Policy Paper

Extending Old-Age Social Insurance Protection in Indonesia:

Operationalising OECD Recommendations to the Indonesian Context

Extending Old-Age Social Insurance Protection in Indonesia: Operationalising OECD Recommendations to the Indonesian Context

PRAKARSA. 2026. Extending Old-Age Social Insurance Protection in Indonesia: Operationalising OECD Recommendations to the Indonesian Context. Perkumpulan PRAKARSA: Jakarta.

Authors:
Pierre Bernando Ballo, Dea Fajria Tatarizqa Japal

Reviewer and Editor:
Roby Rushandie

Team Leader:
Dr. Victoria Fanggidae

Layout and Design:
Muhammad Pandu Agung Saputro

Publisher:
Perkumpulan PRAKARSA
Komplek Rawa Bambu 1
Jl. A No. 8 E Kel/Kec. Pasar Minggu
Jakarta Selatan, DKI Jakarta, Indonesia 12520

Table of Contents

Table of Contents

Executive Summary

Indonesia is ageing before it is rich. People aged 60 and over, or *lanjut usia* (lansia), is already at 35 million people or almost 12% of the population, crossing the conventional threshold of an ageing society.[1] The number keeps on growing, and in 2045, it is predicted it will reach 67 million, or 20 percent of the total population. Yet although being old is guaranteed, being protected is not. Until today, contributory old-age social insurance schemes reach only a small minority of workers. The International Labour Organization (ILO) estimates that roughly 136 million workers or about 88% of the workforce accumulate no pension rights at all.[2] Among today's elderly, only around 8% in urban areas and 2% in rural areas receive any pension, while most rely on continued work or family support.[3]

As part of the Indonesia OECD Accession Process, which started in 2024 and is estimated to be fully accomplished in 2028, potential reforms, particularly in old-age social insurance schemes are needed. The OECD Economic Survey of Indonesia 2024, which acts as the flagship document and wider government benchmark, made three recommendations on social-insurance coverage and pensions that this paper develops into operational policy options:

1. Extend the lump-sum old-age social insurance scheme, which covers Pension Scheme (*Jaminan Pensiun*/JP) and old-age scheme (*Jaminan Hari Tua*/JHT) to non-wage workers (*Pekerja Bukan Penerima Upah*/PBPU) and micro firms, considering covering part or all of the contribution subject to fiscal capacity;
2. Lower the enrolment exemption-size threshold so that the monthly pension scheme (JP) reaches the smallest firms; and
3. Consider raising pension contribution rates over the long run.

We argue these three measures are complementary, not alternatives, and should be sequenced. Extension of old-age social insurance schemes, in this case JHT & JP, and partially fund it through fiscal expenditure, is feasible and have received high acceptance in terms of willingness and ability-to-pay by PBPU. Lowering the JP exemption threshold is low-cost and largely administrative but needs subsidy and phase-in cushions to avoid pushing fragile small firms into informality. Raising the 3% JP contribution rate is unavoidable over the medium term given that Indonesia's rate is among the lowest of any contributory system in Asia.

1. BPS, Survei Penduduk Antar Sensus (SUPAS) 2025, reported in People Matters SEA, "Indonesia enters ageing era as shrinking workforce pressures 2045 growth ambitions," May 2026. The figure cited is 11.97% aged 60+.
2. ILO, "Can Indonesia cover all older persons with a public pension scheme?", Policy Brief, October 2025.
3. BPS, Survei Sosial Ekonomi Nasional (Susenas) March 2025, reported in Observer Indonesia, "Transforming Elderly Care," May 2026 (8.04% urban, 1.97% rural elderly receiving pensions).

Introduction and Context

Indonesia formally opened OECD accession discussions in 2024 following the letter of intent sent the previous year, in alignment with the OECD standards on social protection and labour markets as one of the explicit reform anchors. The decision taken by the OECD Council on 20 February 2024 made Indonesia the first accession candidate from Southeast Asia[4] and is being reviewed by 26 OECD committees, each assessing how far national legislation, policy and practice align with OECD standards and best practices.[5] Social protection and labour-market policy fall squarely within the scope of that review, and the committees may recommend changes to legislation, policy, and practice as the process advances. The process provides domestic reform an external anchor, with progress reviewed periodically against agreed standards, and old-age income security is one of the areas where the distance between current practice and OECD norms is widest. Indonesia submitted its Initial Memorandum, a preliminary self-assessment of its alignment across these policy areas, in mid-2025, marking the start of the substantive technical phase of accession.[6]

In that context, the OECD Economic Survey of Indonesia 2024, which is used widely by the government as a reference for policy decisions, devotes particular attention to the structural weakness of old-age income security, situating it within a wider concern about informality, fiscal space, and the looming demographic transition. This working paper takes those three coverage-and-pension recommendations as its starting point and develops each into feasible and concrete policy options.

