International Labour Organization

ILO brief

ILO Brief

November 2025

Can Indonesia cover all older persons with a public pension scheme?

ILO analysis shows a clear route to sustainable and adequate pensions for the country's elderly population

Ippei Tsuruga, Simon Brimblecombe

Key points

- **Indonesia is gradually ageing and requires a long-term strategy for pension provision to be put in place now.** The dependency ratio will decline dramatically from 6.4 working-age persons per elderly person in 2020 to 2.8 in 2050 and 1.6 in 2100, while the elderly population will surge from 27 million to 69 million by 2050.
- **Current pension coverage remains inadequate**. Among 154 million working-age persons, existing schemes cover only 18 million individuals—merely 12 percent of the working-age population. Without any reforms, JP will serve only 3 million beneficiaries in 2050—less than 5 percent of the projected 69 million elderly population.
- **Two critical reforms are essential:** parametric improvements to the JP scheme to enhance coverage, benefit adequacy and sustainability and establishing comprehensive non-contributory pension schemes to achieve universal coverage. Contributory schemes alone cannot protect workers in informal employment, especially own account workers, and economically inactive populations who will continue to make up the majority of Indonesia's working-age population.
- **Parametric improvements to the JP scheme** should include extending mandatory coverage to all wage-earners represents; increasing pension accrual rate and minimum pension; reducing the minimum contribution requirement for pension to 12 months; establishing a minimum survivors' benefits; indexing earning ceiling and minimum pension to general (nominal) wage increase; and adopting a financing policy to increase contribution rates based on actuarial valuations.
- Even with full implementation of a reformed JP scheme covering all employees and measures to formalise the labour market, the majority of Indonesians would remain without pension coverage. An estimated 111 million people— 70 percent of the working-age population (ages 20-59)—currently are not considered as 'employees. **A multi-tier approach** – in line with international good practice – including contributory and non-contributory elements is therefore required.
- The ILO sets out three options to achieve **universal pension coverage** which all enable the Government to immediately expand coverage on a fiscally affordable basis. Providing minimum pensions to 20 million older persons above age 65 has an estimated cost of IDR 118 trillion in the initial year (25 percent of the social assistance budget) whilst paying pensions to persons above age 75 covering 6 million older persons would cost only IDR 36 trillion or 10 percent of the social assistance budget.

Introduction

Indonesia faces an unprecedented demographic transition requiring urgent pension system reform. The ratio of the number of working-age persons (15-59) to the number of persons aged 60 will decline dramatically from 6.4 in 2020 to 2.8 in 2050 and 1.6 in 2100, while the elderly population will surge from 27 million to 69 million by 2050 (Brimblecombe et al., 2023).

Current pension coverage remains critically inadequate. Among 154 million working-age persons, existing schemes cover only 18 million individuals—merely 12 percent of the population. The JP scheme covers 13 million wage workers but completely excludes 55 million non-wage workers and employers. Actuarial projections indicate that by 2050, JP will serve only 3 million beneficiaries—less than 5 percent of the projected 69 million elderly population although the formalization of labour market may increase coverage.[1]

This coverage crisis leaves 136 million workers (88 percent) without pension accumulation rights, creating substantial future retirement insecurity. With periodic pension payments scheduled to commence in 2030, Indonesia confronts a critical juncture demanding comprehensive pension architecture reform to address coverage gaps, benefit adequacy, and long-term sustainability challenges.

How can *Jaminan Pensiun (JP)* improve coverage, benefit levels and sustainability?

The International Social Security (Minimum Standards) Convention, 1952 (No. 102) provides guidance for Indonesia's old-age pension scheme design. Recent ILO actuarial analysis identifies gaps between JP policy design and these minimum standards, recommending parametric reforms to address these deficiencies (Brimblecombe et al. 2023).

Extending mandatory coverage to all wage-earners represents significant potential for increasing pension participation. The JP scheme's scope is currently limited to wage-earners in large and medium enterprises, covering an estimated 30 percent of all employees[2]. Even including approximately five million employees covered by TASPEN and ASABRI, the covered population falls short of Article 27(a) minimum requirements (at least 50 percent of all employees). Such a rule also creates inequalities in treatment and distortion to the labour market and incentives for enterprises not to expand. The ILO recommend removing this distinction.

Increasing pension accrual rate and minimum pension would improve benefit adequacy. To align with ILO Convention No. 102, the pension accrual rate should increase from 1.00 percent to 1.33 percent of earnings per year of contribution, meeting the minimum standard of 40 percent replacement after 30 years. Concurrently, the minimum pension should increase from 399,700 rupiah to 40 percent of the national minimum wage (1,326,305 rupiah in 2025)[3] for those with at least 15 years of contribution.

