Hitotsubashi Journal of Economics 43 (2002), pp.151-161. © Hitotsubashi University

PENSION PLAN IN INDONESIA: AVENUES FOR REFORM

BAMBANG BRODJONEGORO AND ROBERT SIMANJUNTAK

The Institute for Economics and Social Research
Faculty of Economics, University of Indonesia
brodjo@indo.net.id

Abstract

Two decades ago, the pension system in Indonesia was basically enjoyed by civil servants. Only after the enactment of Law No 11 1992, pension funds apply for every employee, public or private.

There are two types of pension funds, Employers' Sponsored Pension Funds (Dana Pensiun Pencari Kerja or DPPK) and Financial Institution Pension Funds (Dana Pensiun Lembaga Keuangan or DPLK). DPPK could be defined as contribution or defined benefits, and DPLK is defined contribution. The Indonesian pension plan is, in general, the defined contribution plan for mostly young employees. Most of them are partly funded and the participation of employers is relatively limited. However, the public awareness of pension plan is still low due to the strong family relationship and resistance of most private companies to adopt the plan. As a result, the voluntary plan dominates the pension plan development while the economic condition is not good enough to enforce the mandatory privately or publicly managed plan.

The current system does not do much to redistribute income but maintain the intergenerational fairness. Current employees tend to delay their real retirement by looking for new jobs both in formal and informal sectors. Their expected income is still considered higher than the possible pension benefits. Although the pension plan is not yet a big issue, the possible political intervention is very high due to quick capital accumulation and prospective political attractiveness. The public pension plan, however, is a long way to go due to the current economic crisis and fiscal distress.

Although the 1992 pension plan law is praised as a significant step for Indonesian pension plan industry, there are more reforms needed to make the pension plan common words in every Indonesian household. More incentives are needed to attract new players in the industry, while at the same time law enforcement has to be the priority in order to make the compulsory pension plan working. The opportunity to develop a pension fund system in Indonesia is very widely open since the current participants are only about 5.7 million people, i.e. 6.6% of Indonesian labor force.

I. *Background*

1. Population Dynamics

Although it is moderate by developing countries standards, Indonesia's population still grew

TABLE 1. INDONESIA: POPULATION BY AGES (MILLION)

Year	A	B	C	Total
1991	23.7 (*12.9*)	16.6 (*9.1*)	11.4 (*6.2*)	182.6 (*100.0*)
1992	24.4 (*13.1*)	16.9 (*9.1*)	11.6 (*6.2*)	185.8 (*100.0*)
1993	24.9 (*13.2*)	17.3 (*9.2*)	11.8 (*6.2*)	189.1 (*100.0*)
1994	25.8 (*13.4*)	18.1 (*9.4*)	12.5 (*6.5*)	192.1 (*100.0*)
1995	26.6 (*13.6*)	19.5 (*9.9*)	13.3 (*6.8*)	195.2 (*100.0*)
1996	27.0 (*13.6*)	19.2 (*9.7*)	13.2 (*6.7*)	198.3 (*100.0*)
1997	28.1 (*13.9*)	20.2 (*10.0*)	13.9 (*6.9*)	200.9 (*100.0*)
1998	28.7 (*14.1*)	20.7 (*10.2*)	14.3 (*7.0*)	203.6 (*100.0*)
1999	29.2 (*14.1*)	21.0 (*10.2*)	14.5 (*7.0*)	206.5 (*100.0*)
2000	29.0 (*13.9*)	20.9 (*10.0*)	14.7 (*7.0*)	209.0 (*100.0*)
Projections*:				
2005	32.4 (*14.3*)	23.7 (*10.5*)	16.9 (*7.5*)	225.3 (*100.0*)
2010	36.3 (*15.0*)	26.9 (*11.1*)	19.5 (*8.0*)	242.0 (*100.0*)
2015	40.6 (*15.7*)	30.6 (*11.8*)	22.4 (*8.6*)	257.5 (*100.0*)
2020	45.4 (*16.6*)	34.9 (*12.7*)	25.9 (*9.4*)	273.4 (*100.0*)

Notes: A = population 50 yr old and over
B = population 55 yr old and over
C = population 60 yr old and over
* by Demographic Institute, University of Indonesia (moderate scenario)
Numbers in brackets are percentage
Source: Republic of Indonesia, Central Bureau of Statistics

for about 1.5% per year in the last decade. Indonesia has successfully reduced her population growth gradually from about 3% per year since the mid 1960s. However, the striking feature in her population dynamics is the urbanization process.