Indonesia's Old-Age Social Insurance Schemes and Its Discontents

Old-age social insurance reform in Indonesia has constitutional background. After the 1997 to 1998 financial crisis exposed how poorly the existing system shielded households from sudden losses of income, the Constitution was amended in 2002 to recognise social security as a right of every citizen and a responsibility of the state.[7]

---

4. OECD, "OECD makes historic decision to open accession discussions with Indonesia", 20 February 2024.
5. OECD, Roadmap for the OECD Accession Process of Indonesia, C(2024)66/FINAL, 2024 (provisions on labour-market, social-protection and migration policies); OECD, "Ministers welcome Roadmap for accession discussions with Indonesia", 2 May 2024 (review by 26 technical committees).
6. OECD, "Indonesia reaches key milestones in OECD accession process", 3 June 2025 (submission of Indonesia's Initial Memorandum at the 2025 Ministerial Council Meeting).
7. On the constitutional roots of the reform and its origins in the 1997–98 crisis, see I. Muliati, "Pension Reform Experience in Indonesia", IMF, 2013; and Confederation of Indonesia Prosperous Trade Union, "The Reform of Social Security in Indonesia."

That principle was given statutory form in Law 40/2004 on the National Social Security System (*Sistem Jaminan Sosial Nasional*, SJSN), a framework law establishing five social-insurance programmes covering health, work injury, old-age savings, pensions and death benefits, with a commitment to eventual coverage of both formal and informal workers.[8] Because the SJSN Law deliberately left contribution rates and benefit levels to later regulation, the operating architecture took shape only once Law 24/2011 created the two administering bodies and BPJS Ketenagakerjaan began running the employment programmes, including the old-age and pension schemes, from July 2015.[9] The OECD recommendations therefore land on a system the country has, by its own law, already committed to extending. The gap is then a matter of implementation rather than intent.

Indonesia already has two flagship social insurance schemes designed for old-age income security, administered by the *Badan Penyelenggara Jaminan Sosial* (BPJS) *Ketenagakerjaan*[10]:

- **JHT (Jaminan Hari Tua). JHT operates as a defined-contribution (DC) with a lump sum payment.** Employers and employees contribute 3.7% and 2% of wages respectively (5.7% in total), withdrawable at the retirement age or earlier on death, disability or exit from the workforce. It is mandatory for large, medium and small firms, but optional for micro firms and non-wage workers (PBPU). The latter's take-up or enrolment rate is very low at 1% of total PBPU.

- **JP (Jaminan Pensiun), which is a defined-benefit (DB) monthly pension payment.** Employers and employees contribute 2% and 1% of wages (3% in total), with a 1% accrual per year of contribution. It applies only to large and medium firms. The retirement age, set at 56 in 2015, rises one year every three years toward 65 in 2043; it reached 59 in January 2025.

8. Government of the Republic of Indonesia, Law No. 40 of 2004 on the National Social Security System (SJSN); see also A. Suryahadi et al., "Expanding Social Security in Indonesia", UNRISD Working Paper 2014-14.

9. Government of the Republic of Indonesia, Law No. 24 of 2011 on Social Security Administering Bodies (BPJS); ILO, "Towards comprehensive social protection in Indonesia", 2025.

10. OECD, OECD Economic Survey: Indonesia 2024, Box 1.3 "Indonesia's old-age pension systems." Contribution rates and coverage figures in this paragraph are drawn from that box and updated with 2025–2026 BPJS Ketenagakerjaan parameters where noted.

The contribution wage ceiling for JP is indexed annually to GDP growth and rose to IDR 11,086,300 per month from March 2026[11]. Crucially, the 2023 Financial Sector Development and Strengthening Law (UU No. 4/2023 or "P2SK") mandates a restructuring of JHT into a main and an additional account and the harmonisation of the pension schemes, including extension of JP coverage to the informal economy, non-wage workers, domestic workers and farmers.[12]

However, in terms of coverage of old-age social insurance scheme, only 9% of today's elderly rely primarily on a pension. Many of them still depend on family transfers, roughly 38% keep working, and about 1% live off savings, most of whom live in informal sectors. [13]Additional data from Susenas 2025 shows that only 8.0% of urban and 2.0% of rural elderly receive any pension. The structural reason for low coverage is rooted in the informality rate. The August 2023 Sakernas put informal employment at 58.3% of all workers[14], and other estimates place nearly 60% of the workforce in informal jobs where contributions are voluntary and self-initiated. Because non-wage workers must register and pay on their own initiative, voluntary affiliation to JHT among micro firms and informal workers stalls at roughly 1%. The result is that about 136 million workers (88% of the workforce) accumulate no pension entitlement, leaving a vast cohort exposed to old-age poverty.