The current 15-year minimum contribution requirement should be reduced to 12 months. This addresses a critical issue: no one will be entitled to old-age pensions until 2030, with many reaching pensionable age receiving only lump-sum payments. Since the pension formula is proportional to contribution periods, immediate eligibility creates no significant cost increase while providing pension access instead of lump sums to almost all retiring persons aligning with the needs of this population and increasing public support for JP. The minimum pension should be also prorated for those with

[1] Under the base scenario, JP membership represents an increasing percentage of wage employment from 25 percent in 2020 to 70 percent in 2100 (Brimblecombe et al. 2023).

[2] It is calculated by the total number of JP active members (14,419,675) divided by the number of employees aged 20-59 (48,218,985) in 2023 according to BPJS-TK annual reports and BPS (BPJS Employment 2024; Indonesia, Central Bureau of Statistics (BPS) 2023).

[3] According to BPS, minimum wages at the provincial level were varying between 2,169,349 rupiah and 5,396,761 rupiah in 2025, with an average national minimum wage of 3,315,762 rupiah.

less than 15 years (multiplied by "years of contribution divided by 15"). These changes will extend pension access to lower-income workers previously excluded due to shorter contribution periods, because the length of contributory service is often related to income status. However, compliance measures must prevent anti-selection behaviour (that is, people joining and paying the minimum contribution amount required to give them the right to a pension income).[4]

JP should establish a minimum survivors' benefits. Current JP provisions provide survivors with 50 percent of the deceased's pension amount. However, if the old-age pension equals 40 percent of salary, the widow's pension represents only 20 percent of the deceased's salary, falling short of Convention No. 102 standards requiring 40 percent replacement for a spouse with two children after 15 years of service. A minimum survivors' pension should be established at 40 percent of the minimum wage (1,326,305 rupiah in 2025).

Indexation should be reformed to keep its relevance and continue to satisfy the requirements of Convention No. 102. The earning ceiling and minimum pension should be indexed to general (nominal) wage increase instead of GDP or inflation, while removing a specific provision on maximum pension because the existence of an earnings ceiling will indirectly determine maximum pension amounts.

The PAYG rate will increase as the scheme matures, making current contribution rates insufficient for long-term financing. **A financing policy should establish legal obligations to increase contribution rates based on actuarial valuations.** For example, contribution rates increasing by 3 percent every 10 years starting in 2025, reaching 15 percent in 2055, would maintain positive reserves for the next 100 years under these parametric reforms. At the same time, the ILO believes the contribution rate is affordable and in line with regional practice.

How can Indonesia close a gap in pension coverage?

Even with full implementation of the JP scheme covering all employees, the majority of Indonesians would remain without pension coverage. This is because approximately 111 million people—representing 70 percent of the working-age population (ages 20-59)—fall outside the employee category. This uncovered population includes 6 million unemployed individuals, 69 million people in informal work arrangements (self-employed workers, unpaid family workers, and small business owners), 2 million students, 30 million unpaid contributing family members, and 3 million other economically inactive individuals. Whilst some degree of labour market formalisation is expected over future decades, it is likely that the majority of working age population will remain outside the 'employee' category.

International experiences demonstrate the necessity of non-contributory pension elements for achieving universal coverage as part of a multi-tier system (Nguyen and Cunha 2019; Nguyen et al. 2019; Behrendt et al. 2019). Contributory pension schemes alone cannot achieve universal pension coverage, and non-contributory elements are needed to extend coverage especially to workers in informal employment and residents outside the labour market.

In Southeast Asia, coverage patterns vary significantly based on pension system design (International Labour Organization 2021). Brunei Darussalam, Timor-Leste, and Thailand provide pensions to almost all residents above pensionable age using state budgets (social pension). Viet Nam, Singapore, the Philippines, and Indonesia maintain both contributory and non-contributory schemes, but achieve lower coverage because non-contributory schemes only cover poor older persons. Lao PDR and Cambodia, lacking non-contributory schemes, demonstrate the lowest coverage rates. Indonesia currently covers employees in large and medium-sized enterprises through JP and very few older persons through social assistance, indicating the critical need to expand the non-contributory element and cover all residents. Evidence shows that universal social pensions have significantly positive impacts on poverty and

[4] In respect of the related recommendation above on the increase of the minimum pension, the minimum pension should be prorated for persons with less than 15 years of contribution.

inequality, for example in Thailand (International Monetary Fund 2025).