Urbanization in Indonesia is a complex process that requires considerable government support. There are actually two issues that worsen the urbanization problems in Indonesia. *First*, a relatively rapid growth of population has resulted in an extremely fast rate of urban growth. In 1980, the urban residents were about 22.3% of total population. In 1990, the figure became 30.9%, and by the year 2000 about 42% (or 90 million) of Indonesians were city dwellers. This was caused by a very rapid urban population growth rate (i.e. 5%) in the last two decades, more than double the overall national population growth rate.

Second, much of Indonesia's urban growth has occurred in and around metropolises such as Jakarta, Surabaya, and Bandung. In fact, Jakarta is one of the most rapidly growing urban areas in the world. Consequently, the problem of urbanization in Indonesia is particularly acute in Jakarta and these other cities.

In line with the process, urban employment has also grown at about 5% per year, more rapidly than the national rate and offering hope for absorption of surplus rural labor. The labor force employed in urban areas are mainly in trade and services, manufacturing, and transport and communications. In the last three decades, the Indonesian economy has experienced a gradual structural adjustment, with domination moving from primary sector activity to the secondary and tertiary. As a consequence, the pension system in Indonesia tend to be urban-biased, since only entities in the urban sector usually implement a pension system.

Indonesia has also witnessed quite a substantial improvement in its population's health. The life expectancy rate, for instance, increased from around 50 in the mid-1960s to 68 in

2000. Consequently, the number of population over 50 years or older has also increased significantly. In 1990, the number was 13% of total population. Ten years later, it was 14% and is expected to reach over 16% of the population in the year 2020. Hence the robust pension system would be needed for the growing and aging (urban) population as a result of the population dynamics.

2. Macroeconomic Outlook

From early 1970s until mid 1990s, Indonesia had experienced rapid economic growth. The growth slowed down in 1997, and dropped drastically in 1998 when Indonesia and several other Asian countries fell into economic crisis. At the end of 2001, recovery in the real economy remains fragile.

The sharp deterioration in the global economy following the terrorist attacks in the United States has added another challenge to the already daunting list of problems faced by the Megawati administration. Political instability had raised social tensions and slowed reforms — encouraging capital flight, alarming investors, and delaying official external finance for development.

The World Bank predicts the economy to grow at 3.3 percent in 2001 and 3.5 percent in 2002. In comparison to projections for other crisis economies in East Asia, this may appear quite good. But this outlook faces so many risks from domestic and external sources.

The greatest and immediate concern is fiscal sustainability. The high level of government debt not only imposes a big burden on the budget, but is itself a cause of instability. Maximizing fiscal efforts and bringing down the debt ratio will be essential in restoring stability and laying a foundation for sustainable growth. These two are prerequisites for poverty reduction.

3. Informal Safety Net for Aged People and Retirement Age

The need for a pension fund system is highly correlated with the country's development and changes of the economic structure. The brief discussion above has given an insight about the socio-economic structural transformation in the Indonesian economy for the past 30 years. Indonesia has basically moved away from the agriculture-dominated economy.

As widely known, the need for a pension program in the agriculture-dominant economy tends to be insignificant. This is due to the fact that in such economies the "primordial relationships" or strong family relationships still widely exist. In this system, the younger generations (children) are responsible for the elderly's living costs.

The more industrialized a country/economy becomes, the more individualistic the people tend to be. Therefore the social security system (especially for the elderly/pensioners) seems to be necessary here. In fact, the demand for pension program is much higher in an industrialized economy (or in urban areas) than in a less industrialized country (or rural area).

