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# ▶ Exploring Policy Options for an Employment Insurance Scheme in Indonesia



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▶ **Exploring policy options  
for an employment  
insurance scheme  
in Indonesia**

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Ippei Tsuruga

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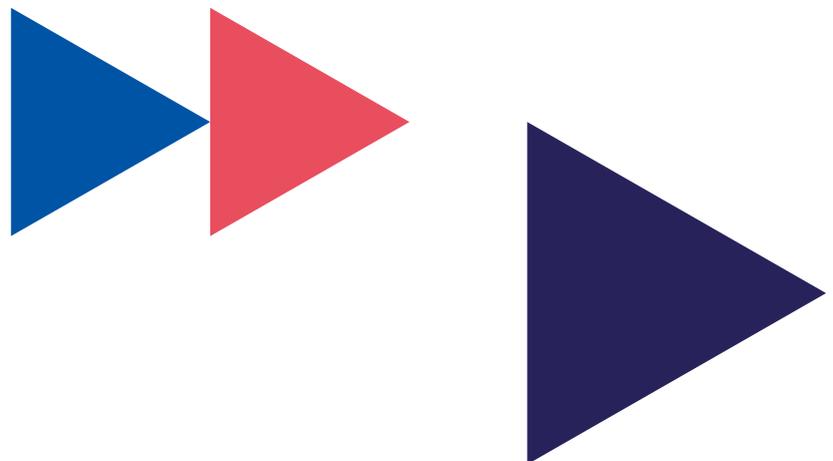
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## ► Abbreviations and acronyms

<b>ALMP</b>	active labour market policy
<b>BPJS Employment</b>	Badan Penyelenggara Jaminan Sosial Ketenagakerjaan (National Social Security System for Employment)
<b>CPI</b>	consumer price index
<b>GDP</b>	gross domestic product
<b>JKK</b>	Jaminan Kecelakaan Kerja (work injury benefit)
<b>JKm</b>	Jaminan Kematian (death insurance)
<b>JKP</b>	Jaminan Kehilangan Pekerjaan (unemployment benefits)
<b>JP</b>	Jaminan Pensiun (old age pension)
<b>PKH</b>	Program Keluarga Harapan (Family Hope Program)
<b>PKWT</b>	fixed-term contract ( <i>perjanjian kerja waktu tertentu</i> )
<b>PKWTT</b>	permanent contract ( <i>perjanjian kerja waktu tidak tertentu</i> )

## ▶ 1. Introduction

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This paper primarily aims at exploring parametric options to design an employment insurance scheme <sup>1</sup> in Indonesia, and discusses pros and cons for each policy option. The author identifies options and discussion points for further consideration, taking into account international labour standards, international practices and national policy dialogues that the ILO has supported between 2018 and 2020. <sup>2</sup> In particular, this paper builds on analyses and arguments made by Bédard, Carter and Tsuruga (2020a; 2020b). The identified parametric options expect to serve as a basis for financial assessments or other in-depth analyses to formulate ILO recommendations in the future.

## ▶ 2. Concept and principle

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Based on social insurance contributions, employment insurance guarantees a partial and temporary minimum income replacement in the form of periodic payments, so as to address the reduction or loss of an employee's income due to unemployment. ILO international labour standards have three major guidelines for the design of employment insurance. The Social Security (Minimum Standards) Convention, 1952 (No. 102) defines minimum standards for unemployment benefits; while the Employment Promotion and Protection Against Unemployment Convention, 1988 (No. 168) and the Employment Promotion and Protection against Unemployment Recommendation, 1988 (No. 176) set higher standards and implementation guidelines in detail <sup>3</sup>. In contrast to the passive nature of lump-sum severance pay provided by employers, a principal characteristic of employment insurance is the obligation placed on unemployed workers to actively seek re-employment. In addition, an advantage of employment insurance is the continuous public employment supports that unemployed workers can receive after losing their jobs, in addition to cash benefits. Such forms of assistance are often referred to active labour market policies (ALMPs), and include a job counselling service to find a new job, a support to prepare a curriculum vitae and for job interviews, referrals or information on available jobs, or assistance in re-skilling and up-skilling. When assessing the effectiveness of an employment insurance system, the benefits and services provided – including ALMPs –

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<sup>1</sup> In this paper, the term “employment insurance” is used interchangeably with “unemployment insurance”. Many countries refer to their unemployment protection scheme as unemployment insurance. However, countries including Canada, Japan, Malaysia and the Republic of Korea use the term employment insurance, as it provides a more proactive image to their scheme. Although employment insurance schemes may put more emphasis on employment support programmes, fundamental principles applied to the design and implementation of unemployment benefits remain. Stakeholders in Indonesia prefer employment insurance to unemployment insurance for the abovementioned reason.

<sup>2</sup> The ILO conducted a series of consultation workshops with workers, employers and the governments between 2018 and 2020. Some of the major consultation workshops included separate national consultation workshops with workers and employers during the week of 3–7 September 2018; the National Tripartite Committee (Lembaga Kerja Sama Tripartit Nasional) on 4 December 2018; and a tripartite workshop on 4 March 2020.

<sup>3</sup> The ILO Convention No. 168 and Recommendation No. 176 propound the idea that unemployment cash benefits should be integrated with employment services and social benefits with job subsidies, and thus go beyond the traditional concept of providing benefits for a defined contingency (traditionally limited to full unemployment) into a much wider concept of ensuring comprehensive social protection for all those who seek work, linking means-tested social assistance benefits to social insurance benefits to provide continuous employment assistance and economic support for the long-term unemployed beyond the initial period of unemployment.

should therefore be considered. For the design and implementation of an employment insurance scheme, a lesson learned from international practices is that simpler and more effective rules are preferable to complex ones when implementing and when explaining the scheme to the public (Bedard, Carter and Tsuruga 2020b).

In the context of Indonesia, the Omnibus Bill on Job Creation submitted to the House of Representatives on 12 February 2020 confirms the generic policy orientation of the Government. The Bill indicates that Badan Penyelenggara Jaminan Sosial Ketenagakerjaan (BPJS Employment) will provide workers experiencing termination of employment with unemployment benefits – referred to as Jaminan Kehilangan Pekerjaan (JKP) – in order to maintain a decent level of living standards. The provision of JKP employs what is referred to as the “social insurance principle”<sup>4</sup>: members will have to contribute a certain percentage of their wages to qualify for JKP, and beneficiaries will have access to cash benefits, training and job placement services. The Bill leaves detailed designs to government regulations.

