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# ► Unemployment insurance in Indonesia

Challenges and recommendations



ILO/Japan  
Multi-bilateral  
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# ▶ **Unemployment insurance in Indonesia**

Challenges and recommendations

Ippei Tsuruga, Simon Brimblecombe, Alexander Landry

Country Office for Indonesia and Timor-Leste • Jakarta

Regional Actuarial Services Unit, Decent Work Technical Support Team  
for East and South-East Asia and the Pacific • Bangkok

International Labour Organization

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## ► Contents

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Contents	iii
List of tables	iv
List of boxes	v
Abbreviations and acronyms	vi
Foreword	vii
Acknowledgements	viii
<b>1. Introduction</b>	<b>1</b>
<b>2. Cash benefits</b>	<b>4</b>
2.1. Principle of social insurance	5
2.2. Coverage	7
2.3. Contingency	11
2.4. Qualifying conditions	12
2.5. Insurable earnings for benefits and contributions	14
2.6. Reference salary, benefit level and duration	15
2.7. Waiting period	17
2.8. Financing modality	17
2.9. Relation to other income and social security benefits	21
<b>3. Administration and institutions</b>	<b>23</b>
3.1. Single-window service	24
3.2. Registration of employees and collection of contributions	25
3.3. Claims	27
3.4. Continuation of benefits	27
3.5. Non-compliance and sanctions	28
<b>4. Conclusion and recommendations</b>	<b>31</b>
References	34
Appendix. Comparison between the current policy and the proposed policy	37

## ► List of tables

---

1.	Illustration of the legal coverage of schemes under BPJS-TK.....	7
2.	JKN membership by category of insured members .....	8
3.	Contribution rates transferred from JKK and JKm to JKP (% of monthly wage) .....	19

## ► List of boxes

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Collection of contributions in the case of a worker holding multiple jobs.....	26
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## ► Abbreviations and acronyms

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BPJS	Badan Penyelenggara Jaminan Sosial (National Social Security System)
BPJS-TK	BPJS Ketenagakerjaan (BPJS Employment)
BPJS-K	BPJS Kesehatan (BPJS Health)
GDP	gross domestic product
JHT	Jaminan Hari Tua (old-age savings)
JKK	Jaminan Kecelakaan Kerja (employment injury benefit)
JKm	Jaminan Kematian (death benefit)
JKN	Jaminan Kesehatan Nasional (national health insurance)
JKP	Jaminan Kehilangan Pekerjaan (unemployment benefit)
JP	Jaminan Pensiun (old-age pension)
PAYG	pay-as-you-go
PKWT	fixed-term contract ( <i>perjanjian kerja waktu tertentu</i> )
PKWTT	permanent contract ( <i>perjanjian kerja waktu tidak tertentu</i> )

## ► Foreword

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The ILO's technical assistance towards the establishment of an unemployment insurance scheme in Indonesia started decades ago. Between 2000 and 2002, the ILO and the then-Ministry of Manpower and Transmigration undertook a series of studies on restructuring the social security system in Indonesia. The study found that it was not yet appropriate to introduce unemployment benefits with wide coverage or of long duration due to the predominance of informal employment as well as frequent underemployment stemming from the lingering impact of the 1997 Asian financial crisis. The limited scope of existing employment-related services at the time was another reason for this recommendation. Nevertheless, it was recommended discussions with social partners continue regarding the prioritization, timing and funding of an unemployment benefit and the implications such a benefit would have on the existing system.

After more than a decade of discussion, the establishment of an unemployment insurance system as part of an improved social protection policy has become a priority among national stakeholders, and the ILO continued to provide technical inputs and support to facilitate these discussions. In January 2018, the Minister of Manpower committed in Parliament to conducting a study towards the establishment of an unemployment insurance system, while workers and employers confirmed their willingness to move this agenda forward with ILO assistance. Since then, the ILO has conducted a number of studies from legal, institutional and financial perspectives, and facilitated national tripartite consultation meetings to discuss policy designs for an unemployment insurance scheme.

An unemployment insurance scheme in Indonesia was finally established by Law No. 11/2020 concerning Job Creation in 2020, and the first benefits were paid in February 2022. This represents a historic achievement by workers, employers, and the Government, and the ILO is delighted to have taken part in the process.

The unemployment insurance scheme is scheduled to be reviewed periodically. In response to a request for technical inputs to improve the scheme and its implementation, the ILO facilitated a national tripartite meeting in September 2022 and discussed potential challenges and recommendations. This report reflects the discussion there and adds further analysis in accordance with relevant international labour standards and ILO experts' views. I hope this report will contribute to further tripartite discussions.

In particular, the foundation Law was recently amended by Law No. 6/2023 in March 2023, and the implementing regulations are still being discussed and formulated. I believe that this report will contribute timely and useful inputs to improve the unemployment insurance scheme and its implementation, and therefore improve the protection of unemployed workers in Indonesia.



**Michiko Miyamoto**

**Country Director for Indonesia and Timor-Leste**

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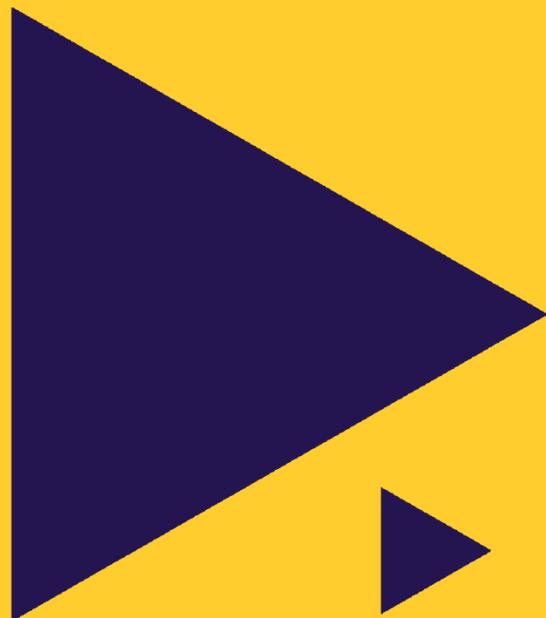
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**1**

# Introduction



**As in neighbouring countries, Indonesia established an unemployment insurance scheme in time of crisis.** The unemployment insurance scheme, or Jaminan Kehilangan Pekerjaan (JKP), was established by Law No. 11 of 2020 concerning Job Creation<sup>1</sup>; its provisions were regulated by Government Regulation No. 37 of 2021; and its operations were instructed by Minister of Manpower Regulation No. 7 of 2021. The Law and the two Regulations came into effect immediately upon the day of promulgation in 2 November 2020, 2 February 2021 and 1 April 2021, respectively. The first payment of JKP benefits was made in February 2022, and the scheme's implementation is gradually being expanded day by day.

**It appears that political negotiations had a large influence on the policy design for JKP.**<sup>2</sup> To understand the rationale behind the current policy design, we start by looking back to the eve of the adoption of Law No. 11/2020. The Government submitted a draft bill on Job Creation to the House of Representative on 12 February 2020, followed by several rounds of consultations, with the adoption of Law No. 11/2020 occurring on 2 November 2020. The draft bill stated that:

1. unemployment benefits (JKP) are newly established and provided under social insurance principles;
2. JKP participants are those who paid contributions;
3. JKP should be linked to public employment services and reskilling programmes;
4. BPJS-TK (the operator for social insurance related to employment in Indonesia)<sup>3</sup> will be the operator of JKP; and
5. a government regulation will determine the detailed design of JKP.

Almost all these fundamental principles of the scheme design remained in the adopted law, except the financing arrangement.

Although the bill initially proposed contributions shared among stakeholders, including workers, the final text of the adopted law regulated that the funding source of the unemployment insurance fund would be general tax revenue from the Government, contributions from employers and BPJS-TK's operational budget. Workers' obligation to make contributions was removed from the draft bill. According to stakeholders who participated in tripartite consultation meetings after the adoption of the law, it appears that the removal of worker contributions to JKP was driven by political negotiations rather than technical recommendations. Prior to the Law being adopted by Parliament, government officials in the ministries at the technical level were discussing in consultation with the ILO a scheme that would be financed by employers and by workers. After the adoption of the Law, the technical officials were informed that the contribution from workers would be replaced by the Government's contribution. Prior to passage, workers' representatives had argued that the proposed Law reduced worker's entitlement to severance pay and therefore it was reasonable for workers not to pay contributions to JKP. Moreover, the Government intended not to bear additional costs on employers by introducing a new social security scheme, because the bill aimed to improving the economic competitiveness of the country.

**The predetermined financial arrangement created a budget constraint, and therefore resulted in limiting the coverage of vulnerable workers and limiting the payment of JKP benefits.** From the perspective of formulating a sound social insurance policy, a financing arrangement should be determined after or in line with other key parameters as determined through an actuarial assessment,

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<sup>1</sup> Law No. 11/2020 was amended by Law No. 6/2023 in March 2023. At the time of writing this report, government regulations to implement the Law have not been issued. Therefore, this report does not consider potential changes to be made by Law No. 6/2023 and its government regulations.

<sup>2</sup> An ILO publication summarizes the process leading to the establishment of an unemployment insurance scheme in Indonesia (Ruck and Tsuruga 2022).

<sup>3</sup> BPJS-TK is the abbreviation for Badan Penyelenggara Jaminan Sosial Ketenagakerjaan, or the National Social Security System for Employment.

but financing arrangements should not drive the decisions on policy design elements such as coverage, adequacy or any other provisions that make the scheme effective. However, this is what seems to have happened in Indonesia. The Law ultimately stipulated the financing arrangement without considering other policy parameters and instructed the Government to design the scheme within the predetermined financial arrangement. The Government first looked for possible ways to reduce employers' contribution rate within social protection existing schemes, introduced a new employer contribution rate for JKP, and maintained unchanged the global contribution rate of employers to BPJS-TK. The Government eventually decided to reduce employer contribution rates to the employment injury insurance fund (JKK) and the death benefit fund (JKm), introduce a new JKP contribution rate for employers at 0.24 per cent of the worker's wage, and instituted a contribution of 0.22 per cent of the worker's wage from the state budget. The level of the overall contribution rate (0.46 per cent of a worker's wage) is much lower than the ILO's recommendation of 1.35 per cent, and the corresponding policy designs are less effective or generous than the ILO's proposal (Landry and Brimblecombe 2021). In fact, given the limitation of the fiscal space, JKP is seemingly designed to limit the expenditure by excluding workers at a high risk of unemployment, by not entitling unemployed workers with a common contingency<sup>4</sup> such as reaching the end of fixed-term contract, by limiting the number of claims over the course of one's career, or by several other provisions. This would appear to go against the key aims of an unemployment insurance scheme which should seek to protect all workers; indeed, those not being covered are arguably the most vulnerable workers in particular need of such coverage. Ways to address this issue include a higher contribution rate and compliance measures.

**The Government Regulation states that a periodical assessment of the JKP scheme to improve its policy design and its implementation is to be carried out every two years, and this paper aims to contribute analysis of and recommendations for JKP as part of this assessment review.**

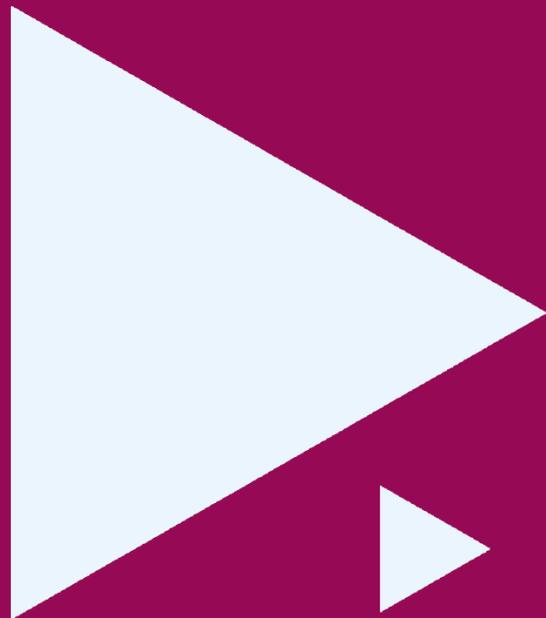
The ILO has provided Indonesia with recommendations towards the establishment of the scheme from several angles, such as international labour standards and legal, financial and institutional perspectives (Bedard, Carter, and Tsuruga 2020a; 2020b; Tsuruga 2020; Landry and Brimblecombe 2021; Carter and Tsuruga forthcoming). Some of the ILO's recommendations were considered in the policy design for JKP, while others were not. It may be worth assessing the potential issues of the adopted policy design, revisiting the ILO's earlier policy recommendations, and discussing how the ILO's recommendations could contribute to solving these potential issues. This paper considers all of the previous recommendations made by the ILO and proposes a possible direction for JKP policy reforms.

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<sup>4</sup> The international social security standards do not differentiate based on the cause of the contingency but define unemployment as "suspension of earnings, as defined by national laws or regulations, due to inability to obtain suitable employment in the case of a person protected who is capable of, and available for, work"

# ▶ 2

## Cash benefits



This chapter aims to discuss potential challenges of the current policy from the perspectives of social insurance principles and international labour standards. It also presents various recommendations for reforms. The chapter presents how the design recommendations are addressed in the proposed design option as well as the potential impacts of modifying the current scheme's parameters so that they reflect the proposed design option and are in line with ILO recommendations. Where possible, the financial impacts of the reforms recommended are also described.