When Indonesian employees, both male and female, decide to retire, the age will vary from one job to another, based on labor market demand, government regulations, or the culture of companies. The most widely known retirement age is 55 years old for both male and female government employees, with some exception for some employees who might continue

TABLE 2. SELECTED SOCIAL INDICATORS

	1990	1993	1996	1999	2000
Demography					
Gender ratio, *male to 100 females*	99.5	99.5	99.1	99.1	99.8
Urban population (*% to total*)	30.9	34.0	37.1	39.4	42.1
Dependency ratio (%)	67.8	63.4	57.0	53.1	52.4
Health					
Life expectancy rate	62.5	62.7	63.2	65.5	68.0
Fertility rate, *births per woman*	3.1	2.9	2.8	2.6	2.5
Labor force					
Employed (%)	55.9	55.1	55.5	62.9	63.6
Looking for work (%)	1.44	1.56	2.85	4.27	4.12
Labor force participation	57.3	58.0	58.3	67.2	67.8
Poverty and Inequality					
No. of people under poverty line (mn)	27.2	25.9	34.5	48.4	–
Population under poverty line (%)	15.1	13.7	17.7	23.5	–
Expenditure share of the lowest 40% (%)	21.3	14.6	20.2	21.3	–
Expenditure share of the middle 40% (%)	36.8	41.6	35.0	37.0	–
Expenditure share of the highest 20% (%)	41.9	43.9	44.7	41.6	–
Gini coefficient	0.32	0.34	0.36	0.32	–

Notes: 1) Dependency ratio is the ratio between population under 15 and over 64 to the labor force (the working age population, i.e. aged between 15 to 64)
2) Poverty line is the Indonesian rupiah value of the monthly per capita expenditure required to fulfill a minimum standard of food and non-food basic consumption.
3) – : Data are not available

Source: Republic of Indonesia, Central Bureau of Statistics

until the age of 65 years. For private sector employees, there is no general rule but most of them follow the government employees' pattern and impose a retirement age between 55 and 60 years old. However, some employees with good qualifications can continue working beyond 60 or 65 years old works.

It is quite difficult to make a distinction between female and male retirement ages since there is no clear regulation about it. But the female retirement age is normally lower than the male, since some of them decide to quit work to take care their children.

II. *Current Pension System*

A strong family relationship in Indonesia makes a pension plan rather less popular than expected. Even when the workers have some pension plan coverage, they do not seem to rely too much on it and prefer to maintain their personal savings. The pension plan itself has a long history in Indonesia, dating back to 1926 under Dutch Funds Ordinance. The pension fund was developed firstly based on *Arbeidersfonden Ordonantie*, which is the Law about the relationships between employer and employee developed during the Dutch colonialism. However, the system developed under such rules has limitations, since there are no regulations concerning the rights and obligations of all the parties involved.

The serious efforts to introduce the so-called pension fund have just started in 1992 when

TABLE 3. SELECTED MACROECONOMIC INDICATORS

Year	GDP-constant 1993 (Rp billion)	Inflation Rate (percent)	Interest Rate (percent per year)		
			SBI rate	State bank 1 month TD	Private bank 1 month TD
1992	283,771	7.2	15.8	17.4	19.2
1993	329,776	10.0	10.4	11.2	14.8
1994	354,641	8.5	10.4	9.7	13.6
1995	383,768	9.4	14.2	14.4	17.4
1996	413,798	7.9	13.8	15.2	17.5
1997	433,246	6.1	14.7	17.7	22.0
1998	376.375	58.5	52.0	47.4	49.7
1999	379,558	20.5	23.4	23.3	23.7
2000	397,666	3.7	12.3	11.4	11.1
2001*	203,689	10.3**	16.0	14.1	13.9

* = Jan – July 2001
** = average index of January – October 2001
TD = Time Deposit
Source: Bank Indonesia

the government issued the pension fund law. Prior to the law, only government employees had pension plan partially supported by the government and others obviously did not have any pension guarantee. The law generated a lot of interests in establishing pension plans for private or government owned companies. Nowadays, ten years after the law issuance, the pension plan system in Indonesia could be classified into three pillars although it might not reflect 100% the similar system in other countries.