Using JP administrative data in collaboration with BPJS-TK, the ILO conducted an actuarial valuation providing Indonesian policymakers with three policy options. All options would enable the Government to immediately expand coverage and pay pensions to 20 million older persons above age 65, with estimated costs of IDR 118 trillion in the initial year—approximately 25 percent of the social assistance budget.

Alternative implementation targeting persons above age 75 would cover 6 million older persons while spending only IDR 36 trillion—approximately 10 percent of the social assistance budget and less than half the *Program Keluarga Harapan* budget. Extension to younger retirees could be introduced subsequently, providing flexibility in implementation timing and fiscal management.

Option 1: Pension-tested scheme within Jaminan Pensiun

This option establishes a tax-funded pension-tested benefit for all workers (wage and non-wage), expanding JP mandatory coverage to the entire workforce. Workers who fail to reach adequate pension income due to short careers or low earnings would receive a pension-tested benefit of IDR 500,000 per month, indexed annually with wage increases.

The State would finance annual expenditures on the pension-tested minimum benefit, with costs decreasing long-term as newly covered workers acquire JP rights. Workers must register with BPJS Employment to receive benefits, promoting JP coverage expansion. Long-term state costs would be minimal as more workers eventually receive JP pensions rather than the pension-tested minimum benefit.

This approach extends JP coverage to the entire labour force while gradually reducing state fiscal burden. However, implementation faces significant challenges. Extending JP coverage to non-wage workers may prove difficult, potentially excluding portions of the elderly population from benefits. Coverage gaps would persist for residents outside the labour market unless they gain worker recognition.

The scheme may create perverse incentives for non-wage workers, who must pay both employer and employee contributions but might contribute minimally to access the IDR 500,000 benefit. A tapered benefit structure could address this issue—for example, reducing this pension-tested benefits by 1-2 rupiah for every 3 rupiah of JP pension earned, maintaining contribution incentives while limiting costs.[5]

Option 2: Pensiun Sosial (PS)

This option establishes a state-financed Social Pension paying uniform amounts to all resident elderly, independent of employment history. JP mandatory coverage would expand to all wage workers, including small and micro enterprises. All persons above a certain age with minimum 10-year Indonesian residence would receive a flat-rate pension at the national poverty line (IDR 500,000), adjusted annually with CPI or wage growth.

The Social Pension would be paid independently of participation in the JP scheme. Every contribution to JP would therefore provide extra benefits to participating workers. The JP scheme must be improved as discussed above.

The scheme offers simplicity in administration and public communication. All older persons receive minimum income at poverty line levels, while wage workers can achieve better retirement outcomes through JP participation. Workers maintain clear incentives to contribute to JP, knowing each contribution increases old-age income beyond the basic pension floor.

Several drawbacks require consideration. Since individuals make no direct contributions, people lack involvement in Social Pension financing, potentially reducing scheme ownership. Unlike pension-tested schemes, Social Pension requires no JP registration, providing no beneficial effect on JP membership expansion. Long-term costs exceed pension-tested alternatives. Equity concerns arise given that few Indonesian workers pay income tax, raising questions about income redistribution efficiency and tax system adequacy. Financing universal elderly pensions through government general revenue requires

[5] In the first example, the individual would be 67 rupiah better-off for each 100 rupiah of JP pension, and in the second example, they would be 33 rupiah better-off.

comprehensive fiscal space analysis to ensure sustainability.

Option 3: Jaminan Pensiun Nasional (JPN)

This option establishes a National Pension providing flat-rate benefits acquired through contribution payments. All residents would be covered mandatorily through flat-amount contributions (IDR 300,000 per month, indexed with wage increases). Workers could pay contributions for non-working family members. After 30 years of contribution, beneficiaries would receive IDR 1,000,000 (approximately 40 percent of average national minimum wage), with half financed by social insurance funds and half by the State.

The National Pension would be paid from age 65, with contribution exemptions available for unemployed or low-income earners upon BPJS Employment approval. Exempted individuals would receive only the State portion (IDR 500,000), ensuring minimum income even without contributions. JP coverage would expand to all wage workers, with JP accrual rates remaining at 1.0 percent since combined JP and National Pension benefits would meet ILO Convention No. 102 standards. Thus, the JP contribution rate should be gradually increased - but at a slower pace than other options above - to 4 percent of wage in 2026 and increase by 1 percent every 3 years to reach 8 percent in 2038. The minimum pension could be eliminated given the role now played by the National Pension.