## 2.1. Principle of social insurance

**JKP is regulated to follow the principles of social insurance, but its policy design does not fully reflect these principles.** The principles of social insurance include various elements, such as collective financing, risk pooling, universality, solidarity, adequacy, simplicity, sustainability and state responsibility for the proper administration of the system and the due provision of benefits. The effectiveness of the JKP scheme would increase if it fully adopted these principles.

**Two of the core principles are collective financing and risk pooling.** A scheme that follows these principles is funded through regular contributions paid by workers, employers (and the government), and pools together the collected contributions. The resulting fund is used to cover the payment of unemployment benefits. Risk pooling in social insurance is based on the principle of solidarity, with contributions typically related to capacity to pay – that is, proportional to earnings – as opposed to the individually calculated risk premiums of commercial insurance. The advantages of a risk pooling approach are that it reinforces sustainability, safeguards the scheme's long-term viability, improves the adequacy of benefits, and supports redistribution. It is also a more efficient approach than an individually focused one. As we review in section 2.8 below, JKP is funded by employers and the government but not by workers. While this is still consistent with the principles of pooled funding and international standards that limit workers' share to 50 per cent of the total cost of the schemes applicable to them, it can be argued that such an approach may not be considered equitable as it places a strain on the ultimately available financing and makes employers more reticent to a broader scope of the unemployment insurance.

**Two related principles are universality and solidarity.** Extending coverage to larger groups of employees has a positive impact by creating wider risk pooling, increasing financial sustainability, promoting solidarity, and reducing the overall contribution rate.<sup>5</sup> In turn, such schemes reduce poverty and inequality and support social cohesion and economic growth. The exclusion of employees of smaller enterprises from coverage and the exclusion of employees with fixed-term contracts from coverage go against this principle (see sections 2.2 and 2.3). International experience demonstrates that mandatory legal coverage for all employees is the best and most cost-efficient approach, because any voluntary coverage leads to selection against the system, low coverage and cost increases.<sup>6</sup>

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<sup>5</sup> We do not promote coverage of self-employed in this paper, considering the context of Indonesia, but we understand there is an emerging discussion around this topic globally. In general, the debate concerning the inclusion of the self-employed in unemployment insurance schemes relates to the understanding of the nature of their employment relation and the challenges for social security organizations to ensure compliance. The self-employed largely operate in the informal economy and are often off the Government's radar. It will therefore be extremely difficult for the institution administering the unemployment insurance scheme to perform the necessary controls to ensure that qualifying conditions are met to access unemployment insurance benefits. Compliance mechanisms would need to be reinforced, with a consequent increase in the administrative expenses of the scheme. The self-employed have very limited unemployment insurance coverage worldwide. Mandatory coverage should also be preferred to a voluntary coverage. Covering workers on a voluntary basis should normally be avoided, or at least be done in a more constraining way to avoid a greater risk of adverse selection for any unemployment insurance schemes. Adverse selection refers to the possibility of high-risk individuals (in this case, workers who are at high risk of becoming unemployed) choosing voluntarily to be covered under the scheme with the same conditions as the others. Employees with high risks of becoming unemployed would have significantly more incentives to join the unemployment insurance scheme than others who have more secure and stable jobs. Allowing members to be covered on a voluntary basis is likely to encourage a pool of high-risk workers and discourage a pool of low-risk workers from joining the scheme, increasing at the same time the overall cost of the unemployment insurance scheme.

<sup>6</sup> Comparative studies of international practices support this statement (Peyron Bista and Carter 2017; Bedard, Carter, and Tsuruga 2020a; Tsuruga 2020; Carter, Bedard, and Peyron Bista 2013).

Workers most at risk of becoming unemployed due to the sector or size of enterprise in which they operate or the type of their contractual arrangement are most in need of protection and to have the national solidarity play in their favour. Furthermore, in order to recognize the higher risk of a person with a fixed-term contract becoming unemployed, certain countries have established higher contribution rates to unemployment insurance for employers having recourse to such contracts.

**The next principles concern the adequacy and simplicity of the benefit formula.** Unemployment benefits are designed to ensure an adequate level of benefits, and are typically set as a percentage of the previous earnings of insured workers before becoming unemployed. Most countries set a constant replacement rate of at least 50 per cent of previous insurable earnings for a period of at least 6 months, subject to qualifying conditions (Carter, Bedard, and Peyron Bista 2013; Bedard, Carter, and Tsuruga 2020a; Tsuruga 2020; Asenjo and Pignatti 2019). Many countries have also established minimum unemployment benefits (often as a percentage of the minimum wage) taking into account that, for low paid workers, applying a percentage to their previous earnings will inevitably result in inadequate levels of protection. International practice also shows that simple rules are preferable to complex ones when implementing, managing and communicating an unemployment insurance scheme to the public. Varying benefit levels and/or complex eligibility requirements may make the scheme too complicated to explain and administer. There is limited evidence that varying benefit levels contributes to shortening workers' unemployment spells and encouraging workers to return to work.

**Financial sustainability with due regard to equity, through collective financing between workers and employers is important for realizing scheme effectiveness.** Such a diversified financing approach reduces financing risk and supports adequate benefits. If the financing approach is not appropriate, sustainability and adequacy may be threatened during difficult economic times. This may make the scheme ineffective or unattractive, leading to the public losing trust in the social security system. Almost all unemployment insurance schemes operate through collective financing by both workers and employers (possibly with a subsidization by the State), which facilitates expansion of the scheme to protect workers and guarantees the sustainability of the fund.

**Finally, fairness and equity are essential to achieve the scheme's objective.** The principles of social insurance promote risk-sharing among workers with stable and unstable employment, shorter and longer employment, and high and low earnings. A scheme excluding workers most in need of unemployment protection due to their vulnerable employment status or low level of earnings while paying excessively higher relative benefits to those with a better employment status may run counter these principles. Similarly, the scheme should allow insured employees to claim unemployment benefits as long as they satisfy the qualifying conditions. If the scheme limits the number of claims per worker or sets unnecessarily long waiting period for subsequent claims, the scheme may not effectively protect vulnerable workers. The current policy design of JKP is against this principle of fairness because it collects contributions from employers and uses tax revenues collected from residents, but pays out only to former employees in the formal economy, who are generally already better off than many in an Indonesian economy characterized by informal employment. In addition, the scheme also excludes many employees in the formal economy, including those whose contracts have expired, which is one of the most common reasons for employment termination among workers with fixed-term contracts. The scheme also restricts payments to workers who have frequent contract breaks (see sections 2.3 and 2.4). These exclusions inevitably affect the financing of the scheme negatively and prevent it from operating as a solidarity mechanism protecting the livelihoods of those losing their jobs.

## 2.2. Coverage

JKP coverage is determined by five criteria including nationality, age, employment status, membership in the old age savings scheme (JHT<sup>7</sup>) and membership in the national health insurance scheme (JKN<sup>8</sup>). Large, medium and small enterprises have to enrol employees in JKP on a mandatory basis, while micro-enterprises are not required to enrol employees but can register them on a voluntary basis.<sup>9</sup> When a micro-enterprise registers its employees for JKP, the employer and employees also have to contribute to the JHT and JKN schemes. As JKP is administered by BPJS-TK, its coverage is limited to private-sector workers<sup>10</sup>, and excludes civil servants, police officers or military officers whose social insurance benefits are administered by TASPEN and ASABRI. Workers insured under JKP must be wage earners (workers in an employment relationship with an employer), Indonesian citizens and younger than 54 years old at the time of registration.

► **Table 1. Illustration of the legal coverage of schemes under BPJS-TK**

BPJS-TK scheme		Wage earner			Non-wage earner
		Large/medium enterprises	Small enterprises	Micro-enterprises	
Death benefit	JKm	Mandatory			
Employment injury	JKK				
Unemployment benefit	JKP	Mandatory		Voluntary	Not eligible
Old-age saving	JHT	Mandatory		Voluntary	
Pension insurance	JP	Mandatory	Voluntary		Not eligible

**Source:** Authors' abstracts from national legislation.

**Legal exclusion prevents many wage earners from participating in JKP.** BPJS-TK had 11 million active wage earners for JKP as at 31 December 2021 (Indonesia, BPJS-TK 2022). That represents only 23 per cent of wage earners and results in the exclusion of large segments of the workforce which are often most in need of protection in case of unemployment. This percentage is also much smaller than the minimum requirement of the ILO Social Security (Minimum Standards) Convention, 1952 (No. 102), namely 50 per cent of all employees.<sup>11</sup> BPJS-TK had 20.8 million active wage members, or the 43 per cent of all wage earners, for JKK<sup>12</sup>, which requires mandatory application for all wage earners. Moreover, as discussed in detail later, 6.3 million construction workers, or 13 per cent of all wage earners, were collectively enrolled in JKK but were excluded from JKP. This means that if JKP applied the same legal coverage as JKK, the scheme could immediately extend its coverage to 30.7 million wage earners – or 56 per cent – which would meet the coverage requirement of the social security minimum standard in Convention No. 102.

<sup>7</sup> JHT is the abbreviation for Jaminan Hari Tua.

<sup>8</sup> JKN is the abbreviation for Jaminan Kesehatan Nasional.

<sup>9</sup> Table 1 summarizes legal coverage of the BPJS-TK schemes.

<sup>10</sup> Employees in state-owned enterprises are included in this category, and therefore are covered by JKP.

<sup>11</sup> ILO Convention No. 102 requires that the persons protected under the unemployment insurance scheme should comprise: (a) prescribed classes of employees, constituting not less than 50 per cent of all employees; (b) all residents whose means during the contingency do not exceed limits prescribed in such a manner as to comply with the requirements of Article 67; or (c) where a declaration made in virtue of Article 3 is in force, prescribed classes of employees, constituting not less than 50 per cent of all employees in industrial workplaces employing 20 persons or more. The latter option is available for countries whose economy and medical facilities are insufficiently developed and avail themselves of the temporary exception provided under Article 21(c) of the Convention.

<sup>12</sup> This figure does not contain the 6.3 million construction workers who were JKK-insured collectively by construction projects.

Other criteria for registration excluded many wage workers from JKP. As noted above, for workers to be eligible for JKP, they must also make contributions to JHT and JKN. As at 31 December 2021, BPJS-TK had 16.3 million active wage earners contributing to JHT – or 4.5 million fewer than the JKK scheme – and therefore, the requirement to participate in JHT disqualified these 4.5 million active JKK wage earner participants from enrolling in JKP. In addition, JKN had 236 million active participants, with the Central Government and the provincial governments subsidizing the contributions of 140 million people, including both insured workers and their family members (JKN-PBI) (Table 2). After excluding government-subsidized persons and government officials, JKN only had roughly 41 million wage earners and their family members actively contributing to the scheme (PPU BU) (Indonesia, Coordinating Ministry for Human Development and Cultural Affairs 2022). Although there is no data available to identify the number of active BPJS-TK participants participating in JKN through the subsidy scheme, it is reasonable to assume that the requirement for JKN contribution payments might make some wage earners ineligible to participate in JKP.<sup>13</sup>

► **Table 2. JKN membership by category of insured members**

Category of insured members	Number of insured members
Central government contribution subsidy (PBI APBN)	99 987 219
Provincial government contribution subsidy (PBI APBD)	40 424 739
State wage earner (PPU PN) <sup>1</sup> and non-state wage earner (PPU BU) <sup>2</sup>	60 008 295
Non-wage earner (PBPU) <sup>3</sup>	30 914 126
Non-workers (BP) <sup>4</sup>	4 384 883
Total	235 719 262

**Note:** A full list of definitions is available on the website of BPJS Health (n.d.) as at 31 December 2021. A broad summary of each category of insured members is: <sup>1</sup> civil servants, armed forces, police officers and other government workers; <sup>2</sup> state- or provincial-state-owned enterprises and private sector enterprises; <sup>3</sup> workers in micro-enterprises, irregular working hours, self-employees and other low productive or non-standard forms of employment; and <sup>4</sup> employers, investors and pensioners.

**Source:** Indonesia, Ministry of Health (2022).

**JKP is leaving construction workers behind.** Construction workers are not registered with BPJS-TK individually, but rather all the workers on a particular construction project are registered collectively. As such, BPJS-TK has a specific scheme for construction workers, separate from the mainstream scheme, that had 6.3 million construction workers, or 13 per cent of all wage earners, as at 31 December 2021. Once construction workers are registered by project, they are covered only by the employment injury scheme (JKK) and the death benefit scheme (JKm). Because the specific scheme does not offer them JHT coverage, many construction workers are potentially excluded from JKP. At the very least, the 6.3 million construction workers registered with the specific scheme do not enjoy JKP benefits. Although JKP aims to protect workers from income loss in case of unemployment, it is legally excluding a category of workers that is particularly vulnerable to such a risk.