1. Public Pension Plan

Unlike the basic definition of public pension plan or publicly managed pillar, no pure public pension plan exists in Indonesia. A "partial public plan" might be the best to represent the current situation, since it is not 100% supported by the general or specified tax revenue. Partial here could also mean that only limited numbers of workers can enjoy the benefit, namely the government employees. Beginning in 1975, every government employee has to contribute 10% of the salary for the pension program that consists of a health insurance (2%), a pension contribution (4.75%), and a pension saving plan (3.25%). It implies that the government employee pension plan can be considered as defined contribution. All the funds collected from this contribution are managed by government owned companies. The health insurance is managed by PT Askes (health insurance inc.), while the pension-related funds are managed by PT Taspen (Pension Insurance Inc.)

Every retired government employee will receive his/her pension saving plan once and continuous to receive monthly pension until his/her death based on certain formulas. For the pension saving plan, the minimum requirement is equivalent to twice the last month's salary and it cannot be less than Rp. 200,000. For the monthly saving, depending on the duration of work, he/she can receive up to 75% of her/his principal salary and it cannot be less than the lowest principal salary possible. The widow/er can also receive both pension benefits but with less monthly pension.

Although the above scheme looks like a private pension plan with defined contribution, total contribution collected from government employees is much less than needed. About 77% of the total amount for the monthly pension plan is financed by the government through the national budget ,and only 23% covered by PT Taspen. Since the government has never injected capital into PT Taspen, it is worried that in the near future PT Taspen will run out of money and that the government role in maintaining the pension plan will be bigger.

In general, the pension plan for government employees is not appropriate even though the plan itself is one of the reasons why some Indonesians prefer to be civil servants. The problem starts with the direct relationship between the monthly salary and the monthly pension income. Due to the low level of salary, the monthly pension is also small. The adjustment of the pension will follow what happens to the salary. Since the increasing rate of salary is usually less than annual inflation rate, the pension for most of retired government employees are below the basic minimum needs.

2. Occupational Pension Plans

This privately managed pillar is still a small actor in Indonesian pension plan, although it is mandatory. The scheme is the old age pension, called provident funds. This is mandatory for all enterprises except very small enterprises with less than 10 workers and for the self employed. The mandatory contribution rate is currently 5.7%, 3.7% contributed by employers and 2% by employees. The rate is very small, although it represents an increase from 2.5% in the past, compared to the provident funds in Malaysia with 23% contribution rate (11% from employees and 12% from employers). As a result, accumulated provident funds in 1999 was just Rp 7 trillion, compared to Rp 600 trillion in Malaysia. The financial management of this fund is entrusted to PT Jamsostek (Labor Social Security Inc.), a government owned company. The scheme is designed to cover as many companies as possible in the private sector. However, companies that have their own social security arrangement for their workers, especially pension plans, are permitted to be excluded from this scheme, providing that their arrangements are equal or better than the old age benefits scheme.

Under the social security law, early withdrawal is permitted as long as the member has joined the Jamsostek program for five years. The benefit will be in lump sum cash (accumulated contribution) plus interests of around 14% annually. The interest is moderate compared to regular saving rate or deposit rate. However, the participation rate of old age benefit program is still low, i.e. around 20% of formal enterprises and less than 10% if both formal and non formal ones are considered. Lack of law enforcement is the reason for this low participation. In the future, the government plans to enforce a more strict regulation that requires enterprises with minimum 2 employees to register for old age benefits and at the same time, all of enterprises' interaction with government (such as license registration or tax payment) will also be linked to the existence of that old age benefit scheme.

Jamsostek as the fund manager of this scheme is regarded as unsatisfactory by many parties including the workers that contribute regularly. Although most of funds managed there come from private companies, the involvement of private sector in management is minimum, and it is more managed as a real government owned company that serves the ruling government.