The low coverage rate becomes more concerning as time progresses. According to National Bureau of Statistics (*Badan Pusat Statistik*/BPS), referencing SUPAS, Indonesia is announced as ageing society in 2025, with 11.97% of the population aged 60 or over. In 2045, the number is expected to rise to 20% of the population, or 67 million people becoming elderly. Thereby, the window for policy reform is narrowing, and workers enrolled now are the only ones who can accumulate meaningful entitlements before the dependency ratio deteriorates. The International Labour Organization (ILO) actuarial modelling, using JP administrative data, finds that a tax-financed scheme paying a pension to the roughly 20 million people already above age 65 would cost on the order of IDR 118 trillion in its first year.[15] That means that every year that contributory coverage of the working-age informal population is delayed, the future bill for non-contributory, tax-financed old-age support grows.

---

11. BPJS Ketenagakerjaan notification B/1226/022026; reported by Ramco and InCorp Indonesia, "BPJSTK announces updated pension contributions ceiling," March 2026. The ceiling rose 5.11% in line with 2025 GDP growth, from IDR 10,547,400.

12. ILO, "ILO calls for the policy reform on old-age income security system in Indonesia," February 2024, summarising the implications of UU 4/2023 (P2SK) for the composition of JHT main/additional accounts and JP coverage extension. An SJSN Law revision is under active discussion (UGM/ILO, 2026).

13. People Matters SEA, May 2026, citing Bank Permata chief economist Josua Pardede and BPS SUPAS 2025.

14. BPS, Sakernas August 2023, as analysed in "The Gap in Social Security Participation of Informal Workers in Indonesia," IJMRA Vol. 8(6), June 2025 (41.71% formal; 58.29% informal).

15. ILO (2025), op. cit. The brief presents three actuarially costed options; the IDR 118 trillion figure is the estimated first-year cost of immediately covering ~20 million persons aged 65+. The brief notes extending JP to non-wage workers is administratively difficult, reinforcing the case for the contributory and co-contribution route developed here.

Operationalising OECD Policy Recommendations

> **As aforementioned, this part's objective is to operationalise (how-to) and provide technical recommendations to OECD's recommendations, based on the 2024 OECD Economic Survey.**

OECD Recommendation 1: Extend JP & JHT to non-wage workers (PBPU) and micro firms, with a government premium pass-through subject to fiscal capacity

Indonesia must be more prepared to face the ageing society. Millions of elderly are neither left out of old-age social insurance schemes nor any social protection schemes at all. In the future, it will be a fiscal time-bomb, as fiscal expenditure will gradually rise as ageing population increases Building contributory coverage now, including through co-contributions, is partly a way of containing that later liability.

The OECD Indonesia Economic Survey 2024 recommends raising awareness of the JP & JHT lump-sum scheme among non-wage workers and extending it to micro firms, and "consider covering the contribution, in part or in full, subject to fiscal capacity". This refers to two things, first is to extend coverage to non-wage workers, including in micro firms in which enrollment is still voluntary. Second, is to develop a government premium pass through rate. The latter refers to the government taking shares of contributory cost to make participation attractive, rather than relying on purely voluntary, self-financed enrolment that has only produced 1% takeup from micro firms. Government does have a historical benchmark of implementing that previously, for instance last year when Coordinating Ministry for Economic Affairs (CMEA) passthrough 50 percent of Work Accident Insurance (*Jaminan Kecelakaan Kerja*/JKK) and Death Insurance (*Jaminan Kematian*/JKm) and paying it through fiscal expenditure. The design question is then not whether to co-contribute, but how much, for whom, and for how long, so that the scheme is both effective, affordable, and sustainable.

A binding constraint must be named first. Although Law No. 40 of 2004 on the National Social Security System (SJSN) guarantees universal social protection, the regulation of the pension benefit remains restricted to wage earners. Government Regulation (GR) No. 45 of 2015 on JP, in fact, already contradicts the SJSN Law, since it limits JP access for PBPU and the absence of any explicit mention of PBPU in the regulation is itself the obstacle to their participation.[16]

16. PRAKARSA (2024), op. cit. PP 45/2015, Article 2, defines JP participants as wage earners (PPU) of state and non-state employers; PBPU are not named.

If JP is to be extended to PBPU, the definition of "contribution" stipulated within the GR, which defined as "currently payable only routinely by the participant and the employer" must change, and so must the definitions of "participant" and "employer". The government also needs to define the category of non-wage workers (PBPU), which can then become the basis for BPS data collection and for monitoring the expansion of pension coverage.

There is also a domestic policy constraint. The expansion to micro, small and medium enterprises (UMKM) is consistent with the social-security roadmap target in Presidential Regulation (PR) No. 36 of 2023, which sets the UMKM sector as the initial target for extending the pension and employment social-security schemes.[17] The study points out that a practical clear step is to push the expansion first and bring PBPU into the BPJS Ketenagakerjaan system, with workers earning below the poverty line are fully subsidised and registered as Contribution Assistance Recipients (PBI), paralel with the PBI JKN membership scheme.