**The age restrictions placed on the JKP scheme are not only leaving older workers behind, but also creating a social protection gap in the life cycle.** Currently JKP does not accept registration from workers if they are 54 years old or older at the time of registration. The pensionable age of the JP scheme was set at age 56 in 2016, and this will increase by an additional year every three years until it reaches 65 in 2043, while that of JHT will remain at age 56. Unemployed workers who fall between the age limit of JKP and the pensionable ages of JP and JHT will not be protected by any of these schemes. As the regulations do not include future increases to the age limit of JKP, the age gaps among these schemes will become wider and wider in the future. Moreover, the exclusion of workers from the unemployment insurance scheme by age may be against the International Covenant on

<sup>13</sup> At policy dialogues, we heard from stakeholders that there may be quite a number of cases where workers employed at enterprises are participating in JKN-PBI as a spouse of a poor and vulnerable household head. We have no means of assessing the magnitude of such cases in the absence of data.

Economic, Social and Cultural Rights. This human rights treaty, which has been ratified by Indonesia, requires the State to provide to everyone the right to social security without discrimination. Similarly, the ILO Employment Promotion and Protection against Unemployment Convention, 1988 (No. 168), requires the State to ensure equality of treatment for all persons protected by unemployment insurance schemes, and discrimination on the basis of age is explicitly amongst the prohibited discrimination grounds.

**In general, extending coverage to larger groups of workers has a positive impact by creating wide risk pooling, increasing financial sustainability, promoting solidarity and reducing contribution rates.** While the inclusion of workers with a higher risk of becoming unemployed would be essential to achieve the objectives of unemployment insurance, contributions paid in sectors with a lower risk of unemployment would have the effect of “subsidizing” the riskier sectors. Unemployment insurance schemes should indeed be constructed on such principles of social solidarity and sharing of risks. Therefore, coverage should apply to as many employees as possible, whether they work for micro-, small-, medium- or large-sized enterprises, or whether they have permanent, fixed-term, seasonal, temporary or part-time contracts – except for the self-employed.

**JKP could become more effective if it extends mandatory coverage to wage earners in micro-enterprises.** The scheme should require all establishments to register employees on a mandatory basis no matter what size of enterprises they are. International good practices suggest that removal of legal barriers or an extension of legal coverage to workers in micro-enterprises is essential to improve the protection of the most vulnerable wage earners (Tsuruga, Nguyen, and Behrendt 2020). Micro-enterprises are currently allowed to register their employees with JKP on a voluntary basis, but are exempted from mandatory registration. Instead, having employees of micro structures statutorily covered by unemployment insurance but through simplified mechanisms adapted to their situation and, where possible, subsidized by general revenue, is demonstrated to reach much better outcomes and results both in terms of employee protection and enterprise development.

**Voluntary registration in unemployment insurance not only hampers the extension of coverage but also promotes adverse selection and may represent a moral hazard** Adverse selection refers to a situation with voluntary provision where those most likely to claim join the scheme whilst those with the lowest risks opt out. This pushes up the average insurance premium or contribution rate in the case of social security, thus increasing the incentive for those with the next lowest risks to opt out, and so on. Such a situation leads to reduced efficiency from the perspective of the individual (or a group of individuals sharing a common risk profile) on the one hand, and from the perspective of the society or community as a whole on the other. In the specific case of JKP, micro-enterprises do not have to register their employees with the scheme, but they can voluntarily do so by paying JHT contributions. As a relatively high contribution to JHT is required to register with JKP, the adverse selection risk may be reduced somewhat.<sup>14</sup> However, it may be still fair to argue that the scheme may be at risk of having more workers who are vulnerable to unemployment voluntarily registered from micro-enterprises, while enterprises whose workers enjoy more stable employment may not register with the scheme.

**An extension of legal coverage to construction workers could improve the effectiveness of the scheme.** International practices show that construction workers are often excluded from social security coverage because of the high turnover of workers, the prevalence of casual labour and unclear employment relationships including sub-contracting (Tsuruga, Behrendt, and Nguyen forthcoming; Behrendt et al. 2019). It is widely acknowledged that one of the prominent approaches to closing social security gaps is collective registration by project unit and a collective collection of contribution based on the overall value of the construction project instead of worker earnings (Newitt, Usher, and McLeish, unpublished). Indonesia has adopted this approach in regard to JKK and JKm

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<sup>14</sup> For voluntary registration with JKP, a micro-enterprise must register employees with JHT and contribute 3.7 per cent and 2 per cent of the monthly wage from the employer and employee, respectively.

schemes, which has certainly realized an extension of social security coverage to construction workers. However, it appears that this collective enrolment in these schemes intentionally or unintentionally helped justify the exclusion of construction workers from other mainstream schemes, including JHT, JP and JKP. Considering their high risk of employment termination, it is essential to extend coverage to construction workers. Such a legal and administrative reform could by itself lead to the coverage of an additional 6.3 million workers.

**Removing the age restriction and allowing all wage earners to participate in JKP at least up to the pensionable age of JP may be necessary for the scheme to achieve its objective of unemployment protection.** The ILO Social Protection Floors Recommendation, 2012 (No. 202), suggests that basic social security guarantees should ensure at a minimum that all in need over the life cycle have access to essential healthcare and to basic income security. It would go against the Recommendation if the State maintains the JKP age restriction while increasing the age gap between unemployment benefits and old-age benefits. All workers face the possibility of job loss, but the careers of older workers are much more difficult to resume once they are interrupted (Samorodov 1999). In particular, in the absence of universal old-age pension coverage in Indonesia, many older workers may have to continue working for living. The risks of non-employment and career interruption will disproportionately affect older workers, especially those with lower skills, as they may struggle more to find new jobs. It should be essential to cover them to achieve the objective of JKP. Moreover, if the rationale for age limitation aims to avoid the duplication of benefit provisions between unemployment benefit and old-age benefits, it may be more reasonable to regulate reduction of or non-entitlement to unemployment benefits when insured workers are receiving an old-age pension. Similarly, relation to other social security benefits can be regulated to avoid unnecessarily excessive multiple benefit receipts.<sup>15</sup>

**The extension of coverage according to the abovementioned parametric reforms will increase both contribution and benefit payments, but there may ultimately be little, if any, impact on the contribution rate required to finance the scheme.** With appropriate data and resources, it would be possible to estimate the financial impact of these reforms. In theory, extending coverage to construction workers and employees of micro-enterprises may increase the incidence of claims experienced by JKP, and therefore increase the scheme's cost, if these workers have higher involuntary termination rates on an age-equivalent basis. On the other side, requiring all employers to register employees regardless of their age and the size of enterprise for which they work will, in return, reduce the required contribution rate to finance the scheme. The current voluntary registration policy might be attracting wage earners of micro-enterprises who have a higher risk of employment termination due to the possibility of anti-selection, and therefore the proposed extension of coverage to wage earners in all other micro-enterprises will cover a lower risk group. Inclusion of this lower risk group will eventually increase incoming contributions more than outgoing expenses. Moreover, as for all other members of JKP, construction workers will have to meet the scheme's qualifying conditions to be eligible for unemployment benefits, and therefore they will not be eligible to claim benefits on a regular basis, such as after every contract or season. Thus, so long as the qualifying conditions are defined appropriately, the financial impact on the scheme may be minimal.

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<sup>15</sup> The ILO Older Workers Recommendation, 1980 (No. 162) provide two policy options concerning relation between unemployment benefit and old-age benefits. First, older workers who are unemployed during a prescribed period prior to the date on which they reach the age normally qualifying workers for an old-age benefit should, where an unemployment benefit scheme exists, continue until such date to receive unemployment benefit or adequate income maintenance. Second, older workers who have been unemployed for at least one year should be eligible for an early retirement benefit during a prescribed period prior to the date on which they reach the age normally qualifying workers for an old-age benefit; the grant of early retirement benefit should not be made dependent upon a qualifying period longer than that required at the age normally qualifying workers for an old-age benefit and its amount, corresponding to that of the benefit the worker concerned would have received at that age, should not be reduced to offset the probable longer duration of payment, but, for the purpose of calculating this amount, the period separating the actual age from the age normally qualifying workers for an old-age benefit need not be included in the qualifying period.

## 2.3. Contingency

**The contingency risk covered by JKP is income loss due to involuntary termination of employment.** The scheme covers employment termination of indefinite-term employment and fixed-term employment, but it does not entitle unemployed workers who resigned from their previous jobs for any reasons. Moreover, claimants are not qualified for the benefit if they are unwilling to work, incapable of working, dead or a pensioner. The law and regulations do not sufficiently clarify the definition of “involuntary termination of employment”. In practice, it appears that unemployed workers whose employment came to end due to an expiry of a fixed-term employment contract, forced resignation or other resignation with good reasons are not entitled to benefits.

It is common to explicitly define the causes of and reasons for unemployment that are to be covered by an unemployment protection scheme. ILO Convention No. 102 focuses on describing the contingency being covered as the suspension of earnings due to inability to obtain suitable employment in the case of a protected person who is capable of and available for work. Unemployment benefits can be suspended either partially or totally if the person becomes unemployed has failed to make use of the employment services placed at his or her disposal; or if the person has left voluntarily without just cause.

**Unemployment benefits must be granted to workers with fixed-term contracts whose contracts are not extended by their employers.** At present, workers who become unemployed due to their fixed-term contract coming to an end are not eligible for JKP benefits. However, if an employer decides not to extend a contract, one could regard the resulting unemployment as involuntary termination of employment. Similarly, the scheme could potentially regard it as voluntary unemployment in a case where a worker has refused the extension of fixed-term employment, and therefore, not pay benefits because the worker was responsible for the employment termination. Rather than excluding all fixed-term workers whose contracts come to an end, a better policy design may qualify insured workers for unemployment benefits when their fixed-term employment contracts were not extended or renewed by employers, subject to meeting the qualifying conditions established by national legislation, resulting in an end to their term of employment.

At a series of technical consultation meetings, some stakeholders argued that fixed-term employees should find new jobs before their contract expires because they knew their employment contracts would come to an end. Such a statement is based on the perception that workers are not being proactive enough in looking for a new job before their contracts expire. It is worth noting, however, that fixed-term employees would still have to meet the scheme's qualifying conditions in order to receive unemployment insurance benefits upon the expiry of their contract. Indeed, unemployment benefits are not paid to every unemployed person; they are payable only to those who meet the scheme's qualifying conditions and who are available for work and actively looking for a job. Mandatory monthly interviews usually take such a role to validate active job searching; so the scheme can effectively exclude those who are not proactive in their job search, even after they qualify for benefits. In certain countries, employer contributions for unemployment insurance are set higher when they employ fixed term contract workers in order to acknowledge that this category of contracts creates greater income insecurity and precariousness.

**Unemployment benefits should be granted to workers who resign with just cause.** Laws and regulations do not stipulate the treatment of voluntary resignation with or without good reasons in detail. In practice, therefore, the current scheme may not consider reasons for resignation, but only refer to the resignation itself to decide non-entitlement. However, there is scope to change this to allow eligibility for workers who resign with just cause (the causes considered just could be exhaustively or indicatively listed by the laws or regulations). For example, an unemployed worker could be entitled to unemployment benefits if he/she resigned because of harassment at work, family moving due to occupational reasons, lack of physical capacity, including illness, injury, or reduced vision, hearing or sense of touch; pregnancy, childbirth or childcare; or family circumstances.

**Unemployment benefits should be granted to workers who are forced to resign.** Like resignation with just cause, laws and regulations do not stipulate the treatment of forced resignation. For example, under the current provisions, the scheme may not protect unemployed workers who resigned because of employers' non-compliance with laws, dangerous working conditions, non-payment of wages, harassment, bankruptcy, relocation of workplace or any other reasons attributable to employers.

## 2.4. Qualifying conditions

**The current policy applies different qualifying conditions for the first, second and third claims.**

For an initial claim, insured workers have to be active members of JKP for 12 months in last 24 months prior to termination of employment, and that must include at least 6 consecutive months. Second and third claims are allowed 5 years after the receipt of the previous JKP benefit. Insured workers can claim only up to three times during the course of their career. Unemployed workers will lose the right to claim benefits if they do not file a claim within 3 months of the termination of employment; if they find another job; or if they die.

**A recent relaxation of a measure on the issuance of fixed-term contracts (PKWTs)<sup>16</sup> will potentially increase the number of workers with a fixed-term contract shorter than 6 months.**

According to Government Regulation No. 35/2021, an employer can issue a PKWT of up to five years.<sup>17</sup> Neither a minimum period for a PKWT nor a grace period after an expiry of a previous PKWT is regulated. An employer must pay compensation to a PKWT employee who has worked for one consecutive month or longer, and must also pay compensation whenever extending a contract.<sup>18</sup> In practice, therefore, an employer has an incentive to issue a PKWT contract that is shorter than one month lawfully to avoid the five-year limit of PKWT and the payment of compensation upon expiry or renewal. In this context, even though employers are required to register their employees with fixed-term contracts and pay contributions to JKP, many of these workers may not fulfil the benefit requirement of six consecutive months of employment.

**The requirement of consecutive months of employment may effectively exclude workers with unstable forms of employment, who are often those most in need of income support.** The contribution requirement is set like that of many countries that require either 6 or 12 months of contributions in the last 12 to 24 months (Carter, Bedard, and Peyron Bista 2013; Bedard, Carter, and Tsuruga 2020a; Tsuruga 2020; Asenjo and Pignatti 2019). However, the requirement of consecutive months of employment will unfairly disqualify workers with short contracts, including seasonal workers, fixed-term workers and day labourers. This provision will merely help the JKP fund to accumulate reserves by collecting contributions while not granting benefits to workers who have unstable forms of employment and have otherwise contributed the required 12 out of the last 24 months.