A social security task force team is now working to establish a compulsory pension plan in Indonesia. They plan to make this compulsory for all workers, both employees and the self

TABLE 4. PENSION FUNDS IN INDONESIA

Year	DPPK			DPLK	DPPK & DPLK
	DBS	DCS	DBS & DCS		
1993	18	1	19	3	22
1994	85	5	90	10	100
1995	147	23	170	18	188
1996	209	31	240	22	262
1997	242	36	278	23	301
1998	269	39	308	25	333
1999	281	44	325	25	350
2000	296	48	344	28	372
2001	298	49	347	31	378

Notes: DBS = Defined Benefit Scheme; DCS = Defined Contribution Scheme
Source: Ministry of Finance, Republic of Indonesia

employed. It may replace the current existing old age benefit scheme or it may be complimentary. This will be classified as an occupational pension plan since the government will not contribute anything.

3. Voluntary Pillar

The pension plan under Law No 11/1992 is voluntary for both employers and employees since they are already required to participate in the old age benefit scheme from Jamsostek. According to the law, private pension programs may be sponsored by either employers, called Employers' Sponsored Pension Funds (DPPK), or by Financial Institution Pension Funds (DPLK). Every worker is entitled for DPPK as long as he/she has married or has reached 18, and has worked for the employer for at least 1 year. Membership for DPLK, on the other hand, is open for individuals, either employees or the self-employed, and the entitlement for the pension programs under DPLK is entirely on their own. DPPK could be defined contribution or defined benefits, while DPLK is defined contribution. The law suggests a fully funded scheme for DPPK, however in reality many DPPK are only partially funded schemes. Banks or life insurance companies can participate in DPLK.

In case of a DPPK, contributions could come from both employers and employees or only from employers. If a DPPK has a defined benefit scheme, it cannot charge the employees to cover the lack of fund. The contribution from employers and employees are tax exempt. The benefit for this scheme cannot exceed the 2.5% annual appreciation factor (2.5% $\times$ years of past services $\times$ final average earnings), and cannot exceed 80% of the monthly principal salary. The maximum contribution scheme for this plan annually is the lower of 7.5% of the annual principal salary or 3 times annual appreciation factor multiplied by the annual principal salary. If a DPPK has a defined contribution scheme, the maximum employee annual contribution is 20% of the annual principal salary. If both employers and employees participate, then the employees contribution cannot exceed 60% of the employer contribution.

In a DPLK, the annual contribution of employees cannot exceed 20% of the annual salary if the employees are not also participating in DPPK. If they are part of a DPPK, then the contribution cannot exceed 10%. In 1999, there were 23 DPLK in which 2 are government state owned companies. Since the defined benefit scheme is more popular in Indonesia than the defined contribution scheme, consequently the funds raised by DPPK would be larger than DPLK. If private companies are more dominant in DPLK, in general the pension funds are much concentrated in government state owned companies through DPPK. Around 80% of the DPPK is sponsored by government owned companies.

Since the pension fund investment is intended for long term investment, most of current investments are still in time deposit. In 1999, it reached 70% of total pension plan investments. Direct investments and investment in property and buildings rank second. Due to economic turmoil, this might be the safest way but if pension funds want to have a role in economic recovery process, buying government bonds might be the best option. Further, if the government relaxes the prohibition of foreign direct investment for pension funds, it might diversify the source of investment returns and it should not be considered as a capital flight. But this last option could only be considered in the light of Indonesia's undeveloped capital market and fund management business.

The pension plan as an institution is subject to corporate income tax but all contributions and investment return on specific purposes are tax exempt. However, the personal income received from a pension scheme or the benefit is subject to tax.

III. *Evaluation of the Current Pension System*

The current system clearly does not help in solving the income disparity problem in Indonesia. Since most of the system depends on average earnings or career earnings, and the current earning system in Indonesia is not in favor of redistribution, then the income disparity even after people retire will still exist. The government employee with a low salary will receive a low pension, while the state owned companies' employees and private companies employees will receive relatively higher pensions. The absence of the public pension plan in Indonesia clearly hurts the chance of income redistribution. The bigger the voluntary pillar is, the worse the income redistribution is.