Following the Bill, an employment insurance scheme will be built on solidarity and linked to public employment services and re-skilling programmes in line with the approach recommended by ILO standards and international practices. During a series of consultation workshops, there was a consensus built around a tripartite financing model under which costs are shared among workers, employers and the Government. As in Malaysia and other Asian countries, a social insurance model is preferred over an individual savings model (as in, for example, Chile), with the individual savings model being rejected because of its higher costs and lower benefits (Keyes, Carter and Bédard 2015). As in some Asian countries – including Japan, Malaysia and the Republic of Korea – Indonesia prefers using the term “employment insurance” over “unemployment insurance” in order to emphasize a strong linkage between unemployment benefits and ALMPs.

### 3. Coverage

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In principle, 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. Contributions of workers with a lower risk of becoming unemployed would subsidize the riskier groups. Employment insurance schemes are indeed constructed on such social solidarity or sharing of risks. Therefore, coverage should apply to as many employees as possible<sup>5</sup>, whether they work for micro-, small-, medium- or large-sized enterprises, or they have permanent, fixed-term, seasonal,

<sup>4</sup> As defined in article 19 of the Law on the National Social Security System (No. 40/2004), the “social insurance principle” consists of mutual assistance among rich and poor people, healthy and sick people, old and young people, high risk and low risk people; compulsory and non-selective participation; contribution on the basis of wage/income percentage; and non-profit.

<sup>5</sup> The Labour Law (No. 13/2003), defines two types of employment agreements including fixed-term contract (*perjanjian kerja waktu tertentu*, or PKWT) and permanent contract (*perjanjian kerja waktu tidak tertentu*, or PKWTT). Ministry of Manpower Decree No. 100/2004 classifies four types of PKWT, including temporary work, seasonal work, workers in pilot projects and freelance (part-timer).

temporary or part-time contracts – except for self-employed <sup>6</sup>. Mandatory coverage is especially important to avoid adverse selection.

It is not recommended to exempt employees of smaller enterprises or employees with fixed-term contracts from mandatory coverage. Some stakeholders were concerned about a negative impact of including these groups on cost grounds. In fact, while providing them with mandatory legal coverage, Malaysia disqualifies a claimant at the end of fixed-term contract from unemployment benefits, and similarly, Thailand treats such claimants in the same way as voluntary unemployed workers by reducing the benefit amount by 20 percentage points and the benefit duration by three months (see table 7). Yet, we still propose to cover such employees in order not only to protect them but also to achieve the objective and philosophy of JKP. These groups of workers are the ones that are usually most in need of unemployment protection. In addition, it is generally agreed that any exclusions or limitations based on company size or type of contract would create labour market distortions and segmentation, and ultimately lead to more precarious employment status for many workers.

Coverage to half of all employees is a realistic target (Bédard, Carter and Tsuruga 2020b). As of August 2018, Indonesia had a labour force of 124 million workers, of whom 49.2 million were classified as “employees” (BPS 2020d) <sup>7</sup>. In 2018 BPJS Employment covered 19.4 million individual employees through work injury benefits (JKK) and death insurance (JKm), as well as an additional 8.6 million construction workers on a bulk basis without individual registration – or a grand total of 28.1 million employees (BPJS Employment 2020). Therefore, if BPJS Employment were to apply the employment insurance scheme to these 28.1 million employees, an initial coverage target of 50 per cent of all employees as set by ILO Convention No. 102 would become reality. The higher target of 85 percent of all employees as provided by ILO Convention No. 168 will be an objective to be achieved at a later stage. <sup>8</sup>

Inclusion of employees in the public sector can be an option in the future. As stated in the draft law, we assume in this paper that the employment insurance scheme will cover the members of BPJS Employment. Currently, BPJS Employment is responsible for workers in the private sector, while the TASPEN and ASABRI schemes provide social security coverage to 4.1 million civil servants (TASPEN 2020) and 1.2 million armed forces and police officers in 2016 (ASABRI 2018), respectively. As in some other countries, such as Thailand and Viet Nam, the inclusion of employees in the public sector can be considered to promote solidarity and the risk-sharing principle because these workers have lower risks of becoming unemployed.

During a series of consultation workshops, there was a consensus to include all employees in private sector enterprises. Stakeholders did not find a common ground about whether to include or exclude employees in the public sector, migrant workers and domestic workers. While some stakeholders proposed a gradual extension from larger

<sup>6</sup> As in many countries, employment insurance schemes usually exclude self-employed individuals, given the difficulty of verifying their employment status (in or out of work) as well as their earnings.

<sup>7</sup> The remainder were classified as being self-employed, employers with temporary or unpaid workers, casual workers or unpaid family workers.

<sup>8</sup> ILO Convention No. 168 also allows the Member States to start applying its provisions by first securing the coverage of 50 per cent of all employees, which is similar to ILO Convention No. 102.

enterprises to smaller enterprises at the consultation workshops held in 2018, there was no such proposal at the workshops held in 2019 and 2020, but rather a consensus for the immediate extension to all employees regardless of enterprise size.

A base scenario for coverage can be to provide all employees in the private sector with mandatory legal coverage, primarily the 19.4 million employees already enrolled in JKK and JKm. An enhanced scenario would consider the gradual extension of coverage to the 8.6 million construction workers currently registered on a bulk basis. Finally, analyses of the impact of including or excluding employees in the public sector, migrant workers and domestic workers – including cost implications – can also be undertaken.

Lastly, the Republic of Korea offers a unique model that covers employers on a voluntary basis. The employment insurance scheme allows employers of less than 50 employees to voluntarily participate themselves in the employment insurance scheme. Yet, Indonesian stakeholders did not consider this option. Table 1 presents a summary of the coverage offered by selected unemployment benefit schemes in Asia.

**Table 1**

**Coverage of selected unemployment benefit schemes in Asia**

Country	Employee	Civil servant	Migrant	Domestic workers	Part-time	Employer
Japan	O	X	O	X	20 hrs/wk; over 1 mo	X
Malaysia	O	X	X	X	O	X
Rep. of Korea	O	X	Voluntary	X	15 hrs/wk 60hrs/mo	Voluntary (Less than 50 staff)
Thailand	O	O	O	X	X	X
Viet Nam	O	O	X	X	X	X

O = Covered; X = Not covered.

Source: Author's abstract from national legislations and latest information available.

## ▶ 4. Benefit level

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In principle, employment insurance is designed to ensure a minimum yet adequate level of benefits, which will be a percentage of the previous earnings of insured workers before becoming unemployed. The aim is to discouraging workers from abusing or relying on unemployment benefits for an unnecessarily long period, but rather to encourage them to look for paying work.<sup>9</sup> Along with adequate minimum benefits, jobseekers are also given the time to find suitable employment, which in turn helps employers hire workers most likely to perform satisfactorily.