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<sup>16</sup> According to Law No. 13/2003, an employer must have followed strict conditions (Tsuruga and Wedarantia 2020). The initial period of a PKWT was no longer than two years, and could be extended only once for a single year by notifying employees in writing no later than seven days prior to the end of the employment agreement. A PKWT could be renewed 30 days after the previous PKWT has expired, but only once and for no longer than two years. Thus, the maximum duration of a PKWT at the same enterprise were five years, which would include a one-year extension and a two-year contract renewal, if all the requirements were met. Failure to meet these conditions led to the conversion of the employment agreement from a PKWT to a PKWTT (indefinite-term contract). A PKWT worker with daily or freelance employment agreements cannot work more than 21 days within one month. When they work 21 days or more for 3 consecutive months, the employment contract would be converted to PKWTT (Minister of Manpower and Transmigration Regulation No. 100 of 2004, article 10(3)). However, all these conditions were relaxed as explained in the main text above.

<sup>17</sup> Article 6. A comparative table between previous provisions and current provisions is available in Better Work Indonesia (2021).

<sup>18</sup> An employer must pay a PKWT one month's wage for 12 consecutive months of employment and a proportionated monthly wage (service period divided by 12 months multiplied by one month's wage) for one month to 12 months of employment and for more than 12 months of employment (articles 15–16).

For example, the current scheme would not protect a worker who had four non-consecutive five-month contracts and was employed for 20 months out of 24 months in total, but it would protect a worker who was employed for only 12 months out of 24 months in total, but with final six months being a continuous period. The scheme could become more effective if it removed any requirement around consecutive months of employment from the qualifying conditions.

**The maximum number of claims during a career and the five-year penalty for the second and the third claims may effectively prevent workers with unstable forms of employment from receiving unemployment benefits.** It is more appropriate that the JKP scheme allows insured employees to claim unemployment benefits as long as they meet the minimum required contributions. The current arrangement that requires a five-year gap period for subsequent claims is not in conformity with ILO Conventions Nos 102 and 168, which require qualifying conditions not to be longer than what is considered necessary to prevent abuse but not in order to lose the right to the benefit altogether. When a scheme limits the number of claims or requires unnecessarily long contribution records for subsequent claims, it does not effectively protect vulnerable workers and those with short contracts. Furthermore, the current provisions of the scheme may unfairly take away rights from workers whose contribution history remains reasonable and far from abusing the system. Qualifying conditions for subsequent claims should be kept as simple as possible and made solely to avoid abuse. It may be sufficient and simple enough to adopt the same requirement for subsequent claims as for the initial claim. If the rationale for imposing a five-year penalty for subsequent claims is to prevent workers from depending heavily on unemployment benefits, a better solution may be to strengthen the application of mandatory monthly meetings to validate active job searches and to improve the capacity of public employment services and vocational training to help such workers secure stable jobs, instead of imposing penalties.

**Rules around subsequent claims should be simpler and more effective.** There may be several ways to define such rules. The simplest approach is to reset entitlement after receiving benefits, even when the worker does not exhaust all of the entitled duration of benefits. In this case, the worker will have to make the required months of contributions to file another claim for an unemployment spell in the future. As in the current policy, Convention No. 168 allows the State to limit the initial duration of the benefit to 26 weeks for each spell of unemployment. A more protective approach, but one requiring more operational capacity, is to allow the unemployed worker to maintain the entitlement until they receive all benefits or 12 to 24 months passes from the start date of the claim. In this approach, the unemployed worker can apply for unemployment benefits within a 12- to 24-month period if they have not used up the entitled duration of benefits during a previous unemployment spell. The social security institution then processes the application as a renewal claim on the existing initial claim and reactivates the initial claim without any further insurable employment. Once the worker's benefits are exhausted or expired, they will have to meet the qualifying conditions again for the next claim. ILO Conventions Nos 102 and 168 recommend, respectively, that such a window should be 13 weeks within 12 months and 39 weeks within 24 months.<sup>19</sup> After such a period has elapsed, persons who remain unemployed may qualify for means-tested benefits financed by way of public funds.

**The removal of required consecutive months of employment and the five-year penalty for subsequent claims will increase the number of members eligible to receive benefits and thus will increase the cost of the scheme.** Due to data constraints, it is not possible for us to assess the

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<sup>19</sup> Let us take an example where an individual has met the eligibility requirement of 12 months of employment in the last 24 months preceding employment termination; submitted a claim for unemployment benefits on 1 February 2022; received 3 months of benefits between February and April 2022; and finally returned to work on 1 May 2022. This worker was then employed for 2 months before becoming unemployed again on 1 July 2022. If the unemployment insurance scheme resets a contribution record after the initial claim, this worker would not be eligible to apply for unemployment benefits for their second unemployment spell that started on 1 July 2022. If the scheme adopts the second optional policy to maintain entitlement for 12 months, the worker's second claim filed in July 2022 is regarded as a renewal claim on the existing initial claim accepted in February 2022. The worker is therefore entitled to the outstanding balance of 3 months between July and September 2022.

financial impact of these reforms. However, we trust that any increase in the cost will be relatively low compared to the increase in effectiveness of the scheme to protect unemployed workers. Indeed, the qualifying condition of 12 months of contribution in the 24-month period preceding employment termination seems appropriate to prevent abuse.

## 2.5. Insurable earnings for benefits and contributions

**The maximum insurable earnings for JKP is set lower than another scheme of BPJS-TK, the old-age pension (JP).** Insurable earnings for the BPJS-TK schemes are defined as the basic salary and any fixed allowances (excluding non-wage allowances). The maximum insurable earnings for JKP in regard to contributions and benefits is set at 5,000,000 rupiah. There is no automatic indexation mechanism for the maximum insurable earnings in the current provisions. By contrast, the maximum insurable earning for JP contributions was set at 9,559,600 rupiah in March 2023 and it is changed annually in line with GDP growth.

**The maximum insurable earnings for JKP may affect a larger group of workers than necessary.** ILO Convention No. 102 allows for the establishment of a maximum limit of earnings for calculating unemployment benefits, but the limit must ensure that a beneficiary who previously earned equal to or lower than the wage of a skilled manual male employee would still receive an unemployment benefit equal to at least 45 per cent of their previous earnings.<sup>20</sup> In general, while a ceiling on insurable earnings for contribution allows high-income earners to not pay extremely high contributions, a scheme with no ceiling on contributions but a ceiling on benefits will pay high-income earners no additional benefit for contributions that they made on earnings above the amount necessary to receive the maximum benefit (Cichon et al. 2004). When a ceiling is defined properly, it will affect only a few workers as the wages of most workers in the economy would be lower than the ceiling, thus allowing for greater redistribution and solidarity among the protected population (Scholz, Cichon, and Hagemeyer 2000). If the current JP ceiling of 9,559,600 rupiah was built around this principle, it would suggest that the JKP ceiling of just 5,000,000 rupiah is likely to affect many more workers and may be at risk of failing to cover the mass of wages in the economy. In fact, BPJS-TK administrative data for 2019 shows that average monthly earnings of insured male workers aged 40–69 and insured female workers aged 45–69 exceeded 5,000,000 rupiah; while the average wages for all insured workers of any age were 4,520,265 rupiah for males and 3,947,237 rupiah for females (Landry and Brimblecombe 2021). As the average net wage of all employees (insured and not insured) was 2,981,647 rupiah in 2022 (Indonesia, BPS) 2022), the average wage of BPJS-TK members is certainly higher than that of non-members. In this paper, we do not conduct a rigorous assessment on compliance with ILO Convention No. 102. Nevertheless, we can at least conclude that the appropriateness of the JKP earnings ceiling – which is only roughly half that of the JP ceiling – should be assessed.

**A maximum insurable earnings indexed to wage growth should maintain the value of benefits over time.** Linking the insurable ceiling to wage growth will enhance solidarity and improving redistribution among members.<sup>21</sup> Moreover, according to the ILO's costing analysis, the average insurable earnings of potential claimants are estimated to be 23 per cent lower than the average insurable earning of the other members of the scheme (Landry and Brimblecombe 2021). Therefore, increasing the maximum insurable earnings of JKP will likely result in an increased redistribution between members and a reduced contribution rate required to finance the scheme.

**The absence of an indexation mechanism for the maximum insurable earnings will result in a gradual reduction in the value of benefits over time in the absence of regular ad hoc adjustment by the Government.** When the ceiling of insurable earnings for contribution is not periodically

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<sup>20</sup> A detailed description can be found in Article 65 of the Convention.

<sup>21</sup> In a separate report, the ILO recommends reforming the JP's ceiling so that it is indexed to wage growth instead of GDP growth (Brimblecombe et al, 2023).

adjusted to reflect wage increases, high-earning participants will pay less and less relative to their increasing earnings, their benefits will gradually become insignificant, and the redistribution effect among members will become smaller in the future. The current policy design for JKP has such a risk. Certainly, to prevent the scheme from being exposing to such a risk, the Government Regulation schedules an actuarial assessment every two years for adjusting key parameters. However, lessons learned from the Government Regulation on JP suggest that it is uncertain that the Government Regulation on JKP will be regularly revised, as it states. In fact, although the Government Regulation on JP schedules for an actuarial assessment to be conducted every three years and to gradually increase the contribution rate from 3 per cent to 8 per cent<sup>22</sup>, the contribution rate of JP has not been adjusted once since the scheme's introduction in 2015. Such a risk can be avoided by regulating an indexation rule and authorizing BPJS-TK to adjust the maximum insurable earnings in accordance with a predetermined indicator.

**The absence of a minimum benefit means that there is no guarantee of an adequate level of benefits being paid to workers in micro- and small-sized enterprises.** Government Regulation No. 36/2021 concerning Wages exempted micro- or small-sized enterprises from paying the minimum wage. Wages at these establishments are instead set by an employer–employee agreement, which must be higher than 50 per cent of the average consumption of people in the relevant province, and 25 per cent higher than the provincial poverty line. As JKP does not have a flat minimum benefit,<sup>23</sup> the unemployment benefit is calculated for all participants based on previous earnings. In theory, the lowest level of benefit is 25 per cent to 45 per cent of the minimum wage for all wage workers except workers in micro- and small-sized enterprises. One of the major concerns is that the wages of workers in micro- and small-sized enterprises could be much lower than those of ordinary workers, and that this will lead to inadequate levels of unemployment benefits. In addition to exemption from the minimum wage, the formulas for determining the absolute minimum that can be paid to workers by micro- and small-sized enterprises – which is based on average consumption and the poverty line in the province – are not very clear and potentially influenced by political considerations. In fact, poverty lines and average consumption figures may be affected by the choice of methodology employed to calculate them and can be modified by purely political decisions. As in many countries, one way to avoid such negative impacts on disadvantaged workers may be to adopt a minimum benefit amount or a minimum benefit earning amount to ensure a guaranteed subsistence level of income for those who are made unemployed.

## 2.6. Reference salary, benefit level and duration

**JKP provides qualified unemployed workers with temporary and partial income replacement up to the maximum duration of 6 months.** The benefit amount is set at 45 per cent of last reported earnings for the initial 3 months and 25 per cent of last reported earnings for the following 3 months. For the first claim, the benefit level and duration of the scheme is in conformity with the requirements of Convention No. 102, but below the standards set by Convention No. 168. Convention No. 102 recommends a minimum replacement rate of 45 per cent of previous earnings for at least 13 weeks within a period of 12 months; while Convention No. 168 sets a higher standard of 50 per cent of earnings for 26 weeks in each spell of unemployment or 39 weeks over any period of 24 months. As discussed above, for subsequent claims, the benefit level and duration may not be in conformity with

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<sup>22</sup> According to the Government Regulation, the amount of contribution should be evaluated at least every three years by considering the national economic condition and the actuary obligation sufficiency, and the outcome of this evaluation is to be used as a basis to adjust the gradual increase of contributions to 8 per cent (article 28(4–5)).

<sup>23</sup> International labour standards allow each country to decide reference earnings for minimum benefits. According to ILO Convention No. 168, Article 15, the fixed benefit can be set at not less than either: (i) 50 per cent of statutory minimum wage or wage of an ordinary labourer, or (ii) at a level which provides the minimum essential for basic living expenses, whichever is the highest. Moreover, it is important to ensure workers cannot receive benefits higher than their prior earnings; namely, the minimum benefit will be paid up to 100 per cent of their insurable earnings. In setting a minimum benefit, reference should be made to subsistence income amounts and poverty levels.

Convention No. 102 as the prescribed conditions seem stricter than what is necessary to preclude abuse, because insured workers who have satisfied the qualifying conditions would still not be entitled to benefits at all for five years after their first and the second claims, and they would not be entitled any benefits whatsoever after their third claim.