The option "co-contribution" through pass-through payment of premiums for JP & JHT, subject to "fiscal capacity" also has its own significance and hindrance. In several countries, such as Vietnam, premium payment is means-tested to a particular group of people based on their living conditions and socioeconomic classes. Vietnamese's government adopts the multi-tiered subsidy for social insurance, where it is tiered at 30% of co-contribution for poor household, 25% for near-poor, and 10% for non-poor. Indonesia does have a similar experience when CMEA announces the JKK & JKm discount.

Willingness and Ability-to-Pay for Old-Age Social Insurance Premiums

The PRAKARSA previously conducted a study on PBPU willingness and ability-to-pay towards JP premiums. The study surveyed 303 PBPU respondents across six provinces (Jakarta, East Java, Bali, South Sumatra, West Sulawesi and East Nusa Tenggara), combined with SUSENAS-based simulation of how a pension contribution would affect household expenditure, and in-depth interviews with 30 PBPU and 12 experts from seven institutions.

On willingness, the survey shows enthusiasm for joining with 83% of respondents willing to pay for JP premiums, and 94.72% consider the pension programme important.[18]

17. PRAKARSA (2024), op. cit., citing Perpres No. 36/2023.

18. PRAKARSA (2024), op. cit. Survey of 303 PBPU respondents in six provinces; non-probability (random purposive) sampling, complemented by SUSENAS secondary data — a limitation to note when citing the willingness figures.

Preferences are split into two groups. First, about 20% of respondents are willing to contribute a larger amount over a shorter period (5–10 years). Second, the majority of around 82% of total respondents are willing to pay over a longer period but with a smaller contribution. In terms of rate, respondents express a specific preference for a contribution of Rp 60,000–100,000 per month, and 44.48% prefer to receive the benefit monthly during retirement rather than as a lump sum. Among those unwilling to join, 47.3% of total respondents worry that they will not be able to keep paying, which is consistent with the income uncertainty of informal workers.

In terms of ability, the SUSENAS simulation shows that the pension contribution does not disrupt the consumption of PBPU households. There are 669,621 households (67% of households) with at least one member working as a non-wage worker. The increase in PBPU household expenditure is below 30%; no household experiences an increase of more than 30% of total household expenditure. At a contribution of 6% and above (above Rp 63,000), around 80% of PBPU households see an expenditure increase of only 1–10%, and only about 5% of affected households see an increase of 10–25%. The average marginal effect shows that a 1% increase in the contribution on a Rp 11,000 monthly base raises PBPU household expenditure by 0.03%, and on a Rp 105,000 base by 0.05%.[19] In short, willingness to pay is already present among interested PBPU; what is needed is further persuasion and education for those not yet interested, particularly above the 6% (Rp 63,000) level.

Table 1. Household impact of a PBPU pension contribution (SUSENAS simulation)

Contribution scenario	Most-affected households	Households with >10% expenditure rise
1% / 3% of income	Mostly 1–10% rise; smallest impact	Negligible
6% (≈Rp 63,000)	≈80% of households see a 1–10% rise	0.03%
8%	Mostly 1–10% rise	0.7%
10% (≈Rp 105,000)	Mostly 1–10% rise; most sensitive	4.16%

Source: PRAKARSA et al (2024), Chapter 2.2.3–3.1. No household experiences an expenditure increase above 30% under any scenario.

19. PRAKARSA (2024), op. cit., Chapters 2–3. Contribution scenarios were modelled at 1%, 3%, 6%, 8% and 10% of average PBPU income.

PRAKARSA’s actuarial projection to 2100 shows where sustainability lies. Total contributors are projected to peak in 2053 at about 130.1 million, and beneficiaries in 2063 at about 48.4 million PBPU retirees. At a contribution of 1%, there is no financial sustainability, with benefit payments far exceeding contributions until around the 2090s. At 3% the benefits still exceed contributions in the early years. At 6% and 10% of average PBPU income, by contrast, the scheme is sustainable from the first year, with reserves positive and growing.[20] The financial sustainability of the pension for PBPU is therefore projected at a contribution above 6% of average PBPU income or around Rp 63,000, regardless of whether the current benefit or the poverty-line benefit applies, and at 6%, it becomes possible to pay the individual poverty-line benefit. This level is feasible based on the combined evidence from the individual survey and the SUSENAS impact simulation.

The study's findings carry a direct implication for the design question of whether to extend JHT or JP to PBPU. BPJS Ketenagakerjaan’s financial stability is at risk because JP is a defined-benefit system, which without state support will face a difficult situation, compounded by the risk of low membership.[21] Because PBPU incomes are more volatile and skew lower than those of wage workers, integrating them directly into the existing defined-benefit JP structure — without adaptation — risks both participant dropout and fund instability.

Recommendation 2: Lower the JP exemption-size threshold to cover the smallest firms

The OECD recommends extending old-age pension (JP) coverage to workers in small firms by lowering the exemption-size threshold for mandatory social contributions, and considering covering the contribution for the smallest firms, subject to fiscal capacity. At present JP is mandatory only for large and medium firms, meanwhile small-firm and micro-firm workers fall outside it.

