indonesia

| | | Indonesia | OECD |
|------------------------------|------------------------------|-----------|--------|
| Average worker earnings (AW) | IDR (million) | 31.8 | 592.0 |
| | USD | 2 234 | 41 584 |
| Public pension spending | % of GDP | | 8.0 |
| Life expectancy | at birth | 71.5 | 80.7 |
| | at age 65 | 14.7 | 19.7 |
| Population over age 65 | % of working- age population | 10.6 | 31.2 |

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Qualifying conditions

Normal pension age is 56 years in 2018 gradually rising to 65 by 2043, increasing by one year every three years. Retirement is not required and employees with 15 years of contributions are qualified for a periodical pension benefit while those having less than 15 years qualify for lump-sum payments.

Benefit calculation

Earnings-related

From 1 July 2015 employees in the private sector are covered by social insurance. The pension benefit currently accrues at 1%. Past earnings are valorised in line with inflation. Contributions are payable up to a ceiling of IDR 8.1 million per month (2018). The minimum pension after 15 years of contribution is IDR 331 000 per month, with a maximum benefit of IDR 3.97 million per month. Pensions in payment are indexed to prices.

Defined contribution

Employees in the private sector are covered by defined contribution pension plans. From 1993 to 2013 this refers to one of the Employees Social Security Programmes (PT Jamsostek) and in this case the Jaminan Hari Tua (JHT) or Old Age Security (OAS). The JHT is a compulsory programme for all employees and the retired may opt for part lump-sum with a periodical payment until death or a full lump-sum payment. Employees contribute 2% of earnings and employers pay 3.7% of the payroll. The pension is paid as a lump sum or monthly up to a maximum of five years if the balance is more than IDR 3 million. For comparison with other countries, for replacement rate purposes the pension is shown as a price-indexed annuity based on sex-specific mortality rates.

Variant careers

Early retirement

It is possible to start claiming the pension at any age with a minimum of five years of contribution, if unemployed for at least 6 months.

Late retirement

The benefit may be deferred with no maximum age.

Personal income tax and social security contributions

Taxation of workers

There is a deduction of IDR 54 000 000 for a single individual. In addition, work-related expense is tax deductible and the amount is 5% of earnings up to a ceiling of IDR 6 000 000. There is also a tax deductible amount of 5% or up to IDR 2 400 000 for pension payments. Social security contributions are tax deductible.

Taxation of worker's income

The following table shows the tax rules applied to worker's income:

| Annual Income (IDR millions) | Tax Rate |
|------------------------------|----------|
| Up to 50 | 5% |
| Over 50 up to 250 | 15% |
| Over 250 up to 500 | 25% |
| Over 500 | 30% |

Social security contributions payable by workers

Employees contribute 1% of payroll to the pension plans and 1% to health care.

Taxation of pensioners

There is no additional tax relief for pensioners.