**The adopted level of benefit and the tapering model may have room for improvements.** The current level of benefit is set at the minimum standard of Convention No. 102, but it is also lower than what is typical in international practice. The benefit model for JKP is similar to that of the Malaysia's Employment Insurance System, adopting a tapering model instead of one with a uniform level of benefit. The Malaysian model was designed to encourage the unemployed to return to work as soon as possible while promising greater protection for the initial month of unemployment. The Malaysian scheme also pays to the worker a certain proportion of the unspent months of unemployment benefits as a reemployment allowance for finding a job earlier (Raman 2021). However, there appears to be little or no evidence that the current JKP benefit model structure will become a key driver in improving return to work rates. If the level of benefits is relatively high, it could make sense to taper downwards over time, especially when the overall duration of benefits is reasonably long. But if the initial benefits are fairly low, the behavioural impact of declining benefits may be minimal. Similarly, if the overall duration of benefits lasts a short period, the impact on the time to return to work would be limited. The JKP model is obviously an example of the latter. Moreover, a tapering benefit structure may disproportionately impact more disadvantaged workers – the long term unemployed tend to be low-skilled, older, or find it physically or mentally challenging to compete in the labour market, and are likely to need as high a benefit at the end of the period as at the start of the period of unemployment, particularly as savings are more likely to have run out by then. Therefore, a tapering benefit structure may increase poverty. Finally, a tapering benefit structure is more complex to administer and to communicate to the public. If its adequacy is prone to being questioned, the entire existence of the scheme might be put into question.

**The adopted reference earning may not guarantee adequacy of unemployment benefits.** The benefit amount of JKP is currently calculated based on the last reported wage. The ILO instruments provide that, in earnings replacing schemes, the replacement must be determined with regards to previous earnings, but leaves it to national legislation to decide how previous earnings are to be computed. However, determining reference earnings by using the last reported wage may not guarantee an adequate level of benefit for all and may result in an excessive level of unemployment benefits for some. It would undervalue the benefit level if the wage paid to a worker in the last month prior to unemployment was lower than they typically receive, and it would overvalue the benefit level if the wage paid in the last month were unusually high for the worker in question. For these reasons, it is common to adopt the average insurable earnings across several months to calculate unemployment benefits in order to level off any fluctuations in income, particularly for workers with unstable employment, and to avoid adverse selection.

**The adoption of a constant benefit will increase the scheme's cost.** Based on the provisions of ILO Convention No. 168, we have recommended in a recent ILO publication that Indonesia adopt a constant benefit rate of 50 per cent and that the reference salary should be calculated as the average insurable earnings over the 6 months prior to the claim (Landry and Brimblecombe 2021). As the proposed scheme provides a higher and constant benefit of 50 per cent for 6 months, it will certainly guarantee higher benefits than the current scheme, especially for those who remain unemployed for more than 3 months. Based on the data and information obtained to assess the cost related to the proposed design option<sup>24</sup>, it is estimated that replacing the existing benefit rate of JKP with a constant benefit rate of 50 per cent could raise the scheme's benefit expenditure by 40 per cent. The cost of

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<sup>24</sup> The duration of unemployment among JHT workers who have terminated their active membership/withdrawn their JHT funds for the reason of layoff or resignation is impossible to assess precisely. The only information that can be used to partially capture the unemployment duration among JHT workers is the period of inactivity of former contributors. The period of inactivity of former JHT contributors was used to estimate the unemployment duration.

the scheme could be further increased if, indeed, the application of a constant benefit led to a reduction in the return of work rates. However, as mentioned above, there appears to be little or no evidence that the current benefit model will become a key driver in improving return to work rates.

**The adoption of average earnings for benefits will reduce the scheme's cost.** Replacing the current reference salary with a reference salary calculated as the average insurable earnings over the 6 months prior to the claim should not only reduce the cost of the scheme, but also reduce benefit volatility and improve equity among insured members with different contribution histories. The proposed 6-month average earnings as a reference is flexible enough to allow for income redistribution among JKP members, but is also sufficiently solid to avoid members obtaining excessive benefits in relation to their past contributions.

## 2.7. Waiting period

**The scheme does not have a waiting period before payment of benefits start.** Traditionally, a waiting period under an unemployment insurance scheme has two main objectives: (i) it allows time to determine the status of unemployment (and therefore the validity of the claim); and (ii) it protects an unemployment insurance fund from excessive administrative costs for processing many (sometimes unjustified) claims from workers whose unemployment spell is extremely short. It is common practice that an unemployed worker is not permitted to earn from work during the waiting period. In relation to international labour standards and practices, both Convention No. 102 and Convention No. 168 permit the State to set a waiting period not longer than seven days. Most countries require an initial waiting period of seven days from the day that an unemployed worker submits a claim before the payment of any benefits.

**The necessity of having a waiting period can be assessed in consideration of employment practices in Indonesia.** Without such a provision, the scheme may create unintended incentives, and become more costly and more complex to administer. We previously recommended a waiting period of seven days in order to reduce the cost of the scheme and to simplify its administration (Landry and Brimblecombe 2021; Tsuruga 2020; Bedard, Carter, and Tsuruga 2020b). With such a waiting period, BPJS-TK will receive fewer claims, and thus, will have fewer claims to process. It can also be considered that a waiting period does not fundamentally weaken the effectiveness of the scheme. Moreover, it should be assessed how unemployment is determined when BPJS-TK receives a claim the day after employment termination. As the level of earnings that is permitted during the unemployment period without impacting benefit entitlement is not stipulated, there may be some workers who receive unemployment benefits while receiving income from temporary work or other side activities.

## 2.8. Financing modality

**JKP is financed by the Government and by employers, but not by workers.** The Government and employers share the cost of the scheme by contributing 0.22 per cent and 0.24 per cent of the worker's monthly wage, respectively. Moreover, the Law requires the Government to provide BPJS-TK with at least 6 trillion Indonesian rupiah as initial capital sourced from the State Revenue and Expenditure Budget. According to the Government Regulation, the initial capital will be used to pay benefits in the event that the JKP contributory fund is not sufficient to do so.

**In practice, BPJS-TK collects JKP contributions as part of JKK and JKm contributions from employers and transfers the 0.24 per cent to the JKP fund.** The Government Regulation uses the term "recompose" to describe this arrangement. The JKP contribution is taken at 0.14 per cent from JKK and 0.1 per cent from JKm (

Table 3). JKK contribution rates depend on workplace risk level related to occupational safety and health; while the JKm contribution rate is the same for all employers. After being “recomposed”, the contribution rate for JKK is ranged between 0.1 per cent to 1.6 per cent, and that for JKm is 0.2 per cent. This arrangement was made to maintain the global contribution rate for employers as it used to be prior to the introduction of JKP, and therefore employers would not have to bear additional burdens as a result of establishing a new scheme.

► **Table 3. Contribution rates transferred from JKK and JKm to JKP (% of monthly wage)**

Risk level at workplace <sup>1</sup>	JKK <sup>2</sup>	JKm <sup>2</sup>	JKP
Very low risk	0.24 (0.10)	0.30 (0.20)	0.24
Low risk	0.54 (0.40)	0.30 (0.20)	0.24
Moderate risk	0.89 (0.75)	0.30 (0.20)	0.24
High risk	1.27 (1.13)	0.30 (0.20)	0.24
Very high risk	1.74 (1.60)	0.30 (0.20)	0.24

**Note:** <sup>1</sup> Risk levels at the workplace are defined by occupational safety and health risk factors according to Government Regulation 44/2015 concerning Administration of Occupational Accident and Death Insurance Programme. <sup>2</sup> Figures in brackets present contribution rates after being recomposed for JKP.

**Source:** Authors' abstracts from national legislation.

**The current financing arrangement will help the JKP fund accumulate reserves, at least in early years of the scheme's operations.** This should lead to a discussion of some of the eligibility conditions of the scheme. For example, under current benefit rules, JKP accepts claims up to 3 times during a career and imposes a 5-year waiting period before the second and third claims can be made; insured persons with a contract shorter than six months cannot meet the requirement for six consecutive months of employment prior to unemployment; and the scheme does not cover the expiry of fixed-term contracts. These conditions may risk the scheme not meeting its objectives despite likely to having sufficient reserves to do so. It may also be difficult to justify to employers the need to continue to contribute are under these restrictions when workers may have no possibility of receiving benefits upon employment termination. This would also lead to a situation where significant reserves are accumulated that will not be spent on benefits.

**The issue of workers not contributing to the JKP fund should be carefully assessed.** It is unusual for workers to not contribute to an unemployment insurance scheme. In many countries that adopt the principles of social insurance, employees and employers generally share costs. According to ILO Convention No. 102 and Recommendation No. 67, unemployment benefits need to be financed collectively through insurance contributions or taxation, or a combination of both, and employees should not pay more than half the total cost of benefits.<sup>25</sup> In this regard, the financing arrangement of JKP appears to still follow these recommendations. However, if the lack of worker contributions leads to the unsustainability of JKP, this should be addressed through a provision that introduces a worker contribution rate. However, making such a change in the future may prove difficult when workers are used to a non-contributory (for them) arrangement.

**The consequences of the Government's subsidy to the unemployment insurance scheme should be carefully assessed, especially in a country where the large informal economy generates tax revenue.** In some countries such as Japan and Thailand<sup>26</sup>, Governments share the costs of their unemployment insurance schemes through benefit subsidies or contribution subsidies. However, in a country with a large informal economy like Indonesia, the current financing modality may unfairly promote pro-rich redistribution, because the scheme is largely financed by the general tax revenue though the Government contribution. That is, all Indonesian residents potentially and virtually subsidize the scheme that almost exclusively benefits employees of large, medium and small formal sector enterprises who are already relatively better off among workers in general.

**Overall, it appears that the current scheme is designed to increase incoming contributions while limiting benefit payments, both in periods of normality and in difficult economic times.**

<sup>25</sup> ILO Recommendation No. 67 requires employers to contribute, particularly by subsidizing the insurance of low-wage earners, not less than half the total cost of benefits confined to employed persons, excluding compensation for employment injuries.

<sup>26</sup> In Thailand, this government contribution is only 1/5 of the total cost of the scheme, with the remaining 4/5 met equally by employers and workers. Similarly, the Government of Japan subsidizes only 2.5 per cent of benefits.

Typically, an unemployment insurance scheme should accumulate incoming contributions during periods of normality, and increase benefit payments in times of economic downturn, and thereby play an important role as a countercyclical stabilizer of the economy. As such, the scheme's revenue requirements expressed as a contribution rate should remain as stable as possible over time, and especially not be increased during a recessionary period. Clearly, this implies the need for some form of dedicated financing that can be used to establish and maintain reserves. This financing policy is then reviewed on a regular basis to assess whether it is still appropriate for the scheme. The current scheme does not have such a policy design, as the aforementioned eligibility restrictions will lead to fewer and fewer benefit payments over time while the scheme continues to receive contributions.

**A regular actuarial valuation must be conducted every two years as scheduled by the Government Regulation.** JKP provides for unemployment insurance benefits, which are short-term benefits, paid over a maximum period of 6 months. By nature, short-term benefits are typically financed on a pay-as-you-go (PAYG) basis. Normally, short-term benefits schemes, and especially unemployment insurance schemes, keep a contingency reserve in order to absorb unexpected increases in benefit payments. Actuarial valuations should be regularly carried out in order to revise the contribution rate according to a predefined contribution rate-setting mechanism; it is important that the results and recommendations of the valuation lead directly to changes in rates.<sup>27</sup> Although it is generally recommended that an actuarial valuation be carried out every two or three years, in the initial years of operation, experience should be closely monitored through a review of cash flows on a quarterly or biannual basis (Landry and Brimblecombe 2021). This allows for an assessment of whether the initial contribution rate is adequate (neither too high nor too low) and for the necessary actions to be taken if this is not the case (that is, to reassess the contribution rate in light of the scheme's actual experience). Indeed, regular monitoring of the scheme provides guidance to decision-makers for policy-setting. Such an analysis also inputs into an assessment of whether the scheme more broadly meets its objectives.

**A rate-setting mechanism should be defined to assess the contribution rate required to finance the scheme.** A recent ILO publication proposed the gradual accumulation of a stabilization reserve over a ten-year period equivalent to twice the total annual expenses, including benefits and administrative costs, in the tenth year of operation of the scheme (Landry and Brimblecombe 2021). The recommended mechanism also provides that over the ten-year projection period, the reserve fund will never be negative, and also considers the projected administrative expenses and projected investment income of the scheme. Such a mechanism usually defines the projection period over which the contribution rate is calculated, the level of the contingency reserve, the rules for the use of assets in excess of the contingency reserve, as well as how the contribution rate is shared between employees, employers and the Government. Due to the short-term nature of unemployment benefits and their sensitivity to economic conditions, contribution rates of an unemployment insurance scheme need to be revised more frequently than for a pension scheme. Often, actuarial valuations of unemployment schemes are performed annually in order to revise the contribution rate according to a predefined rate-setting mechanism. In Indonesia, the Government Regulation schedules a regular actuarial assessment. However, no rule exists to force the Government to revise a relevant Government Regulation to modify the contribution rate of JKP when BPJS-TK or any other relevant government agency proposes to change it through a regular actuarial valuation.