Lowering the threshold is attractive because it is largely administrative. Most small firms already have an employer of record who can withhold and remit, so coverage can be expanded through the existing payroll-collection machinery (SIPP Online) that BPJS Ketenagakerjaan already operates for JHT in small firms. Because small firms are already mandated into JHT, aligning the JP threshold with the JHT threshold is a natural harmonisation step rather than a new imposition.

---

20. PRAKARSA (2024), op. cit., Chapter 4. Investment return assumed at 7% (per ICK 2023); benefit scenarios of Rp 300,000/month (current benchmark) and Rp 420,000/month (individual poverty line).

21. PRAKARSA (2024), op. cit., Chapter 4.3. The study reports the JP minimum-benefit floor (~Rp 400,000) implies a reported wage of ~Rp 2.4 million at 3%, yet 18–20% of wage-earner enrollees report wages below Rp 2 million and are thus subsidised from fund assets.

Cross-country experience offers a menu for managing the transition. Phased size thresholds (covering progressively smaller firms over several years) smooth the adjustment. Temporary contribution subsidies for newly-covered SMEs, conceptually the same pass-through tool as in cushion labour-cost shocks. Simplified "monotax" regimes that bundle tax and social contributions into a single, low, turnover-based payment (Argentina's and Uruguay's monotributo, Brazil's MEI) have been used elsewhere to formalise micro-entrepreneurs and bring them into social insurance with minimal compliance burden. For Indonesia, a monotax-style on-ramp for micro firms could complement a mandatory JP threshold lowered to capture small firms.

Beyond thresholds and subsidies, a third instrument goes further. Simplified "monotax" regimes, which bundle tax and social contributions into a single, low, turnover-based payment, have been used elsewhere to bring micro-entrepreneurs into both the tax net and social insurance with minimal compliance burden. Argentina's Monotributo (Law 24.977 of 1998), Uruguay's Monotributo and Brazil's Microempreendedor Individual (MEI/SIMEI) are the leading examples, all built on lump-sum payment with little or no bookkeeping,[22] and in their targeted versions they reach explicitly into the vulnerable end of the informal economy. Argentina's Social Monotributo, for instance, carries the same benefits as the general regime, including old-age pension contributions, at reduced rates, and Uruguay's experience coincided with a fall in informality from roughly 43% in 2001 to 21% in 2022, to which the monotax is credited as a contributor.[23] The caution that comes with this evidence is as important as the promise: because contributions are flat and only loosely tied to income, monotax schemes can entrench a "second-rate" tier of social security and can become a trap that workers never graduate from into the general system. For Indonesia, a monotax-style on-ramp for micro firms could complement a mandatory-JP threshold lowered to capture small firms, provided it is designed as a bridge into full coverage rather than a permanent parallel track.

---

22. OECD, The Design of Presumptive Tax Regimes in Selected Countries, OECD Taxation Working Paper No. 69, 2024; DCED, Addressing Informality Through Simplified Legal Statuses, 2023 (Argentina's Monotributo, Law 24.977/1998; Uruguay's Monotributo; Brazil's MEI/SIMEI).

23. ILO, "Transition to Formality: Impact of the monotax scheme in Uruguay", 2024 (informality fell from 42.8% in 2001 to 21.0% in 2022); ILO, Social Protection in Action: Argentina Country Brief (Social Monotributo provides old-age pension coverage at reduced contribution rates). On the risk of a "second-rate" tier and of workers never graduating to the general regime, see ILO, Social Security for Self-Employed Workers in Argentina.

The principal risk is that mandating contributions for fragile small firms encourages evasion, wage under-declaration, or a retreat into informality. The empirical literature on payroll mandates in emerging economies finds these effects are real but highly sensitive to design, consisting of gradual phase-ins, temporary subsidies for the smallest newly-covered firms, credible but proportionate enforcement, and pairing the mandate with tangible benefits all materially reduce the informality response. The practical recommendation is therefore to lower the JP threshold to small firms on a pre-announced multi-year schedule, with a time-limited contribution subsidy for firms at the bottom of the newly-covered band and the micro-firm exemption retained for now.