### 4.1. Constant replacement rate

Most countries set a constant replacement rate between 50 to 60 per cent of previous insurable earnings for the full benefit duration (Bédard, Carter and Tsuruga 2020a; Carter, Bédard and Peyron Bista 2013). ILO 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, where an employment insurance scheme covers not less than 50 per cent of all employees.<sup>10</sup> Convention No. 168 sets a higher standard, at 50 per cent of earnings for 26 weeks during each spell of unemployment, or 39 weeks over any period of 24 months.<sup>11</sup>

### 4.2. Lower replacement rate with longer unemployment period

Grading benefits by benefit duration is an alternative but infrequently used model. The employment insurance system in Malaysia, enforced since 2018, pays for 80 per cent of previous earnings for the first month and then tapers down to 50 per cent, 40 per cent, 40 per cent, 30 per cent and 30 per cent for each of the subsequent months. Even though it is too early to assess its effectiveness, the Malaysian model is intended to encourage unemployed workers to return to work as soon as they can while promising greater protection for the initial month. However, it could be argued that for workers in need and with limited financial resources, such a system may lead to hardship as the unemployment period progresses. In relation to international labour standards, such a model could be in line with ILO social security standards provided that the average replacement rate throughout the minimum accepted duration is at least equal to 50 per cent or 45 per cent, as the case may be.

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<sup>9</sup> Convention No. 168 reaffirms that the methods of providing unemployment benefits should contribute to the promotion of full, productive and freely chosen employment, and not be such as to discourage employers from offering and workers from seeking productive employment.

<sup>10</sup> Convention No. 102 also envisions another scenario wherein the protection covers all residents whose means during the contingency do not exceed prescribed limits, this duration may be limited to 26 weeks within a period of 12 months.

<sup>11</sup> Convention No. 168 authorizes the Member States benefiting from temporary exceptions to limit the duration of benefit payments to 13 weeks over any period of 12 months.

### 4.3. Lower replacement rate for higher earners

Lower benefits for higher earners is another redistributive approach. Some countries grade benefits according to the level of insurable earnings, so as to guarantee higher benefits for lower earners. Involuntarily unemployed workers in Japan, for example, receive 80 per cent of their previous wages if they are among lower wage earners, with that rate gradually reducing to 45 or 50 per cent for higher wage earners (see table 2).

A base scenario may not have to consider an option of grading benefits according to the level of earnings. During a series of consultation workshops, stakeholders were generally in favour of providing low earners with better relative benefits, but did not argue the necessity of lower replacement rates for higher earners. To meet the objective of promising a sufficiently high benefit for beneficiaries, the establishment of a uniform benefit may be simpler for workers to understand and therefore more appropriate for the introduction of the new scheme. Consideration could also be given to establishing an absolute amount as a minimum, irrespective of earnings, but this absolute minimum would have to be fairly low.

**Table 2**

**Minimum and maximum benefit and replacement rate of unemployment benefit in Japan**

Age	Wage per day <sup>1</sup>	Replacement rate	Benefit <sup>1</sup>
<b>29 or below</b>	2 500–5 009	80%	2 000–4 007
	5 010–12 330	80% – 50%	4 008–6 165
	12 331–13 630	50%	6 165–6 815
	13 631 and above	–	6 815
<b>30–44</b>	2 500–5 009	80%	2 000–4 007
	5 010–12 330	80% – 50%	4 008–6 165
	12 331–15 140	50%	6 165–7 570
	15 141 and above	–	7 570
<b>45–59</b>	2 500–5 009	80%	2 000–4 007
	5 010–12 330	80% – 50%	4 008–6 165
	12 331–16 670	50%	6 165–8 335
	16 671 and above	–	8 335
<b>60–64</b>	2 500–5 009	80%	2 000–4 007
	5 010–11 090	80% – 45%	4 008–4 990
	11 091–15 890	45%	4 990–7 150
	15 891 and above	–	7 150

– = nil.

<sup>1</sup>The table presents basic allowance for involuntarily unemployed workers in Japanese yen as of 1 August 2019.

Source: Japan 2019.

#### 4.4. Benefit formula

During a series of consultation workshops, stakeholders were in favour of either a constant replacement rate ranging between 45 and 50 per cent of previous earnings, or grading benefits to incentivize unemployed workers to return to work. There was no consensus about the range of graded benefits. Some stakeholders were in favour of options between 70 per cent and 40 per cent, while others preferred a range between 50 per cent and 20 per cent. It is important to note that the grading benefit model should still promise an average income replacement rate above the threshold of 45 per cent for the first three months.

Regarding the reference period of wages, it is common to estimate an unemployment benefit based on average insurable earnings reported for the last three to six months prior to unemployment. The Republic of Korea has adopted average earnings over the three months prior to unemployment, while Japan and Viet Nam use six months. Thailand has a unique approach, taking an average of the wages paid in the three highest paying months in the last 15 months (table 3). In Indonesia, BPJS Employment estimates a benefit for JKK based on the last reported monthly wage. The ILO Income Security Recommendation, 1944 (No. 67) provides that the replacement should be determined with regards to previous earnings, but leaves it to national legislation to decide how previous earnings are to be computed. However, it may be crucial to consider adopting the average insurable earnings across several months to calculate unemployment benefits in order to level off fluctuating income, particularly for workers with unstable employment, and to avoid adverse selection.

Insurable earnings should be based on individual's earnings. Some stakeholders considered the impact of using minimum wages rather than individual earnings to determine benefits. Adopting minimum wages as the basis for insurable earnings may result in offering a significantly low-income replacement and create disincentive for middle- to high-income groups to participate in the scheme. If this proposal aims at guaranteeing a minimum level of unemployment benefits no matter what level of earnings claimants have, the application of minimum benefits close to the value of the minimum wage may be more relevant solution.

A base scenario could be a constant benefit rate of 50 per cent of average earnings in the last 12 months. It is important to assess sensitivity to cost; the impact of reducing the benefit level to 45 per cent or increasing the benefit level to 60 per cent; and grading benefits to guarantee higher benefits for the first few months while still being above 45 per cent on average for the first three months.

Table 3

## Benefit level of selected unemployment benefit schemes in Asia

Country	Formula	Replacement rate	Reference earnings
Japan	Regressive for higher earners	80 to 50 per cent	Average earnings of last 6 months
Malaysia	Regressive with longer benefit durations	80 to 30 per cent	Average earnings of last 6 months
Rep. of Korea	Constant	60 per cent	Average earnings of last 3 months
Thailand	Constant	50 per cent	Average earnings of the highest paid 3 months in the last 15 months
Viet Nam	Constant	60 per cent	Average earnings of last 6 months

Source: Author's abstract from national legislations and latest information available.