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<sup>27</sup> Economic studies have shown that abrupt changes in contribution rates are detrimental to job creation and maintenance, and so should be avoided during a recession. This leads to the necessity of establishing sufficient contingency reserves to allow contribution rates to remain level when economic downturns occur. However, it is important that there is a clear financing and contribution rate policy that is transparent and communicated effectively to avoid the size of such reserves becoming contentious. For example, large reserves may be used as a justification for reducing contribution rates; while some public authorities may see large unemployment insurance reserves as a convenient source of funds for other projects. In both cases, there would be the risk of depleting reserves below safe levels. A rate setting mechanism would provide guidance in order to define the appropriate level for the contingency reserve and the contribution rate for the scheme.

**Worker contributions should be considered to improve both the effectiveness and financial sustainability of the scheme.** From a technical perspective, there is no reasonable justification for workers to not pay into the scheme at all, and for the Government to take greater responsibility for the scheme's cost. The Government's subsidy can certainly help the scheme, but worker contributions would be even more essential to ensuring adequacy of benefits and financial sustainability.

**A cross-subsidization from JKK and JKm to JKP should be reconsidered.** Each social security fund must be separately managed and follow actuarial recommendations through regular actuarial valuations. Law No. 24/2011 concerning the Implementing Agency of Social Security prohibits BPJS-TK from cross-subsidizing funds between different schemes. However, as mentioned above, Government Regulation 37/2021 instructs BPJS-TK to transfer collected contributions from JKK and JKm to JKP. We are not in a position to judge whether this arrangement is in line with or against the law. However, according to Convention No. 102, the State must assume general responsibility for the due provision of benefits and needs to make sure that necessary actuarial assessments are periodically undertaken to guarantee the sustainability of schemes. Now that JKP takes contributions from JKK, the JKK fund is affected by the JKP membership. The more JKK members participate in JKP, the more contributions the JKK fund will transfer to the JKP fund. It is important to note that JKK does not meet social security minimum standards in many ways, so the scheme designs must be improved (International Labour Organization 2017). All these factors may potentially impact the financial sustainability of the JKK fund. Thus, it is important for the State to conduct regular actuarial valuations for each scheme to determine the contribution rates and to manage each fund separately, as well as to improve scheme designs.

## 2.9. Relation to other income and social security benefits

**Severance pay by employers affects neither the amount nor the duration of JKP benefit.** In short, it is up to the social partner to determine the most relevant combination of unemployment insurance and termination benefits paid by employers in Indonesia, including those provided by collective agreements, to ensure that the unemployed are protected in the best manner and that employers are not impacted negatively. According to Convention No. 168, unemployment benefits can be suspended for a period corresponding to that during which the severance pay compensates for the loss of earnings suffered, or the severance pay can be reduced by an amount corresponding to the lump sum value of the unemployment benefit to which the worker is entitled for the period.

**The lack of rules around the relation to earnings from work during an unemployment spell may potentially increase abuse.** It is common that recipients of unemployment benefits are not allowed to have a certain amount of other specified income, usually related to employment or other government subsidies or allowances (Bedard, Carter, and Tsuruga 2020b). For instance, work earnings up to 50 per cent of unemployment benefits could be allowed with no reduction in unemployment benefit entitlement. Under the current provision, unemployed workers may earn from their side business or part-time work while receiving unemployment benefits. Moreover, in order to prevent fraud or abuse of the system, countries often impose penalties on false declarations, claims or avoidance of contribution payments. For instance, if a worker received unemployment benefits based on a false claim, they would have to pay back an amount equal to three times the received benefits.

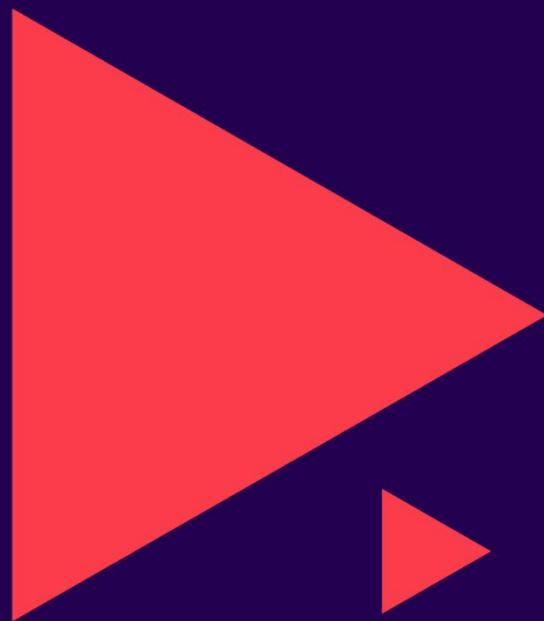
**Currently, unemployment benefit recipients do not have coverage of other social security benefits.** The current provision does not provide recipients of unemployment benefits with coverage or benefits for maternity benefits, sickness benefits, old-age benefits, healthcare or any other social security benefits. In many countries, unemployment insurance schemes allow beneficiaries to continue maintaining entitlement to other social security benefits while receiving unemployment insurance benefits. There are two ways to implement this provision. Concerning short-term benefits, qualifying for unemployment benefits automatically would entitle beneficiaries to receive other social security benefits, including health insurance and other short-term benefits such as maternity benefits, sickness benefits and funeral grants. Concerning long-term benefits, unemployment insurance

beneficiaries accumulate the number of contribution months although they are not pay contributions, and therefore, entitlement to other social security benefits is assessed related to contributions. This approach can be applicable to long-term benefits, such as survivor, invalidity and old-age benefits. Regardless of the approach adopted, financial implications exist for the social security system: either fewer contributions are received or additional benefits are paid by the social security institution. In any case, actuarial reviews must assess the impact on the financial sustainability of the social security scheme in recognizing entitlements to other benefits while receiving unemployment insurance benefits.



# 3

## Administration and institutions



This chapter aims to describe a broad arrangement of administration and institutions and to discuss some potential issues to be monitored and assessed. As the JKP scheme has been in place only for a short period of time, it is too early to assess bottlenecks in the implementation. Thus, this chapter will primarily focus on identifying the current mechanism, but it will not provide concrete recommendations for reforms at this stage.

### 3.1. Single-window service

**A single-window service is available online to facilitate unemployed workers to apply and receive cash benefits, public employment services and vocational training.** In terms of institutional mandate, these benefits and services are administered by different institutions. Three different departments of the Ministry of Manpower are responsible for cash benefits, public employment services and vocational training at the policy level. Cash benefits are implemented by BPJS-TK, public employment services are implemented by the local government's Manpower Offices, and vocational training is implemented by local government's Manpower Offices or directly under the supervision of the Ministry of Manpower. To establish a single-window service for unemployed workers, the Ministry of Manpower established a special unit, the Labour Market Centre (Pusat Pasar Kerja, or PASKER ID) under the direct supervision of the Secretary-General in December 2021, and staff members were appointed from those respective departments that operated the three services involved. By improving and rebranding the Employment Information System (Sistem Informasi Ketenagakerjaan, or Sisnaker), the Labour Market Centre subsequently established its own online platform, *Siap Kerja*, to virtually integrate access to these services into a portal website (Indonesia, Ministry of Manpower, n.d.).<sup>28</sup>

**Unemployed workers who qualify to receive cash benefits are granted access to public employment services.** These services consist of labour market information and vocational counselling, and are provided in the forms of information sharing on job vacancies, support for self-assessment and career counselling provided by civil servant employment officers (Pengantar Kerja) and/or non-civil servant employment officers (Petugas Antarkerja) through the *Siap Kerja* website. Once beneficiaries have become employed, they must report it through *Siap Kerja* within seven days of starting employment.

**Unemployed workers who qualify to receive cash benefits are also granted access to vocational training.** The vocational training is provided through online and/or offline competency-based training programmes. These programmes are delivered by state-owned, private or corporate vocational training centres (Lembaga Pelatihan Kerja) that are qualified to provide competency-based job training. To be qualified, a programme must be registered and verified in *Siap Kerja*, be accredited by an accreditation agency for vocational training centres, and be approved by the Minister. Once a beneficiary has completed a training programme, they must report it through *Siap Kerja* no later than seven days after completion of the training programme.

**The provision of over-the-counter service should be expanded to improve access to unemployment benefits.** According to the Ministry of Manpower, the Labour Market Centre plans to establish branch offices (*Kios Siap Kerja*) within the facilities of all the 21 Vocational and Productivity Training Centres (BPVP) of the Ministry across the country (Indonesia, Ministry of Manpower 2022). However, more branch offices may be needed in the future to ensure accessibility to the services provided. For example, considering the number of existing offices, one option may be to use BPJS-TK's branch offices. The BPJS-TK network offices could be strengthened and used to deliver single-window service in person. At the time of the ILO's fact-finding study in 2020, BPJS-TK had 1,337 offices across the country (Carter and Tsuruga, forthcoming). The BPJS-TK headquarters and 11 regional

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<sup>28</sup> Because *Siap Kerja* was established after the Government Regulation was enacted, the Government Regulation refers to Sisnaker. In the following paragraphs, we replaced all references to Sisnaker with *Siap Kerja*.

offices had administrative staff only and did not provide public services. There were 123 large branch offices with about 50 employees each, and 202 small branch offices with about 5 employees, which were located in cities. These branch offices provided full services, including receiving claims for benefits, processing and deciding on claims for benefits, and making payments. BPJS-TK also had 1,000 service points or pilot offices that provided partial services with small numbers of employees – namely, receiving claims for benefit, ensuring all information had been submitted by insured workers, and transferring claims for benefit to the branch office for processing. As these BPJS-TK's offices already provide over-the-counter services for all of its programmes except JKP, it may be reasonable for BPJS-TK to host single-window services that include in-person assistance related to JKP.

**The State may consider developing a comprehensive plan for strengthening the administrative capacities of implementing agencies.** Certainly, the online modality contributed to such a rapid launch of the JKP scheme, and showcased the viability of such an approach over such a large country with thousands of islands. However, the quality of services and the quantity of physical offices and staff members still depend on the capacity of each of the institutions responsible for these services. Priority might be given to the implementation of accepting claims in person at a physical single-window service; while investment in institutional capacity, including infrastructure, staffing and human resource development, may be equally necessary.

## 3.2. Registration of employees and collection of contributions

**Employers of large, medium and small enterprises are obliged to register employees to JKP by submitting registration forms to BPJS-TK no later than 30 days after the employee started working for them.** The employers must also inform BPJS-TK about changes in company name, office address, business scale, wages and workers and any other changes in registered information relevant to JKP membership no later than 7 working days after the changes occurred.

**If a worker has more than one employer, each of their employers must register them with the JKP, and then the worker will select one of the employers as their main workplace.** According to Minister of Manpower Regulation No. 7 of 2021, a worker must inform BPJS-TK of their main workplace no later than 15 working days after BPJS-TK effectively validated that the worker was eligible to participate in the scheme (article 7(2)). Neither the Government Regulation nor the Minister Regulation sets criteria for defining a main workplace, but rather authorizes workers to decide their main workplace to pay contributions. If workers do not inform BPJS-TK about their choice, their benefits will be suspended until they do inform BPJS-TK (article 8(2)).

**BPJS-TK collects contributions for JKP from employers together with contributions for JKK and JKm.** Employers are obliged to report to BPJS-TK – either online or offline – the number, earnings and other relevant information about employees insured under JKK and JKm by the 15th of each month. BPJS-TK then calculates and notifies employers about their contributions to JKK and JKm. By the 17th of each month, BPJS-TK allocates collected contributions from the JKK and JKm funds to the JKP fund.<sup>29</sup>

**The current registration mechanism may help workers holding multiple jobs be covered by the scheme, but may also be unfair for their employers.** A worker has the right to decide which of their employers is to pay contributions to JKP if they have more than one employer at the same time. Such an arrangement may help cover workers holding multiple jobs. On the other hand, the arrangement may be unfair to employers, because one employer pays contributions that the other employers should also be paying. Moreover, the method applied for calculating the contribution allows BPJS-TK

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<sup>29</sup> The total contribution rate of BPJS-TK schemes was kept the same by adding the JKP contribution rate and by reducing the JKK and JKm contribution rate at the introduction of JKP. In practice, employers pay JKK and JKm contributions as they used to do before JKP was introduced. If they are required to pay JHT and JP, their monthly contribution payments to BPJS-TK may include all these schemes. From employers' perspectives, the operation of paying contributions to JKP would not change past practice.

to collect more contributions from employers that are greater than the actual number of days worked by their part-time workers. Contributions for an employee with a part-time contract are calculated as 0.24 per cent of the daily wage multiplied by 25 days, even when the employee worked for less than 25 days (see the box **Error! Reference source not found.**below).

**The State may consider assessing how workers receive information about the payment of employer contributions and their insurable earnings, and consider how workers can report when an employer is underreporting their earnings.** At technical meetings that the ILO held with stakeholders in Indonesia, some social security experts expressed general concerns about employers underreporting salary payments to avoid payment of contributions (or at least full payment). Such a practice may undermine the adequacy of benefits and therefore prevent the scheme from meeting social security minimum standards concerning the income replacement rate. Normally, an unemployment insurance scheme requires worker contributions. With such a financing arrangement, workers can see the deduction of their contribution in their monthly payslips. If a worker finds the deduction of contribution to be lower than it is supposed to be, they might report it to their employer, to the social security institution or to a labour office in order to correct it. In this way, workers are kept informed about their contribution payments and membership every month. In the case of JKP, as workers do not pay contributions to the scheme, workers may have to proactively access such information through BPJS-TK, its membership website or the mobile application. The State may assess to what extent the current mechanism could prevent employers from reporting lower wages to avoid contribution payments and what roles workers could play in preventing employers from engaging in such a practice.