Recommendation 3: Raise the JP contribution rate

The current JP contribution rate, set at 3 percent under GR 45/2015, is comparatively low compared to the international system. Our study records, combined with expert's minutes during JP's DC actuarial formulation, revealed that originally the rate was set at a minimum of 8% when it was set in 2015. BPJS Ketenagakerjaan's own actuary explains that the original request was a minimum of 8%, not 3%, and that the planned increase toward 8% stalled. When the contribution stagnates, the managed fund does not grow either, even though the expected investment return set by the actuarial projection still must be met.[24]

Because JP is defined benefit, there is a wage-distribution problem at the minimum-benefit floor of around Rp 400,000. By formula, that floor corresponds to a reported wage of about Rp 2.4 million at a 3% contribution. Yet for wage earners (PU) registered in JP, around 18–20% report wages below Rp 2 million. These are people who receive a subsidy when they draw the JP benefit, and that subsidy depletes the fund's assets. Analysis of the JP financial statements shows that current liabilities still exceed the fund income from the investment scheme, which covers only 41.37%.[25]

---

24. PRAKARSA (2024), op. cit., Chapter 4.3, quoting a BPJS Ketenagakerjaan actuary (Jakarta, March 2024).

25. PRAKARSA (2024), op. cit., Chapter 4.3. Liabilities remain within a safe threshold for now only because the 15-year minimum contribution means the earliest benefit withdrawals fall around 2030.

The OECD recommends considering raising pension contribution rates in the long run, warning that current coverage and contributions may prove insufficient to tackle population ageing despite the gradual rise in the retirement age to 65 by 2043. At 3% of wages (2% employer, 1% employee), Indonesia's mandatory pension contribution is among the lowest of any contributory pension system in Asia. By comparison, Korea is raising its rate from 9% to 13% under its April 2025 reform; even after that increase the OECD considers Korea's rate "very low in international comparison" for a fast-ageing society.[26] Mandatory pension contribution rates in China sit around 19–20%, and across the OECD, full-career average earners can expect a net replacement rate near 63%[27]. With a 1%-per-year accrual and a 3% contribution, Indonesia's JP cannot, on current parameters, deliver adequate replacement as the system matures.

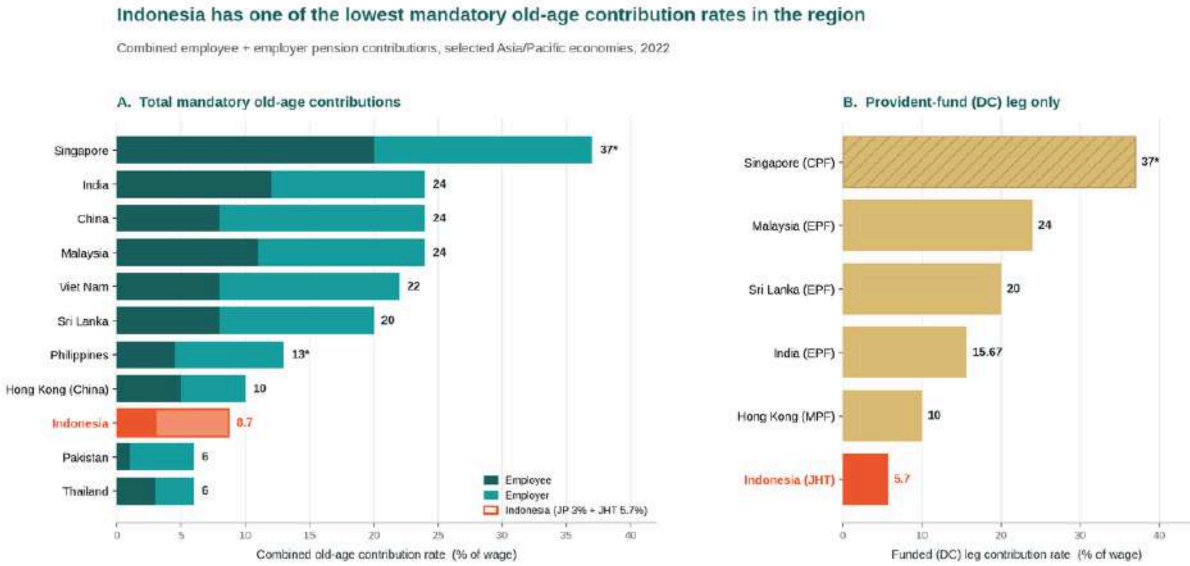
Table 2. Mandatory pension contribution rates across countries

Country / scheme	Mandatory pension contribution	Note
Indonesia (JP)	3% (2% + 1%)	1% per year accrual; retirement age rising to 65 by 2043
Korea (NPS)	9% → 13% (from Apr 2025)	Raised under 2025 reform but still deemed low by OECD
China (urban employee)	24% (16% DB, 8% DC)	Reduced from higher levels in phased reforms
OECD average	18.8%	Net replacement ≈63% for full-career average earner

Source: OECD Pensions at a Glance 2024; Author's processed

26. OECD, Pensions at a Glance 2025 — Korea country note, November 2025. Korea's mandatory rate rises 9%→13% (split evenly employer/employee); target replacement rate rises 40%→43%; accrual 1.0%→1.07%.

27. OECD, Pensions at a Glance 2025, November 2025 (OECD-average net replacement ≈63%). China employer pension rates ≈19–20% per provincial reforms; see Liu et al., PMC (2024).