#### 4.5. Minimum benefit

A minimum benefit can be considered in order to protect low earners. Many unemployment benefit schemes have a minimum level of benefits for qualified beneficiaries with low reference earnings. By definition, a minimum benefit is favourable to lower earners, because it means that they receive higher benefits than they would have received based on a uniform percentage of insured earnings.<sup>12</sup>

The reference for minimum benefits can be determined by each country, since international labour standards are flexible. According to the ILO Convention No. 168, the fixed benefit can be set at not less than either: (i) 50 per cent of the statutory minimum wage or wage of an ordinary labourer, or (ii) at a level that provides the minimum essential for basic living expenses, whichever is the highest.<sup>13</sup> In Indonesia, the national poverty line was set at 454,652 rupiahs per month, while the provincial poverty lines ranged from 339,743 rupiahs in Southeast Sulawesi to 732,570 rupiahs in Bangka Belitung Islands in March 2020 (BPS 2020a; BPS 2020b). The provincial minimum wages ranged from 1,570,922 rupiahs in West Java and Yogyakarta to 3,940,973 rupiahs in Jakarta in 2019<sup>14</sup>, and the national average wage was 2,913,897 rupiahs, while the provincial average wages ranged

<sup>12</sup> This is in line with ILO Recommendation No. 67, Paragraph 26(3): "A minimum absolute rate, based on the minimum rate of earnings which may be deemed to be indicative of substantial gainful work, may be prescribed for the insured person's contribution with respect to benefits the whole or part of which does not vary with the rate of previous earnings."

<sup>13</sup> Article 15(1)(b): "[W]here such benefits are not based on contributions or previous earnings, they shall be fixed at not less than 50 per cent of the statutory minimum wage or of the wage of an ordinary labourer, or at a level which provides the minimum essential for basic living expenses, whichever is the highest."

<sup>14</sup> Ministry of Manpower regulation B-M/308/HI.01.00/S/2019 dated on 15 October 2019 ordered provincial governors throughout Indonesia to increase their provincial minimum wage by 8.51 per cent, starting from 1 January 2020.

from 2,225,084 rupiahs in East Nusa Tenggara to 4,586,697 rupiahs in Jakarta in February 2020 (BPS 2020c). Among the current social security schemes, BPJS Employment set a minimum benefit for its old-age pension scheme – the Jaminan Pensiun (JP) – at 350,700 rupiahs in 2020<sup>15</sup>, which is slightly lower than the national poverty line.

A base scenario for minimum benefit could be around 350,700 rupiahs, as adopted for the JP in 2020. However, it is important to carefully consider: (i) whether this is sufficient to maintain the minimum level of living standards; (ii) how many beneficiaries would fall in this category; and (iii) the impact of increasing the minimum benefit level to the poverty line or to a percentage of minimum or average wages. In fact, many countries guarantee a level of unemployment benefits that ranges between the poverty line and minimum wages (Carter, Bédard and Peyron Bista 2013). See table 4 below for examples of minimum and maximum benefits of selected schemes in Asia, and table 5 for some possible options for minimum benefits.

**Table 4**

**Minimum and maximum benefits of selected unemployment benefit schemes in Asia**

Country	Benefit		Insurable earnings for contribution	
	Minimum	Maximum	Minimum	Maximum
<b>Japan</b>	80% of JPY2 500 per day	50 per cent of JPY13 630 to JPY16 670 per day <sup>1</sup>	Not regulated	Not regulated
<b>Malaysia<sup>2</sup></b>	80 to 30% of MYR20 per month	80 to 30 per cent of MYR3 950 per month	MYR30 per month	MYR4 000 per month
<b>Rep. of Korea</b>	80% of minimum wage	KRW66 000 per day	Not regulated	Not regulated
<b>Thailand</b>	50% of minimum insurable earnings	50% of maximum insurable earnings	THB1 650 per month	THB15 000 per month
<b>Viet Nam</b>	60% of regional minimum wage	5 times the regional minimum wage	Not regulated	20 times the regional minimum wage

JPY = Japanese yen; MYR = Malaysian ringgit; KRW = Korean won; THB = Thai baht.

<sup>1</sup> For workers aged between 60 and 64 years old in Japan, the maximum benefit is 45 per cent of 15,890 yen.

<sup>2</sup> The Employment Insurance System Act in Malaysia defines 45 categories of actual monthly wages and corresponding assumed monthly wages for calculating unemployment benefits and contributions in a comparative table. For example, a monthly wage up to 30 ringgit corresponds to an assumed monthly wage of 20 ringgit; and a monthly wage exceeding 4,000 ringgit refers to an assumed monthly wage of 3,950 ringgit. In reality, the actual minimum benefit is affected by the minimum wage, because employees who earn at the level of minimum wage – 5.77 ringgit per hour or 1,200 ringgit per month – should easily earn beyond 30 ringgit per month.

Source: Author's abstract from national legislations and latest information available.

<sup>15</sup> Government Regulation No. 45/2015 defined the minimum pension at 300,000 rupiahs in 2015, with future increases indexed with inflation every year.

**Table 5****Possible options for minimum benefits in Indonesia (in rupiahs)**

Possible parameter	National threshold	Provincial threshold
Old-age pension (2020)	350 700	n.a.
Poverty line (March 2019)	404 398	321 197–685 433
50 per cent of minimum wage (2019)	n.a.	785 000–1 970 000
50 per cent of average wage (August 2019)	1 456 949	1 056 325–2 231 694

n.a. = not applicable.

Source: Author's abstract from national legislations and latest information available.

#### 4.6. Indexation of minimum benefit

In order to maintain minimum benefits in the future, it is important to design an automatic indexation mechanism to adjust the ceiling of insurable earnings. For instance, Thailand does not have an automatic adjustment mechanism for minimum and maximum insurable earnings, and has not changed the thresholds since the 1990s. Because few people fall into the category below the minimum insurable earnings any more, the minimum benefit does not play a role of either protecting low earners or redistributing wealth among members (ILO 2016).

Minimum benefits should be indexed in line with the increase in average wage. Currently, the minimum benefit for the JP is adjusted in line with the inflation rate of the previous year. As earnings usually increase at a higher pace than inflation, having the minimum benefit indexed to the inflation rate may result in a decrease of the replacement rate of unemployment benefits for low earners. A policy orientation aimed at indexing minimum benefits in line with increases in the average wage is also in line with the ILO's recent recommendation (ILO 2017).