► **Box 1. Collection of contributions in the case of a worker holding multiple jobs**

Let us take an example of an employee with a part-time contract who works for two companies at the same time. He works for:

- Company A on Monday and Tuesday in Week 1 and 2, and Monday, Tuesday and Wednesday in Week 3 and 4, with a wage of 100,000 rupiah per day for 10 days in total; and
- Company B on Thursday in Week 1, 2 and 3, and Thursday and Friday in Week 4, with 200,000 rupiah per day for 5 days.

	Monday	Tuesday	Wednesday	Thursday	Friday
Week 1	Company A	Company A	Off	Company B	Off
Week 2	Company A	Company A	Off	Company B	Off
Week 3	Company A	Company A	Company A	Company B	Off
Week 4	Company A	Company A	Company A	Company B	Company B

If this worker reports Company A as his main employer to BPJS-TK, Company A will have to pay JKP contributions, while Company B does not have to pay any contributions at all.

Moreover, the method applied for calculating the employer contribution may create a potential issue. BPJS-TK considers that workers with contracts shorter than one month artificially worked for one month, and calculates the contributions and benefits accordingly. On one side, this arrangement may be good for workers, as it may discourage employers from issuing a part-time contract over a full-time contract. On the other side, it may be unfair for employers because they have to pay contributions for periods when they are not paying the worker a salary. In an extreme case, an employer who employs a worker only for a day in a month would have to pay a contribution equal to 0.24 per cent of the daily wage multiplied by 25 days instead of just one day.

It is noted that BPJS-TK has a different arrangement for JKK, JKm, JHT and JP. These schemes do not ask or allow workers to choose a main job and employer. Instead, BPJS-TK requires all employers to report earnings and to pay contributions. Let us take a case of JP for this same part-time worker. The main issue is that BPJS-TK collects contributions from:

- Company A: 2 per cent of 100,000 rupiah for 25 days;
- Company B: 2 per cent of 200,000 rupiah for 25 days; and

- Employee: 1 per cent of 100,000 rupiah for 25 days (for employment at Company A) and 1 per cent of 200,000 rupiah for 25 days (for employment at Company B).

The same issue as JKP arises concerning the payment of contributions for periods when the employee and the employer do not receive or pay a salary. In addition, the employee would have to pay two months' worth of contributions every month if he works for two companies. However, such a double contribution would not increase the worker's benefits, as the JP accrual rate remain 1 per cent for each year of contribution.

Thus, there are several issues around the collection of contributions from employers of workers holding multiple jobs. These practices could be improved by collecting contributions from each employer proportionately to the wage and the number of days of work. In such a practice, an employer would report the wage paid to an employee and the hours or days of work performed by the employee, and then BPJS-TK would notify the employer of the contributions they owe.

### 3.3. Claims

**Claims are accepted only through an online platform.** Insured workers must file a claim at the aforementioned web portal called *Siap Kerja*<sup>30</sup> (Indonesia, BPJS-TK and Indonesia, Ministry of Manpower 2022b). Before filing claims, they must create accounts through online forms by registering personal data, including their identification number, insured's name, mother's name, email address, mobile phone number, and password, and verify the account by entering a verification code received via email. After registration is complete, they can file a report of employment termination via the online platform by submitting the required information and documents concerning employment termination. Once an unemployed worker has submitted the report, they will have to wait for their former employer to confirm the contents of the submitted report. After the employer's confirmation, the worker can finally file a claim for unemployment benefits. The online platform will ask the claimant to agree to the Commitment on Jobseeking Activities (KAPK) Certificate.

**Workers who do not have access to the internet or have difficulty using technology may not be able to claim unemployment benefits.** Currently, unemployed workers can claim unemployment benefits only through the online platform, with the exception of a few branch offices of the Labour Market Centre (*Siap Kerja Kios*) that accept claims. The State prioritized the establishment of the online modality to the establishment of physical offices for the immediate implementation of JKP in time of crisis. The State should gradually improve accessibility to JKP benefits by accepting claims in person at more locations.

**It appears that verification of qualifying conditions largely depends on self-reporting from workers and employers.** There are established processes for how the online platform or relevant institutions will deal with a situation wherein an employer does not confirm the report on employment termination submitted by an unemployed worker, or where a worker has agreed to the Commitment on Jobseeking Activities Certificate but has not performed such activities.<sup>31</sup> These operational procedures and their effectiveness must be reviewed over time.

### 3.4. Continuation of benefits

**A decision on continuation or suspension of unemployment benefits seems to rely largely on self-reporting filed by recipients.** According to the Government Regulation, recipients of unemployment benefits must continue meeting all the qualifying conditions for the subsequent months to receive benefits. To verify whether such conditions are being met, a mandatory meeting is normally scheduled every month. However, such an arrangement is not regulated by laws or regulation, nor is it implemented in practice. Instead, in practice, BPJS-TK requires recipients to self-

<sup>30</sup> *Siap Kerja* translates to "Ready to Work". The web portal is available at: <https://siapkerja.kemnaker.go.id/>.

<sup>31</sup> See section 0.

report on the online platform every month that they applied for vacancies in at least five different companies or attended at least one job interview in the previous month.

**It is not clear how effectively the self-reporting mechanism facilitates return to work or verifies that the qualifying conditions are being met.** A crucial role of public employment services is to assist recipients of unemployment benefits in returning to work as soon as possible. Such assistance may be implemented by providing vocational counselling, by matching the recipients with potential employers, by providing training on preparing for job application and interviews, or through many other means. Lack of effective linkage between such services and the decision-making process of continuing benefit payments may risk the financial sustainability of the scheme, because recipients may not return to work as soon as expected. It may be important to assess how the self-reporting mechanism could address these potential issues.

**Unemployment benefits are suspended for frequent absence from vocational training, but the consequence of refusing suitable jobs is not regulated.** BPJS-TK requires a recipient who was referred to vocational training to prove that they have at least 80 per cent attendance every month. However, there is no provision for suspending benefits for one or multiple refusals of what are deemed to be a suitable job. Although BPJS-TK requires a recipient of unemployment benefits to apply for five different jobs or to attend one job interview every month to continue receiving payments, no rule exists to suspend payments if the recipient is offered a job but does not accept it. Similarly, refusal to accept suitable jobs introduced by employment service officers often leads to suspension of payments in many countries, but there is no such regulation in Indonesia. The State may consider defining what a “suitable job” entails, and set down the consequence of refusing such a job. Such a rule and mechanism may help verify the qualifying conditions defined for the scheme, namely willingness to work and availability for work.

**The State may consider monitoring and assessing the effectiveness of the self-reporting mechanism.** In many countries, in order to receive unemployment benefits, unemployed workers must continue to be unemployed, be actively searching for job, and remain available and capable to work anytime when finding or offered a suitable job. Claimants are usually asked to report regularly to the local employment office and are asked to explain what measures they took to find a job, such as providing the names of the employers contacted. The reporting requirements would normally coincide with the frequency of payments. Reporting, verification and payments are usually all made on a monthly basis. Moreover, payment of unemployment benefits can be suspended for failing to meet certain requirements. A common condition for suspension of benefits is when a claimant refuses a suitable employment offer, with “suitability” being determined with due regard to the claimant’s experience, training and personal circumstances.

### 3.5. Non-compliance and sanctions

**Non-compliance in regard to registering employees or accurately reporting employees’ earnings would make employers liable to pay all or part of unemployment cash benefits and a training allowance.** If an employer does not enrol an employee in JKP and terminates the employment of that employee, the employers will have to pay unemployment cash benefits following the abovementioned formula in a lump sum as well as a training allowance.<sup>32</sup> If an employer reports to BPJS-TK lower employee earnings than what is actually paid in wages in the last month prior to separation, the terminated workers will end up receiving lower unemployment benefits than they were supposed to receive. In such cases, the employer will have to compensate the difference

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<sup>32</sup> The Government Regulation does not clarify whether employers would have to pay the amount equivalent to the maximum duration of the unemployment cash benefit for six months in a lump sum or only during unemployment spells. In either case, it is not clear how the employers would calculate the amount to be paid.

between the amount paid by BPJS-TK and the amount that worker would have been entitled to if the employer had reported the actual wage amount.

**Monthly contributions being in arrears would make employers liable to pay the amount of unpaid contributions and an advanced payment of unemployment cash benefits.** If an employer does not pay JKK and JKm contributions for a maximum of three consecutive months prior to termination of employment, BPJS-TK would still pay unemployment cash benefits following the abovementioned formula to workers, and the employer would have to pay the contributions in arrears to BPJS-TK. However, if the employer did not pay JKK and JKm contributions for more than three consecutive months prior to termination of employment, the employer would have to pay unemployment cash benefits following the abovementioned formula to the terminated worker(s) and all the contributions in arrears to BPJS-TK. The employer can then request for BPJS-TK to reimburse the amount of cash benefits paid to the worker(s) no later than three months after the date of payment.

**Two types of administrative sanctions – including written reprimands, suspension of an employer's rights to receive certain public services, or both – are imposed in the event of the abovementioned cases.** The administrative sanctions are implemented after labour inspection. After receiving complaints, labour inspectors conduct an inspection and provide the employer with instructions in inspection notes. If the employer does not implement the follow-up actions instructed in the notes, labour inspectors submit a report of non-compliance to the Director-General of the Ministry of Manpower for Labour Inspection or the head of labour inspection at provincial Manpower Offices, who submit recommendations to the officials authorized to impose administrative sanctions. The relevant ministers, governors, regents or mayors, or other appointed officials shall notify the implementation of administrative sanctions to the Minister of Manpower. Moreover, it is noted that fines are not provided for failure to comply with JKP regulations, although Law No. 24/2011 on the Implementation of Social Security Programmes allows the Government to regulate fines in addition to the two administrative sanctions above.

**Those who work for an employer who violates the law and regulations on unemployment insurance may become victims of the employer's non-compliance.** Two forms of non-compliance trigger the transfer of responsibility for paying unemployment benefits from BPJS-TK to employers. When an employer does not pay contributions for more than three consecutive months prior to termination of employment, the unemployed worker(s) must receive unemployment cash benefits from the employer instead of BPJS-TK. Similarly, when an employer does not accurately report their employees' earnings, terminated workers must receive from their employer instead of BPJS-TK the difference between the amount paid by BPJS-TK based on the inaccurate earnings report and the correct amount due based on their actual earnings. In both cases the impacted unemployed workers must rely on an employer who has already demonstrated a lack of compliance with JKP regulations in order to receive the benefits due to them — that is, they must rely on a party that has shown themselves to be unreliable. In general, the scheme should not put the burden of employer non-compliance on the shoulders of unemployed workers. The State may consider providing unemployed workers with protection by paying them the JKP benefits they are owed, and then recover the loss from the non-compliant employer through legal proceedings.

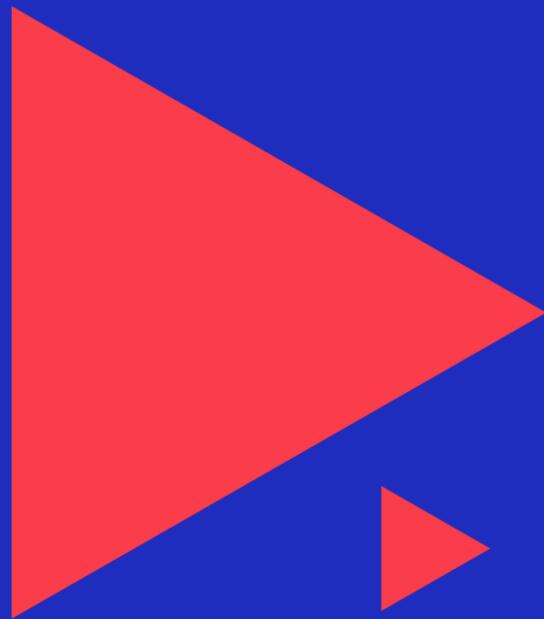
**The current penalties for violations of the law and regulations on unemployment insurance may be too low to ensure compliance.** Employers may regard non-compliance as a low risk that offers a high return. In general, penalties for non-compliance should be sufficiently dissuasive to make offenders aware of the consequences of non-compliance (Barbero, Rodríguez, and Zhu 2020). In many countries, once administrative procedures have failed to make employers comply, legal proceedings are usually initiated –enforcement of social security inspection or labour inspection often has built within it the authority to initiate civil proceedings, and eventually, failure to comply is considered a criminal offence. In the case of JKP, the current administrative sanctions appear to be too low, as they only involve written reprimands and suspension of certain public services. Under the current

provision, administrative sanctions may not even lead to the suspension of business licenses, prohibition from participation in public bidding, or any other serious consequence that will immediately have an impact on employer's economic activities. The law and regulations do not stipulate fines as part of administrative sanctions nor are there any criminal offenses associated with non-compliance.