In the early 21st century, Indonesia is still considered a young nation with a relatively small percentage of old people. Today is actually a good time to develop a good pension plan system. However, in 2020, it is estimated that percentage of old people may become significant (close to or above 20%). At that time, it is important to have already a matured pension plan system that will cover all of retirees. Since the percentage tends to increase after 2020, the dependency ratio will increase. The inter-generational income transfer might take place here since the younger generations have to work hard to cover the growing pension claims (assuming that the compulsory plan will have taken effect at that time).

Since the pension plan is still a new idea for most Indonesians, it is not surprising that the introduction of the plan did not affect the saving rate. The rate is relatively stable in 1993-2000 period, around 28-30% during 1993-1997, while it dropped to around 13-18% during the economic crisis. The competition between pension saving and regular saving may not be in effect today, since they tend to impact different segments of the economy. Pension plan saving is not yet popular nationwide and is limited to a very small group of employees. Most of employees and people still believe in regular saving plan that if managed well, will be enough for their old age security.

Due to the current pension plan's unattractiveness, most employees will not just retire

TABLE 5. SAVING TO GDP RATIO, 1993-2001

Year	% GDP
993	28.7
1994	29.5
1995	27.7
1996	27.4
1997	28.6
1998	20.9
1999	13.1
2000	18.8
2001	
Q1	19.3
Q2	19.4

after they reach certain ages such as 55 or 60. To secure their personal income, they still keep working either in the old office or new office. They may start looking for jobs as soon as they know that the retirement time has come. It is also not too surprising if they find out that the salary of their new job is higher than their pension benefits. The tendency to keep working also creates a stiffer competition for new labor force who find out that there are not many job vacancies left. Sometimes, if the retirees find that the formal sector cannot accommodate them, then they switch to the informal sector and earn the income which is higher than their pension benefit. Whenever the pension benefit is small or less attractive, employees tend to delay their retirement age.

The current economic crisis threatens Indonesia's pension plan. The collapse of certain big companies would affect their pension plans. Although the pension funds should be safe by law, the collapse of a company could immediately be followed by the abolishment of the pension plan. From government's point of view, the economic crisis also threatens their capability in paying the salary and pension. PT Taspen has quickly ran out of money and yet all kinds of subsidies cannot be just eliminated while both foreign and domestic debts are mounting. With such a limited capability, government promised nothing about increasing salary and/or pension. This also hinders the government capability to establish a public pension plan that is regarded as a low priority issue, compared to fuel subsidy or domestic debts.

Political intervention in pension fund accumulation is still a big challenge. The government owned pension fund is very vulnerable to political interventions, especially from the ruling government that feels that the fund is accessible and relatively free to spend.

IV. *Indonesia's Pension Plan: The Needs for Reform*

Although, in the spirit of providing comprehensive regulations as a basis for developing and reforming the pension fund system in Indonesia, the government has enacted Law No.11 on Pension Funds in 1992, many pension system problems still exist. Most common criticism here relates to the asset management regimes. Not only do these tend not to be open to public scrutiny, but they also tend to require a high level of investment in government bonds or publicly held assets, with lower returns, and they are not allowed to be invested abroad.

According to one study the flaws of the current system are:[1] i) generally, the level of pension is inadequate to live on, i.e. low pensions and no automatic indexing for inflation; ii) the pension mechanism is not fair and does not take into account many factors, i.e. length of contribution, amount of contribution, etc., in order to determine a pension amount; iii) it has a gender bias, i.e. working women are under represented as a percentage of the total; iv) it is inflexible with respect to the type of benefits available to different demographic groups; v) level of coverage is low, with a high urban bias; vi) has a high direct burden on the state budget (that is increasing); vii) it is subject to political process and threat of unachievable promises; viii) lack of interaction between the contributor and the pension fund manager; and ix) no choices on the type of primary coverage.

Apart from the problems above, the need for reform is also enhanced by several factors, i.e.: i) with regards to demographic trends, strong demographic changes are taking place in Indonesia (people live longer and the fertility rate is declining); ii) there has been a financial imbalance between contributions and payouts, so that the reform is really necessary; iii) the government has a limited resources to correct imbalances in the pension system; and iv) the effective contributions does not cover increasingly generous pension promises.