#### 4.7. Re-employment allowance

A re-employment allowance may be another approach to encourage unemployed workers to return to work as soon as they can. Even though there is no international labour standard to recommend this policy option, re-employment allowances are provided in some countries to jobseekers who return to work before exhausting the full duration of their unemployment benefits (table 6). Japan, Malaysia and the Republic of Korea offer eligible individuals who obtain new employment a lump-sum re-employment allowance equal to 60–70 per cent (Japan), 25 per cent (Malaysia) and 50 per cent (Republic of Korea) of their remaining entitlement. Viet Nam had a measure paying 100 per cent of the remaining entitlement during the initial years of their unemployment insurance scheme (2010–14), but cancelled it due to cost and effectiveness concerns (Bédard, Carter and Tsuruga 2020a).

The potential cost can be assessed with or without a lump sum re-employment allowance equivalent to 50 per cent of remaining benefits. Some stakeholders at the consultation workshops were in favour of having such a lump-sum allowance. Another innovative idea was to retain remaining entitlements for involuntary unemployment for future unemployment periods. As employment insurance schemes usually reset the qualifying condition with regard to contributions when unemployed workers claim a payment, the feasibility of such a mechanism will have to be carefully assessed.

**Table 6**

### Re-employment allowance of selected unemployment benefit schemes in Asia

Country	
Japan	70 per cent of entitlement for remaining days when having at least two thirds of entitlement remaining.
	60 per cent of entitlement for remaining days when having at least one third of entitlement remaining.
Malaysia	Additional allowance: 25 per cent of the total Job Search Allowance (JSA) to which the worker is entitled, or 25 per cent from the total balance of the JSA remaining unpaid at date of re-entering workforce.
Rep. of Korea	50 per cent of values for remaining days
Thailand	No re-employment allowance
Viet Nam	No re-employment allowance

Source: Author's abstract from national legislations and latest information available.

## 5. Benefit duration

Most countries set a benefit duration of between 3 and 12 months (Bédard, Carter and Tsuruga 2020a; Carter, Bédard and Peyron Bista 2013). ILO Convention No. 102 stipulates that the initial duration of benefits should not be less than 13 weeks each year; while Convention No. 168 stipulates that the initial duration should not be less than 26 weeks for each spell of unemployment, or 39 weeks over any period of 24 months<sup>16</sup>.

<sup>16</sup> Convention No. 168 allows the Member States to establish a scheme that pays the benefit for the same duration as stipulated in Convention No. 102 (that is, at least 13 weeks) during the initial phase of the scheme, but thereafter increasing it to meet the maximum outlined here (Article 19(4)). Moreover, Convention No. 168 calls for effectively linking means-tested social assistance benefits to social insurance benefits to provide continuous employment assistance and economic support for the long-term unemployed beyond the initial period of unemployment (Article 12 and 16).

The decision on benefit duration must reflect the characteristics of unemployment, business customs and potential re-employment opportunities in each country. Benefit duration is usually tied to the qualification conditions, and is often graded according to the length of insured employment prior to unemployment.

There are three common parameters to determine a duration of benefits: reasons of unemployment, age and years of contributions. A common approach is to reduce the benefit duration depending on the reasons of unemployment. Many countries disqualify or disadvantage claimants who voluntarily resign from a job, which is in line with the intention of Convention No. 168 to cover involuntary unemployment. Malaysia and the Republic of Korea provide no benefit for voluntary unemployed workers; while Japan and Thailand reduce benefit durations for such claimants. However, this requires a practical and fair way of determining the reasons for unemployment. Persons who are forced to quit their jobs due to dangerous working conditions, unpaid wages, harassment, illegal or improper activities should not be penalized, even if investigation of these conditions can be challenging.

Another approach adopted in Japan and the Republic of Korea is to allow older workers to be entitled to longer benefit durations, as they may have greater difficulties in finding job opportunities than younger workers.

The duration of benefit can be tied to the length of insured employment, or simply be set as a fixed number once the qualification criteria is met. Under the latter (and simplest) rule, benefits could, for example, last up to three or six months based on an employee having worked at least 12 months in insured employment. A more refined formula could provide a grading between a minimum and maximum. An example could be to provide for one benefit month for each two months of work, with the number of insured months ranging from 12 to 24, and benefit months thus ranging from 6 to 12. This approach is employed by Japan, Malaysia and Viet Nam, which provide jobseekers who contributed for longer periods with benefits for longer periods.

Among the Asian countries used as examples in this paper, Thailand has adopted the simplest approach by defining only two benefit durations: one for voluntary unemployment and one for involuntary unemployment. The other countries have a comprehensive matrix of benefit duration by age, years of contribution, reasons for separation, or a mix of these three factors (table 7).

For Indonesia, a base scenario for duration of benefit payment could be three months within a 12 month period, subject to having worked at least six months. Stakeholders seem to have a consensus of between three and six months for duration of benefit. The sensitivity of these options to cost can be tested.

**Table 7****Benefit duration of selected unemployment benefit schemes in Asia**

Country	Reason for separation	Determinants	Duration
<b>Japan</b>	Involuntary	Age Years of contributions	3–11 months <sup>1</sup>
	Voluntary	Age	0–5 months (No benefits for the first 3 months)
<b>Malaysia</b>	Involuntary	Years of contributions	3–6 months
	Voluntary	No benefit	n.a.
	End of fixed-term contract	No benefit	n.a.
<b>Rep. of Korea</b>	Involuntary	Age Years of contributions	4–9 months <sup>2</sup>
	Voluntary	No benefit	n.a.
<b>Thailand</b>	Involuntary	Years of contributions	6 months
	Voluntary	Years of contributions	3 months
	End of fixed-term contract	Years of contributions	3 months
<b>Viet Nam</b>	Involuntary	Years of contributions	3–12 months
	Voluntary	Years of contributions	3–12 months

n.a. = not applicable.

<sup>1</sup> With lower requirements for contributions, persons with disabilities can be entitled for 5 to 12 months in Japan.

<sup>2</sup> With lower requirements of contributions, persons with disabilities can be entitled for 4 to 9 months in the Republic of Korea.

Source: Author's abstract from national legislations and latest information available.

## ▶ 6. Insurable earnings

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### 6.1. Composition of insurable earnings

The composition of insurable earnings for an employment insurance scheme may be the same as that of the current BPJS Employment schemes. The insurable earnings for the JKK, JKm, JHT<sup>17</sup> and JP are calculated as a sum of basic salary (*upah pokok*) and fixed allowances (*tunjangan tetap*), except for non-wage allowances such as a transport allowance. Yet, it may be still important to assess to what extent the current composition of insurable earnings represents the actual income of workers.