Source: OECD Pensions at a Glance 2024; Author's processed

ILO actuarial valuation study estimates that the General Average Premium (GAP), defined as the constant rate required to finance JP over a 100-year horizon, is at 10.8% DC, more than triple the present rate. Further, the pay-as-you-go (PAYG) cost rate rising steadily to 28.2% by 2100 as the system matures and the contributor-to-pensioner ratio falls from 14.3 in 2040 to 1.5 in 2100. Held at a constant 3%, the scheme's expenditure first exceeds contributions in 2053, exceeds contributions plus investment income in 2059, and exhausts its reserve by 2069. To close this gap while bringing benefits up to the ILO Convention No. 102 standard, the ILO recommends a package of parametric reforms. *First,* raising the pension accrual rate from 1.00% to 1.33% per year of contribution. *Second,* lifting the minimum pension to 40% of the average minimum wage, and indexing scheme parameters to wage growth. It will be financed by a legislated, pre-announced increase in the contribution rate of three percentage points every ten years, from 3% toward 15% by 2054. The critical implication here is that the rate increase is not an optional addition but the precondition for adequacy. Raising rates would also raise the cost rate to around 14.3% and brings reserve exhaustion forward to the mid-2050s, whereas combining them with the staged path to 15% extends the reserve to 2119. By contrast, raising the JHT contribution is not the appropriate lever, since as a defined contribution lump sum it delivers replacement rates of only 7–17% for low earners without JP and does not meet the periodic-payment standard. The ILO instead proposes repositioning the JHT as a voluntary top-up and making a higher-rate, improved JP the primary vehicle for mandatory old-age income adequacy.

Raising rates without harming jobs

The chief objection to higher contributions is labour-market incidence. A higher payroll levy could be passed to workers as lower wages, or reduce formal employment. The evidence suggests these effects are real but manageable when increases are gradual and pre-announced. A quasi-experimental study of Korea's contribution-rate increases, for instance, found only a limited negative impact on social-security participation.[28] References from other countries consist of a multi-year schedule of small annual steps with long prior notice, so firms and workers can plan, and to accompany the increase with adequate improvements so that contributors can see a clear return. For Indonesia, a credible path would pre-commit to raising the JP rate by a fraction of a percentage point per year over a decade, paired with a modest accrual-rate increase, rather than a single large step.

28. Study using the Korean Longitudinal Study of Ageing (KLoSA), in PMC (2024): Korea's pension contribution-rate increase had a limited negative effect on participation.

Conclusion

Indonesia's old-age social insurance system faces a structural crisis that is simultaneously demographic, fiscal, and institutional. With 88% of the workforce accumulating no pension entitlement and an ageing population set to reach 20% of the total by 2045, the window for building contributory coverage before the dependency ratio deteriorates is narrowing fast. This paper has argued that the three OECD recommendations — extending JP and JHT to non-wage workers and micro firms, lowering the JP exemption threshold, and raising the contribution rate — are a complementary package, not alternatives. Each addresses a distinct gap, and none is sufficient on its own.

The three reforms should be sequenced rather than implemented simultaneously. Extension to PBPU and micro firms through a co-contribution mechanism is the most urgent, as every year of delay deepens the future liability for tax-financed old-age support. Lowering the JP exemption threshold to small firms should follow on a pre-announced, phased schedule with temporary subsidies. Raising the contribution rate toward the ILO-recommended trajectory should be legislated early but implemented gradually through small annual increments.

Three risks warrant attention. Abrupt mandates on fragile small firms risk pushing them into deeper informality. Extending PBPU into the existing defined-benefit JP without structural adaptation risks fund instability. And the legal architecture — particularly GR 45/2015 — must be revised before mass enrolment begins; integrating these changes into the ongoing SJSN Law revision is the most efficient pathway.

The OECD accession process offers a time-bound external anchor for reforms that domestic law has long mandated but implementation has deferred. The government should treat the process not as a compliance exercise but as a catalyst for closing a protection gap that is, at its core, a constitutional obligation. Workers enrolled today are the only ones who can accumulate meaningful entitlements before the demographic transition peaks.

Reference

Badan Pusat Statistik (BPS). *Survei Angkatan Kerja Nasional (Sakernas)*, August 2023. Jakarta: BPS, 2023.

Badan Pusat Statistik (BPS). *Survei Penduduk Antar Sensus (SUPAS) 2025*. Jakarta: BPS, 2025.

Badan Pusat Statistik (BPS). *Survei Sosial Ekonomi Nasional (Susenas)*, March 2025. Jakarta: BPS, 2025.

Blakstad, Matthew, Emma Stockdale, and Jo Rodohan. *Simplifying Retirement Saving for Self-Employed People*. London: Nest Insight, 2025.

BPJS Ketenagakerjaan. Notification No. B/1226/022026: *Updated Pension Contribution Wage Ceiling*. Jakarta: BPJS Ketenagakerjaan, 2026.