In the future, aside from imposing the compulsory pension plan (through social security scheme), the government needs to increase the effort of creating public awareness about pension plan. One crucial thing that has to be done is enforcing the regulation for every enterprise or company to have its pension plan scheme for the employees. They can set up their own plan or participate in the DPLK. To ensure that establishing a pension plan system is attractive for private companies, there have to be incentives created by the government as regulator and facilitator. One possibility is by giving tax incentives such as exemption of personal income tax for pension benefit recipients. Another is by permitting pension fund managements to invest funds abroad to diversify the investment risks. On the other hand, it is also strongly suggested that the pension fund should be involved in the economic recovery process by purchasing government bonds. The combination of the two will help the economic recovery process, and at the same time will increase the possible rate of investment returns.

One big challenge left for the pension plan scheme is for the self-employed people, including workers in the informal sector. Self employed people can participate in the voluntary pillar through DPLK but the statistics reveal that their proportion is much lower than the formally employed workers. This group will be vulnerable to the retirement process and poverty incidence, and a solid pension scheme will be helpful. The challenge would be how to create a pension plan that is easily accessible, meaning quite simple and not expensive, to that group and convince them that the plan will be their eternal social safety net.

V. *Concluding Remarks*

The Indonesian pension plan is, in general, the defined contribution plan for mostly young employees with the estimated "boom" of retirees in 2020. Most of them are partly funded and the participation of employers is relatively limited. However, the public awareness of pension

[1] Yayasan Americas Social Research, "*Pension Fund Reform in Developing Countries: What Can Indonesia Learn from Pension Fund Reforms in Latin American and other Developing Countries?*" Jakarta, 2 December 1999.

plans is still low due to the strong family relationship and the resistance of most private companies to adopt the plan. As a result, the voluntary plan dominates the pension plan development while the economic condition is not good enough to enforce the mandatory privately or publicly managed plan.

The current system does not do much to redistribute income but maintain the intergenerational fairness. Current employees tend to delay their real retirement by looking for new jobs both in the formal and informal sectors. Their expected income is still considered higher than the possible pension benefits. Although the pension plan is not yet a big issue, the possible political intervention is very high due to quick capital accumulation and prospective political attractiveness. The public pension plan, however, is a long way to go due to the current economic crisis and fiscal distress.

Although the 1992 pension plan law is praised as a significant step for Indonesia's pension plan industry, there are more reforms needed to make the pension plan common words in every Indonesian household. More incentives are needed to attract new players in the industry, while at the same time law enforcement has to be the priority in order to make the compulsory pension plan working. The professionalism of pension fund managers is the next to be needed, since the economic crisis, political intervention and uncertain economic conditions require very provident pension fund managers who always try to minimize the risks. The government should avoid direct interventions in the pension fund management system, although the pension fund belongs to the state owned companies. Simultaneously, the reform of technical procedures or the actuarial basis of the pension plan itself has to be carried out, so that every prospective participant feels that their benefit is consistent with their contributions.

REFERENCES

Hattari, Indra (1999), *Social Insurance, People Economy, and Domestic Fund Raising*, paper presented at the pension fund symposium, Jakarta.

LPEM-FEUI (2000), *Concepts, Strategies, and Pension Program Implementation: A Literature Study with Special Emphasis on Indonesian Case*, unpublished report,.

Ministry of Finance (1999), *Yearly Report of Indonesian Pension Fund.*

Subardi, Evi (1999), *Review of Government Employee Pension Plan*, Financial and Monetary Analysis Agency.

World Bank (1994), *Averting the Old Age Crisis*, Oxford University Press.

World Bank (2001), *New Ideas About Old Age Security*, R. Holzmann and J. Stiglitz eds.

Yayasan Americas Social Research (1999), "*Pension Fund Reform in Developing Countries: What Can Indonesia Learn from Pension Fund Reforms in Latin American and Other Developing Countries?*" Jakarta, 2 December.