It is generally recommended to capture the full amount of earnings in order to estimate an actual income replacement rate. If workers declare less insurable earnings than the amount that they receive, they will receive lower benefits than their actual income replacement rate. Some countries align their definition of insurable earnings to taxable earnings – that is, the level of earnings subject to tax are used as the basis for calculation. It depends on national contexts what income components have a significant impact on the calculation of benefits. For instance, France traditionally defines insurable earnings as all wages including bonuses and benefits-in-kind, such as lodging and car allowance (Carter, Bédard and Peyron Bista 2013). In Japan, the employment insurance scheme collects contributions from bonuses that are usually equivalent to 2–4 month’s salary and paid once or twice a year, but these bonuses are not considered when calculating an unemployed worker’s benefit, which is based simply on their average wage for the last six months. In Indonesia, employers also pay bonuses, including a holiday allowance (Tunjangan Hari Raya) that is paid no later than seven days before the Eid al-Fitr in May or June every year.<sup>18</sup>

### 6.2. Maximum insurable earnings for benefits and contributions

An insurable earnings ceiling usually applies to benefits and contributions. The ceiling often aims at maintaining a compromise between the interests of high earners and the needs of low earners, while redistributing financial resources among them. Without a ceiling, the contributions and benefits for the higher earning groups would be significantly higher. A ceiling on benefits but not on contributions will redistribute income from those who have income above the ceiling to those whose income is below the ceiling. Some countries do have unlimited insurable earnings for contribution calculations given that their contribution rate is quite low; while others have ceilings for both contributions and benefits, or a higher ceiling for contribution calculation than for benefit calculation. Convention No. 102 requires that where a ceiling is established for the calculation of benefits it should be equal to or higher than the wage of ordinary skilled workers in the

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<sup>17</sup> JHT refers to the Jaminan Hari Tua, an old age savings fund/provident fund.

<sup>18</sup> See Ministry of Manpower Regulation No. 6/2016 concerning Religious Holiday Allowances.

country, so that the ceiling will only affect higher earners. The ceiling should therefore be set sufficiently high in order not to exempt a part of ordinary workers' earnings for the purpose of benefit calculation.

A base scenario for the maximum benefit can be set at 4,207,200 rupiahs or be subject to a ceiling of insurable earnings for contributions at 8,939,700 rupiahs, as adopted for the JP in 2020<sup>19</sup>. Among the current social security schemes, BPJS Employment sets the above mentioned ceiling of insurable earnings and maximum benefit for JP. However, it is important to carefully assess whether the level of ceiling is sufficiently high to capture earnings of a majority of ordinary employees and exclude only a tail of income distribution groups above the ceiling. In particular, the maximum insurable earnings for contribution and the maximum pension are currently adjusted by different parameters; namely, GDP and inflation, respectively. As ILO recommended in the previous actuarial assessment report, the indexation mechanism may have to be modified to the average wage increase in the near future in order to ensure a more appropriate and sustainable income protection (ILO 2017). On practical grounds, it would appear cumbersome and unrealistic to adopt a different ceiling for any of the social insurance branches managed by BPJS Employment.

### 6.3. Indexation of maximum insurable earnings for benefits and contributions

In order to sustain the relevance of maximum benefits and contributions in the future, it is important to design an automatic indexation mechanism to adjust the ceiling of insurable earnings. In the last actuarial report, the ILO (2017) recommended modifying the indexation mechanism for the JP. The JP scheme adopts a ceiling of insurable earnings that is indexed in line with GDP growth, while employing the maximum benefit adjusted in line with inflation. As individuals' earnings may increase at a higher or slower pace than GDP in the future and usually increase faster than inflation, the indexation of the maximum insurable earnings and benefits should be in line with the average wage increase. In particular, indexing maximum benefit with the inflation rate may result in an increase in the number of higher income groups above the ceiling and a decrease in the replacement ratio against their actual earnings.

Therefore, a base scenario can be to adopt a ceiling indexed in line with the increase in the average wage. It is still important to assess the sensitivity to cost and coverage of adopting inflation and GDP growth as indexing values, as currently practised by BPJS Employment. See table 8 for how contributions and benefits are indexed in select Asian countries.

<sup>19</sup> Government Regulation No. 45/2015 defined the maximum insurable earning at 7,000,000 rupiahs in 2015, with future increases indexed with gross domestic product (GDP) growth in the previous year. The JP sets the maximum insurable earning for contributions at 8,939,700 rupiahs in 2020. It also defined a maximum pension of 3.6 million rupiahs in 2015, with future increases indexed with the consumer price index (CPI) in the previous year. The JP sets the maximum pension at 4,207,200 rupiahs in 2020.

Table 8

## Indexation of selected unemployment benefit schemes in Asia

Country	Benefit		Insurable earnings for contribution	
	Minimum	Maximum	Minimum	Maximum
<b>Japan</b>	Average wage	Average wage	Not applicable	Not applicable
<b>Malaysia</b>	No mechanism	No mechanism	No mechanism	No mechanism
<b>Rep. of Korea</b>	Minimum wage	No mechanism <sup>1</sup>	Not applicable	Not applicable
<b>Thailand</b>	No mechanism	No mechanism	No mechanism	No mechanism
<b>Viet Nam</b>	Minimum wage	Minimum wage	Not applicable	Minimum wage

<sup>1</sup> There is no mechanism to automatically adjust the upper limit of benefits in the Republic of Korea, which are regulated by the Enforcement Decree of Employment Insurance Act. The Government has amended the decree several times to raise the ceiling of benefits while considering wage growth.

Source: Author's abstract from national legislations and latest information available.

## ▶ 7. Qualifying conditions

Key qualifying conditions for unemployment benefits are an individual's employment and contribution record, a verified status of unemployment, the individual actively looking for a job, and the reason for contract termination. These conditions are usually aimed at preventing abuse of the scheme. Institutional and administrative mechanisms must be in place to assess contribution histories and to determine whether contract termination is involuntary or voluntary.

### 7.1. Contributions

Countries often require either 6 or 12 months of contributions in the last 12 to 24 months. Japan, the Republic of Korea and Thailand require at least six months of contributions to qualify; while Malaysia and Viet Nam require 12 months. The length of contributions is linked to benefit level and duration. In general, greater benefits or longer duration of benefits are the result of greater lengths of contribution. Conventions Nos 102 and 168 require that such qualifying conditions should not be longer than what is considered necessary to prevent abuse.

Subsequent claims usually require a re-accumulation of contributions. Financial assessments may be necessary to determine the required months of contribution for subsequent claims. For instance, the Employment Insurance Act of Malaysia regulates required contributions up to the twelfth claim.