A major challenge involves the extended time required for current generations to accumulate benefits. Transitional measures would guarantee minimum benefits until workers accumulate the required 30 years, with State financing for these transitional benefits ensuring immediate protection.

This option encourages BPJS Employment registration as individuals need registration to receive state credits, thereby expanding JP coverage. Unlike social pensions, this approach ensures equity and individual involvement in financing. All residents can improve benefit adequacy through both National Pension and JP participation. However, administrative complexity arises in managing contribution exemptions and collecting contributions for family members outside the labour force. While providing the highest pensions, total member contributions exceed the other options.

▶ Conclusions

Without any reforms, JP will serve only 3 million beneficiaries in 2050—less than 5 percent of the projected 69 million elderly population. Two critical reforms are essential for Indonesia's pension system. First, parametric improvements to the JP scheme must enhance coverage, benefit adequacy and sustainability. Second, establishing comprehensive non-contributory pension schemes is necessary to achieve universal coverage. Contributory schemes alone cannot protect workers in informal employment and economically inactive populations who constitute the majority of Indonesia's working-age population.

References

Behrendt, Christina, Quynh Anh Nguyen, Greta Cartoceti, Benedetta Ottavio, Jahnavi Sen, and Ippei Tsuruga. 2019. Extending Social Security to Workers in the Informal Economy: Lessons from International Experience. Geneva: ILO. https://www.social-protection.org/gimi/gess/ShowRessource.action?id=55729.

BPJS Employment. 2024. Financial Report 2023. https://www.bpjsketenagakerjaan.go.id/assets/uploads/laporan_keuangan/Laporan_Keuangan_2023_BPJS_Ketenagakerjaan.pdf.

Brimblecombe, Simon, Pierre Plamondon, Doan Trang Phan, and Ippei Tsuruga. 2023. Republic of Indonesia: Report to the Government - Financial Assessment of the Social Security Pension Schemes Administered by BPJS Employment as of 31 December 2020 and Costing of Sickness and Maternity Benefits. Jakarta: ILO. https://www.social-protection.org/gimi/ShowRessource.action?id=58147.

Indonesia, Central Bureau of Statistics (BPS). 2023. Statistical Yearbook of Indonesia 2023. https://www.bps.go.id/en/publication/2023/02/28/18018f9896f09f03580a614b/statistical-yearbook-of-indonesia-2023.html.

International Labour Organization. 2021. 'World Social Protection Report 2020–22: Social Protection at the Crossroads in Pursuit of a Better Future'. Geneva: ILO. https://www.ilo.org/wcmsp5/groups/public/@dgreports/@dcomm/@publ/documents/publication/wcms_817572.pdf.

International Monetary Fund. 2025. 'Thailand: 2024 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Thailand'. https://www.imf.org/en/Publications/CR/Issues/2025/02/20/Thailand-2024-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-562284.

Nguyen, Quynh Anh, and Nuno Meira Simoes da Cunha. 2019. 'Extension of Social Protection to Workers in Informal Employment in the ASEAN Region'. http://www.ilo.org/asia/publications/WCMS_735512/lang--en/index.htm.

Nguyen, Quynh Anh, Andi Sanusi, Ippei Tsuruga, and Nuno Meira Simoes da Cunha. 2019. How to Extend Social Protection to Workers in Informal Employment in the ASEAN Region. Bangkok: ILO. https://www.social-protection.org/gimi/gess/ShowRessource.action?id=55855.

This brief was prepared primarily for the BPJS-TK's 10th anniversary event of Jaminan Pensiun Programme in Indonesia, by Ippei Tsuruga, Social Protection Programme Manager, ILO Country Office for Indonesia and Timor-Leste in collaboration with Simon Brimblecombe, Chief Technical Advisor, ILO DWT-Bangkok. Analysis and recommendations are largely derived from Simon Brimblecombe, Pierre Plamondon, Doan Trang Phan, et al. (2023), which the ILO submitted to the Government of Indonesia in 2023. The ILO team would like to acknowledge the financial support provided by the Government of Japan through the Project "Promoting and Building Social Protection in Asia (Phase 4)".

Contact details
International Labour Organization
Menara Thamrin Level 22,
Jl. M.H Thamrin Kav. 3,
Central Jakarta, Jakarta
Indonesia

T: +62 21 3913112
E: jakarta@ilo.org
W: ilo.org/jakarta

DOI: https://doi.org/10.54394/GWWQ6353

© International Labour Organization 2025