# 4

## Conclusion and recommendations



**An extension of mandatory coverage to all wage earners in private sector enterprises should be considered.** To achieve the JKP scheme's objectives around unemployment protection, including income replacement and encouraging return to work, it is essential to cover construction workers and employees of micro-enterprises on a mandatory basis, to abolish voluntary registration, and to remove age restrictions and allow all older wage earners to participate in JKP at least up to the pensionable age of JP. The proposed extension of coverage may not significantly change the contribution rate, but it will increase both in the outgoing and incoming cashflows of the scheme.

**All kinds of involuntary termination of employment should be accepted as being eligible for unemployment benefits.** The expiry of a fixed-term employment contract should be qualified as a valid termination if a worker is not offered a contract extension. Similarly, voluntary resignation with just cause and forced resignation must be clearly defined and be exceptionally granted unemployment benefits.

**The State should consider relaxing qualifying conditions to a requirement of 12 months of contributions over the 24-month period prior to employment termination for both the initial claim and subsequent claims.** It should also remove: the limit of a maximum of three claims during one's career; the 5-year waiting period for subsequent claims; and the requirement around consecutive months of employment. As part of the proposed reform, subsequent filing should be possible once an insured worker has accumulated 12 months of contributions in the 24-month period prior to termination.

**The maximum insurable earning for both contributions and benefits should be raised to the ceiling of JP, and be adjusted in line with wage growth every year.** The current ceiling of insurable earnings may be so low that many workers are negatively affected. The ceiling should be also adjusted in line with wage growth. Otherwise, the value of benefits calculated based on a static ceiling will become less adequate in the future.

**The introduction of a minimum benefit may contribute to guaranteeing an adequate level of benefits to workers in micro- and small-sized enterprises.** Because micro- and small-sized enterprises are permitted to pay a lower wage than the minimum wage, unemployment benefits for their employees can be inadequate to meet a decent standard of living.

**The scheme could become more effective and efficient if it adopted a constant benefit of 50 per cent of the average insurable earnings over the 6 months prior to the claim, for up to a maximum benefit duration of 6 months.** Such an approach would be easier to administer and understand for workers and employers. There is no evidence that the current tapering benefit model effectively protects and supports unemployed workers to return to work. It is recommended that the Government consider replacing it by a constant benefit. The scheme should also replace the current policy on reference earning for benefit, namely the last reported wage, by instead using average insurable earnings.

**A waiting period may help BPJS-TK implement and administer the scheme and reduce costs.** A waiting period up to seven days from employment termination could be considered as appropriate.

**The financing approach should be continually assessed and, if necessary, reformed to support improvements in benefit adequacy and strengthening financial sustainability.** To meet objectives, the JKP scheme will need to seek to increase benefit payments to protect unemployed workers. At the same time it is important that it continues accumulating its financial reserve to deal with times of crisis. By adopting the abovementioned recommendations, the scheme's cost will rise. Therefore, to ensure financial sustainability, it is important that regular actuarial valuations are undertaken and that the recommendations of these valuations be fed into decisions on adjusting contribution rates.

**The consequences of the Government's subsidy to the unemployment insurance scheme should be carefully assessed.** All Indonesian residents potentially and virtually subsidize a JKP scheme that

only benefits employees of formal sector enterprises who are relatively better off among workers. Given Indonesia's large informal economy, the current financing modality may unfairly promote pro-rich redistribution, because nearly half the contribution is subsidized by the State using the entire tax base.

**Clear rules and regulations are required regarding the right of unemployed workers to earn from work while receiving unemployment benefits.** Lack of rules regarding earnings from work during an unemployment spell may potentially increase abuses of the scheme. Regulations setting out what level of specified income from work and any other private or public transfers are allowable should be clear, documented and applied.

**Unemployed workers should be granted access to other social security benefits while receiving unemployment benefits.** The current provision does not provide recipients of unemployment benefits with coverage or benefits related to maternity benefits, sickness benefits, old-age benefits, healthcare or any other social security benefits. Lack of such provisions may create a coverage gap.

**A single-window service must be provided in person as well as via an online platform.** While the Labour Market Centre expands its branch offices across the country, the BPJS-TK's network offices could also be used for the purpose. It is also essential to develop a comprehensive plan for strengthening the administrative capacity of implementing agencies.

**The State may assess whether the current registration mechanism is relevant and fair.** The mechanism appears to help holders of multiple jobs be covered by the scheme, but it may be unfair for their employers because they may have to pay contributions that other employers were supposed to pay.

**The State may consider taking responsibility for paying unemployment benefits for unemployed workers whose former employers violated the law and regulations.** Two situations of employer's non-compliance lead to the transfer of responsibility for paying unemployment benefits from BPJS-TK to the employers themselves. The scheme will become more comprehensive and better meet its objectives if BPJS-TK provides unemployment benefits to these unemployed workers, and recovers the loss as a consequence of employer non-compliance from the employer through legal proceedings.

**The State may consider raising penalties for violations of the law and regulations on unemployment insurance.** The current administrative sanctions alone may be too low to control compliance. Employers may regard non-compliance as offering a low risk and a high return. The law and regulations may add fines to these administrative sanctions and introduce a criminal offense related to non-compliance with the law and regulations.

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# Appendix

## Comparison between the current policy and the proposed policy

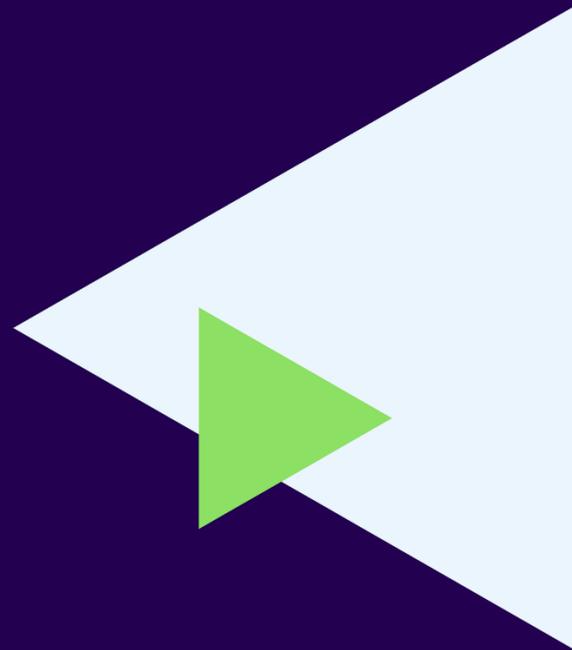
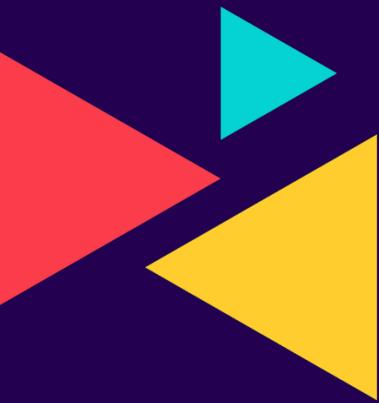
Parameters	Current policy	Proposed policy
Coverage	Wage earners in private sector enterprises who are: <ul style="list-style-type: none"> <li>- Indonesian citizens;</li> <li>- Less than 54 years old at the time of registration;</li> <li>- Employed;</li> <li>- JHT participants (mandatory: large, medium and small enterprise; voluntary: micro-enterprise; exclusion: construction workers); and</li> <li>- contributing to JKN scheme (article 4).</li> </ul>	Mandatory coverage for all employees in private sector enterprises (wage earners who are covered by JKK and JKm on a mandatory basis)
Eligible reason for benefits	Involuntary termination of indefinite term employment and fixed-term employment (article 19(1))	<ul style="list-style-type: none"> <li>- Involuntary termination of employment</li> <li>- Voluntary resignation with just cause</li> </ul>
Definition of involuntary termination	Not regulated. In practice, BPJS-TK does not accept a case of expiry of fixed-term employment. The following cases may not be accepted in practice. <ul style="list-style-type: none"> <li>- Forced resignation</li> <li>- Voluntary resignation with just cause</li> </ul>	<ul style="list-style-type: none"> <li>- Employment termination by employers</li> <li>- Expiry of fixed-term employment</li> <li>- Forced resignation</li> </ul>
Reasons for non-entitlement	<ul style="list-style-type: none"> <li>- Not willing to work (article 19(2))</li> <li>- Resigned (article 20(1))</li> <li>- Being in a state of permanent total disability (article 20(1))</li> <li>- Receiving a pension (article 20(1))</li> <li>- Dead (articles 20(1) and 40)</li> <li>- Not claiming within 3 months from employment termination (article 40)</li> <li>- Being employed (article 40)</li> </ul>	<ul style="list-style-type: none"> <li>- Not willing to work</li> <li>- Resigned without just cause</li> <li>- Employment terminated by employers due to misconduct</li> <li>- Not available to work</li> <li>- Not capable of working</li> <li>- Being employed</li> </ul>
Required contribution or employment record for the initial claim	12 months employment in last 24 months prior to employment termination, including 6 consecutive months (article 19(3))	12 months contribution in last 24 months prior to employment termination
Subsequent or repeat claims	<ul style="list-style-type: none"> <li>- Maximum number of claims up to 3 times during career</li> <li>- 2nd claim is allowed 5 years after the receipt of the first JKP benefit</li> <li>- 3rd claim is allowed 5 years after the receipt of the second JKP benefit (article 35)</li> </ul>	<ul style="list-style-type: none"> <li>- 12 months contribution in last 24 months prior to employment termination is required for subsequent filing</li> <li>- No additional restrictions for subsequent or repeat claims</li> </ul>
Composition of insurable earnings	Basic salary and fixed allowance, except non-wage allowances (article 13)	Basic salary and fixed allowance, except for non-wage allowances
Maximum insurable earning for contributions and benefits	5 000 000 rupiah (articles 11(7) and 21(3))	9 559 600 rupiah in 2023 (adopting the same ceiling as JP)

Parameters	Current policy	Proposed policy
Indexation of the ceiling	No indexation mechanism; but evaluated and adjusted every 2 years by amendment of the Government Regulation while considering both the national economic conditions and the calculation of the adequacy of actuarial obligations (articles 12 and 22).	Adjusted with GDP growth rate every year (the indicator should change to wage growth once JP has adopted it)
Average monthly earnings	Last reported insurable earning prior to employment termination	Average insurable earning over the 6 months prior to employment termination
Benefit rate	<ul style="list-style-type: none"> <li>- 45% of average monthly earnings for the first 3 months</li> <li>- 25% of average monthly earnings for the following 3 months (articles 21(1-2))</li> </ul>	50% of average monthly earnings
Minimum benefit	Not regulated	No provision
Maximum benefit duration	6 months (article 21(1))	6 months
Re-employment allowance	Not regulated	No provision
Continuation of benefits	Not regulated. In practice, BPJS-TK requires recipients to apply to at least 5 different companies or to attend one job interview (self-reporting).	Recipients must participate in mandatory meetings to prove job search activities and unemployment status every month.
Consequence of refusing suitable job offer	Not regulated	Suspension of benefit
Consequence of frequent absence from vocational training	Not regulated. In practice, BPJS-TK requires 80 per cent of attendance.	Suspension of benefit
Relation with severance pay	Not regulated (No impact on either unemployment benefit or severance pay)	No relation
Relation with other earnings	Not explicitly regulated. The following cases may affect entitlement in practice: <ul style="list-style-type: none"> <li>- Receiving invalidity benefits due to permanent total disability from JKK or JP (article 20(1))</li> <li>- Receiving old-age benefits from JP, JHT, any other contributory or non-contributory schemes or private plans (article 20(1))</li> </ul>	Possible reduction or suspension in case of receiving: <ul style="list-style-type: none"> <li>- Income from work;</li> <li>- Periodical benefits from other schemes of BPJS-TK; or</li> <li>- Benefits from social assistance schemes.</li> </ul>

Parameters	Current policy	Proposed policy
Entitlement to other social security benefits	Not regulated	Recipients are entitled to: <ul style="list-style-type: none"> <li>- Medical care;</li> <li>- Sickness benefits when being not available or capable to search for jobs due to sickness; and</li> <li>- Maternity benefits when being not available or capable to search for jobs due to pregnancy.</li> </ul>
Waiting period	Not regulated	7 days
Actuarial valuation	Every two years	Every two years (based on a predetermined rate-setting mechanism)
Financing modality	Government: 0.22% Employer: 0.24% Total: 0.46% (article 11)	Contribution rate shared between employees, employers and the Government (initial contribution rate of 1.35% for benefit and administrative expenditure) <sup>1</sup>

**Note:** <sup>1</sup> The presented cost of the scheme does not fully reflect all the factors considered in the table. For example, the maximum insurable earnings at 8 939 700 rupiah in 2020 instead of 9 559 600 rupiah in 2023 was used to calculate the cost. Many other demographic and economic assumptions are considered in the presented cost. Landry and Brimblecombe (2021) presents costing analysis in detail.

**Source:** Authors' abstracts from Indonesia, BPJS-TK and Indonesia, Ministry of Manpower (2022a), Landry and Brimblecombe (2021), Bedard, Carter and Tsuruga (2020b), and Tsuruga (2020). Article numbers in the table refer to provisions of Government Regulation 37/2021.



**ILO Country Office for Indonesia and Timor-Leste**

Menara Thamrin, 22nd floor  
Jalan MH Thamrin kav.3  
Jakarta, Indonesia