A window of contribution opportunity can be as long as 24 months to accommodate the needs of stakeholders. A common concern raised by stakeholders in Indonesia was that a requirement of 6 to 12 months of contributions may be too long to protect certain categories of workers. Fixed-term (PKWT) contractors have contracts shorter than 12 months, and these fixed-term arrangements can also be too unstable and breakable for employees to accumulate contributions. Moreover, employees with a permanent contract (PKWTT) often work with a probation period of no longer than three months, and are therefore exposed to unemployment risk when reaching the end of probation. It is important to note that workers do not need to have a continuous contribution record to meet qualifying conditions. Therefore, having a longer window of contribution opportunity can respond to these challenges because workers will have more time to meet the qualifying number of months of contribution. By design, any employment insurance scheme needs to set a required period for contributions that is longer than the duration of benefit payments in order to maintain the financial sustainability of the insurance fund. Following this principle, it may be still helpful for PKWT and PKWTT employees to have a longer opportunity to make contributions.

**Table 9**

**Required contributions for initial claims in selected unemployment benefit schemes in Asia**

Country	Required contribution
<b>Japan</b>	Involuntary: 6 months in the last 12 months Voluntary: 12 months in the last 24 months
<b>Malaysia</b>	12–24 months in the last 24 months
<b>Rep. of Korea</b>	6 months in the last 18 months
<b>Thailand</b>	6 months in the last 15 months
<b>Viet Nam</b>	12 months in the last 24 months <sup>1</sup>

<sup>1</sup> Viet Nam requires 12 months in the last 24 months for fixed-term or indefinite-term workers; and 12 months in the last 36 months for seasonal workers.

Source: Author's abstract from national legislations and latest information available.

Social assistance or a non-contributory scheme should complement unemployment benefits. Workers who have difficulty in accumulating contributions or who have exhausted their unemployment benefits should be able to receive minimum income security from non-contributory schemes for the poor and vulnerable.<sup>20</sup> These schemes are often financed by general tax revenue and administered by central or provincial authorities. In Indonesia, the Ministry of Social Affairs has been implementing Program Keluarga Harapan (PKH) – a conditional cash transfer programme for poor and vulnerable households – since 2007. The Coordinating Ministry for Economic Affairs established a pre employment card programme (Kartu Pra Kerja) in 2020, which aims at providing jobseekers and laid-off workers with a lump-sum allowance to cover accommodation and transportation costs to take vocational training programmes.

A base scenario for required contributions can be 12 months of contributions in the last 24 months. As proposed at the consultation workshops, it may be important to determine cost sensitivity with regard to changes in other parameters – for example, changing a required period of contributions from 3 to 12 months and the window of opportunity for contributions from 12 to 24 months. When discussing qualifying conditions, tripartite stakeholders should consider costs and benefits.

## 7.2. Voluntary unemployment

Each country treats voluntary termination of contracts differently (see table 9). In Viet Nam, claimants who voluntarily resigned will enjoy the same benefit as those laid off so long as they have met the contribution requirements. In Malaysia and the Republic of Korea, the voluntarily unemployed are not eligible for receiving unemployment benefits. Japan extends the waiting period for voluntarily unemployed from seven days to three months and required months of contributions from six to 12; in addition the duration of benefits is shortened from 3–11 months to 0–5 months, depending on age and years of contributions. Thailand shortens duration of benefits from six months to three months and reduces the benefit level from 50 per cent to 30 per cent of earnings.

Eligibility for unemployment benefits should not depend on whether an employment contract is for a fixed or indefinite period. With regard to unemployment benefits, Malaysia and Thailand treat reaching the end of fixed-term contracts in the same way as voluntary resignation; namely the worker is either excluded from receiving benefits or is penalized by limiting benefits. However, there is no reason for Indonesia to exclude fixed-term workers who reach the end of their contract so long as they met qualifying conditions, because protecting workers with a shorter contract was one of the major concerns among stakeholders at the consultation workshops.

Voluntary unemployment with just cause should be covered by unemployment insurance; while those whose employment was terminated due to misconduct should not be covered by the scheme. Labour codes or employment insurance laws usually define forced or unavoidable resignations as those prompted by scenarios such as unpaid wages,

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<sup>20</sup> In this same vein, Convention No. 168 calls for such measures for those persons who have exhausted their entitlement to social insurance benefits.

harassment, dangerous working conditions or illegal actions of employers. In Indonesia, the Labour Law stipulates the reasons for separation in relation to the determination of severance pay formula. Therefore, it is important to decide which cases of employment termination the scheme will cover among the listed reasons in the Labour Law.

A base scenario can be that no benefits will be provided in the event of voluntary unemployment without just causes. Stakeholders had almost no objection to exclude from the scheme employees who voluntarily resign. Moreover, some stakeholders suggest that those who resign voluntarily should still have access to ALMPs, including public employment services and vocational trainings.

**Table 10**

**Treatment for voluntary unemployment of selected unemployment benefit schemes in Asia**

Country	Longer waiting period	Shorter duration	Lower benefit	No benefit
Japan	O	O	X	X
Malaysia	X	X	X	O
Rep. of Korea	X	X	X	O
Thailand	X	O	O	X
Viet Nam	X	X	X	X

O = yes; X = no.

Source: Author's abstract from national legislations and latest information available.

### 7.3. Part-time employment

Eligibility for part-time employees should be clearly defined. Convention No. 168 encourages adapting unemployment protection schemes to the occupational circumstances of part-time workers.<sup>21</sup> In Japan, if employers hire employees for 20 hours or longer a week and for one month or more, they have to register their employees for employment insurance. Similarly, in the Republic of Korea, employees who work for less than 15 hours a week or 60 hours a month are not eligible for employment insurance.

Contribution requirement for part-time employees should be also defined. The employment insurance scheme in Japan regards 11 days or more of contributions as a one-month contribution. As part-time workers are often vulnerable to unemployment and rely on unstable employment relationship, it is important to offer mandatory coverage and clearly define their eligibility and requirements.

<sup>21</sup> Article 10(3).

## ▶ 8. Continuation of benefits

Unemployed workers must maintain their status in order to receive compensation on a regular basis. Claimants are usually asked to report regularly to the local employment office, and asked to explain what measures they took to find a job, such providing the names of employers contacted. The reporting requirements would normally coincide with the frequency of payments. In many countries, reporting, verification and payments are all made on a monthly basis.

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 their experience, training and personal circumstances.

## ▶ 9. Waiting period

Both Convention No. 102 and Convention No. 168 authorize a waiting period not longer than seven days.<sup>22</sup> Prior to paying the first instalment of unemployment benefits, most countries require an initial waiting period of seven days from the day that an unemployed worker submits a claim (see table 11). A waiting period generally aims to: deter individuals from initiating small or frivolous claims; eliminate the costs of administering claims for very short periods of unemployment; establish the status of unemployment; and provide time for reviewing claimant applications and establishing their right to benefits. Moreover, a waiting period can be used to discourage voluntary resignation; Denmark, France, Germany, and Japan extend the waiting period for voluntary unemployed workers (Carter, Bédard and Peyron Bista 2013).