Confederation of Indonesia Prosperous Trade Union. "The Reform of Social Security in Indonesia." n.d.

Cribb, Jonathan, and Laurence O'Brien. *How Does Private Pension Saving Change for Workers Moving from Employee Jobs into Self-Employment?* London: Institute for Fiscal Studies, 2026.

Donor Committee for Enterprise Development (DCED). *Addressing Informality Through Simplified Legal Statuses*. DCED, 2023.

"The Gap in Social Security Participation of Informal Workers in Indonesia. *International Journal of Multidisciplinary Research and Analysis* 8, no. 6 (2025)

International Labour Organization. "ILO Calls for the Policy Reform on Old-Age Income Security System in Indonesia." Jakarta: ILO, February 2024.

International Labour Organization. *Can Indonesia Cover All Older Persons with a Public Pension Scheme?* ILO Policy Brief. Jakarta: ILO, October 2025.

International Labour Organization. *Social Protection in Action: Argentina Country Brief*. Geneva: ILO. n.d.

International Labour Organization. *Social Security for Self-Employed Workers in Argentina*. Geneva: ILO. n.d.

International Labour Organization. "Towards Comprehensive Social Protection in Indonesia." Jakarta: ILO, 2025.

International Labour Organization. *Transition to Formality: Impact of the Monotax Scheme in Uruguay*. Geneva: ILO, 2024.

Muliati, Iene. "Pension Reform Experience in Indonesia." Washington, DC: International Monetary Fund, 2013.

Observer Indonesia. "Transforming Elderly Care." May 2026.

Organisation for Economic Co-operation and Development. "OECD Makes Historic Decision to Open Accession Discussions with Indonesia." February 20, 2024.

Organisation for Economic Co-operation and Development. *Roadmap for the OECD Accession Process of Indonesia*. C(2024)66/FINAL. Paris: OECD, 2024.

Organisation for Economic Co-operation and Development. "Ministers Welcome Roadmap for Accession Discussions with Indonesia." May 2, 2024.

Organisation for Economic Co-operation and Development. *OECD Economic Survey: Indonesia 2024*. Paris: OECD Publishing, 2024.

Organisation for Economic Co-operation and Development. *The Design of Presumptive Tax Regimes in Selected Countries*. OECD Taxation Working Paper No. 69. Paris: OECD Publishing, 2024.

Organisation for Economic Co-operation and Development. "Indonesia Reaches Key Milestones in OECD Accession Process." June 3, 2025.

Organisation for Economic Co-operation and Development. *Pensions at a Glance 2025*. Paris: OECD Publishing, 2025.

People Matters SEA. "Indonesia Enters Ageing Era as Shrinking Workforce Pressures 2045 Growth Ambitions." May 2026.

Perkumpulan PRAKARSA, Frederich Erbert Stiftung and Kemenko PMK. *Laporan Penelitian: Urgensi Jaminan Pensiun untuk Pekerja Bukan Penerima Upah (PBPU)*. Jakarta: The PRAKARSA, 2024.

Republic of Indonesia. *Law No. 40 of 2004 on the National Social Security System (SJSN)*. 2004.

Republic of Indonesia. *Law No. 24 of 2011 on Social Security Administering Bodies (BPJS)*. 2011.

Republic of Indonesia. *Government Regulation No. 45 of 2015 on the Pension Security Programme (Jaminan Pensiun)*. 2015.

Republic of Indonesia. *Presidential Regulation No. 36 of 2023 on the Social Security Roadmap*. 2023.

Suryahadi, Asep, et al. *Expanding Social Security in Indonesia*. UNRISD Working Paper 2014-14. Geneva: UNRISD, 2014.

PRAKARSA
Welfare Initiative for Better Societies

The PRAKARSA is a research and policy advocacy institution, a “think and do tank”, based on civil society organizations. PRAKARSA established to create a democratic, just, and prosperous society through ideas development, policy and institutional reforms, and evidence-based problem-solving innovations. The PRAKARSA focuses on fiscal policy, social policy, and sustainable development issues.

We conducts research activities, policy analysis, and training on a wide range of topics related to welfare issues. In executing its various activities, The PRAKARSA consistently adopts collaborative and engagement approaches to collaborate with varied parties: governments, parliaments, civil society organizations, universities, think tanks, international organizations, private sectors, development donor agencies, and mass media.

We believe that this multi-stakeholder approach will strengthen our works and initiatives in the knowledge production and dissemination as well as the evidence-based policymaking process. We also believe that networking will facilitate and reinforce one another. Therefore, we have received support from various donors and participated in multifarious initiatives with The PRAKARSA partners.

www.theprakarsa.org
Komplek Rawa Bambu 1
Jl. A No. 8E Kel. Pasar Minggu,
Kec. Pasar Minggu, Jakarta Selatan

+62 21 7881 798
perkumpulan@theprakarsa.org

The PRAKARSA
PRAKARSA Podcast