Taxation of pension income

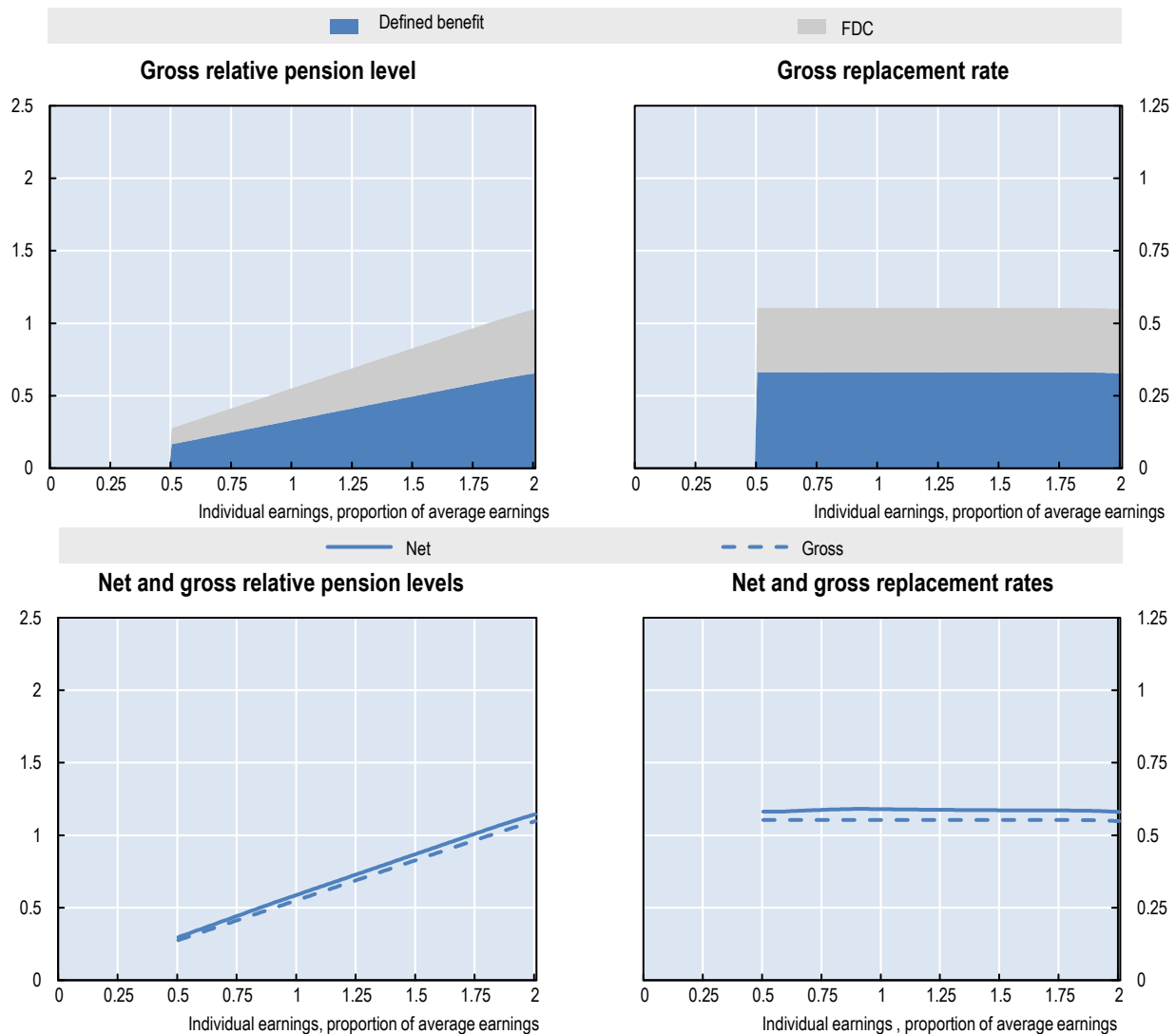
The following table shows the tax rules applied to pension income.

| Annual Income (IDR millions) | Tax Rate |
|------------------------------|----------|
| Up to 25 | Nil |
| Over 25 up to 50 | 5% |
| Over 50 up to 100 | 10% |
| Over 100 up to 200 | 15% |
| Over 200 | 25% |

Social security contributions payable by pensioners

Pensioners do not pay any social security contributions.

Pension modelling results: Indonesia in 2061 retirement at age 65 (men)



| Men <i>Women (where different)</i> | Individual earnings, multiple of average | | | | | |
|---|--|------|------|------|-------|-------|
| | 0.5 | 0.75 | 1 | 1.5 | 2 | 3 |
| Gross relative pension level (% average gross earnings) | 27.6 | 41.5 | 55.3 | 82.9 | 109.7 | 143.4 |
| Net relative pension level (% net average earnings) | 29.6 | 44.5 | 59.0 | 87.1 | 114.5 | 148.8 |
| Gross replacement rate (% individual gross earnings) | 55.3 | 55.3 | 55.3 | 55.3 | 54.9 | 47.8 |
| Net replacement rate (% individual net earnings) | 58.2 | 58.8 | 59.0 | 58.6 | 58.0 | 51.6 |
| Gross pension wealth (multiple of individual gross earnings) | 8.2 | 8.2 | 8.2 | 8.2 | 8.1 | 7.1 |
| Net pension wealth (multiple of individual net earnings) | 8.6 | 8.7 | 8.8 | 8.7 | 8.6 | 7.7 |

Assumptions: Real rate of return 3%, real earnings growth 1.25%, inflation 2%, and real discount rate 2%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equal 90%. Labour market entry occurs at age 22 in 2018. Tax system latest available: 2018.

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