**Table 11**

### Maximum waiting period of selected unemployment benefit schemes in Asia

Country	Maximum waiting period
Rep. of Korea	7 days
Malaysia	7 days
Rep. of Korea	7 days
Thailand	7 days
Viet Nam	15 days

Source: Author’s abstract from national legislations and latest information available.

<sup>22</sup> Convention No. 168 authorizes a 10-day waiting period for countries where it is justified by the extent of protection offered by its social security system; this is exception is typically allowed for not yet mature systems that are still in the process of development.

## ▶ 10. Relation with severance pay

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By construction, severance pay is a much less reliable and less effective instrument than unemployment benefits in protecting workers against the financial impact of job loss. The actual payment of severance pay could depend on the employer's financial capacity, and on workers' capacity to enforce payment, which could be – and often is – problematic. While severance pay can be valuable for long-term employees, it is generally not for those with broken or irregular work patterns. The latter are the most vulnerable to lay-offs and in most cases are not even eligible for those benefits.

Countries may choose either to continue, remove or convert statutory severance pay when establishing unemployment benefits (Bédard, Carter and Tsuruga 2020a; Carter, Bédard and Peyron Bista 2013). When introducing its unemployment insurance scheme in 2009, Viet Nam decided to freeze statutory severance pay entitlements. In other words, workers who became covered by the unemployment insurance scheme kept their accrued entitlements but stopped earning any additional credits. Malaysia decided to maintain its statutory severance pay unchanged when it introduced its unemployment benefit scheme in 2018, thereby gaining some acceptance from both trade unions and employers. The Republic of Korea also maintained a statutory severance pay for about ten years after the introduction of employment insurance in 1995. After continuous negotiation among Korean stakeholders, the severance pay scheme was converted to the retirement pension scheme in 2005, which offered portable entitlements for periodic pensions when employees worked for other employers. See table 12 below for further details.

Countries can also choose whether to link unemployment benefits and severance pay. Article 22 of ILO Convention No. 168 recommends that either the unemployment benefit period or the amount of severance pay be reduced when claimants are entitled to receive both unemployment benefits and statutory severance pay. Similarly, Article 20(g) of the Convention provides that unemployment benefits may be refused, withdrawn, suspended or reduced if the claimant is in receipt of another income maintenance benefit. Canada and some states of the United States of America practise these policies by delaying the start of unemployment insurance claims and deducting severance pay from unemployment benefits, respectively (Carter, Bédard and Peyron Bista 2013). On the other hand, in Japan, Malaysia, Thailand and Viet Nam, unemployment insurance schemes do not take severance payments into account, so that the benefits are paid in full even in the presence of legally mandated severance payments to terminated workers.

A base scenario in relation to severance pay can assume that such pay would have no impact on unemployment benefit levels or entitlement. Workers appear view the issues of severance pay and unemployment benefit as being separate; while employers tend to consider the total cost of both statutory schemes. In order to contribute evidence to social dialogue, it may be important to assess the cost implications of delaying the payment of unemployment benefits if workers receive severance pay from employers.

Table 12

## Relation with severance pay of selected unemployment benefit schemes in Asia

Country	(Un)employment insurance	Statutory severance pay	Severance pay affects unemployment benefits
Japan	O	X	X
Malaysia	O	O	X
Rep. of Korea	O	X	O <sup>1</sup>
Thailand	O	O	X
Viet Nam	O	X	X

<sup>1</sup> In the case that a severance pay exceeding 100 million won occurs, jobseeking benefit payments are delayed for three months in the Republic of Korea.

Source: Author's abstract from national legislations and latest information available.

## ▶ 11. Financing modality

Unemployment benefits are not an expensive scheme compared to other long-term benefits. The cost of schemes largely depends on benefits, durations and reserves, making direct comparisons impossible, but the selected Asian countries in this paper levy contributions of between 0.4 per cent of wages (Malaysia) and 2 per cent of wages (Viet Nam). Final costs for Indonesia should be determined through rigorous actuarial analysis and studies, after stakeholders agree upon key parameters.

In many countries, employees and employers share costs equally. ILO social security standards stipulate that benefits need to be financed collectively through insurance contributions or taxation, or a combination of both; contributions need to be shared between employers and workers; and employees should not to pay more than 50 per cent of the costs of scheme. 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" (Paragraph 26(4)).

There are three approaches to reduce the financing burdens of employees and employers, including subsidies to contribution, subsidies to benefits and one-time subsidies to create an initial reserve.<sup>23</sup> In Thailand, the Government is obliged to contribute the equivalent

<sup>23</sup> ILO Recommendation No. 67 suggests that States bear the cost of benefits that cannot properly be met by contributions (Paragraph 26(8)). This includes the liability resulting from the continued payment of unemployment benefits when unemployment persists at an excessive level (Paragraph 26(9)(c)).

of 0.25 per cent of an employee's monthly wage toward employment insurance. In Japan, the Government currently subsidizes 2.5 per cent of the total benefit payments. In Malaysia, the Government created an initial fund for the scheme to enable pay outs during the first year of implementation, when the fund reserve was low. In the context of Indonesia, social partners are keen on having government support and subsidies. See table 13 for more details.

At the introductory stage, it is recommended to finance only cash benefits through contributions to keep the scheme's costs low. Some advanced employment insurance systems in Japan and the Republic of Korea impose additional costs on employers to finance active labour market policies (ALMPs) (see table 14). Financing additional allowances and the costs of ALMPs from the contributory fund would result in higher contribution rates. That may create an obstacle to reaching a consensus about the introduction of unemployment benefits among stakeholders, and may discourage workers to enrol in the scheme.

**Table 13**

### Contribution rate for unemployment benefits in selected countries in Asia

Country	Employee	Employer	Government	Financing other branches
<b>Japan</b>	0.3%	0.3%	2.5% of payment	Child/family care leave allowance, etc.
<b>Malaysia</b>	0.2%	0.2%	-	n.a.
<b>Rep. of Korea</b>	0.8%	0.8%	-	Maternity/parental leave allowance
<b>Thailand</b>	0.5%	0.5%	0.25%	n.a.
<b>Viet Nam</b>	1.0%	1.0%	-	n.a.

- = nil; n.a. = not applicable.

Source: Author's abstract from national legislations and latest information available.

**Table 14**

### Contribution rate for ALMPs in selected countries in Asia

Country	Employee	Employer	Government
<b>Japan</b>	-	0.3%	Operational expenses
<b>Malaysia</b>	-	-	Operational expenses
<b>Rep. of Korea</b>	-	0.25–0.85%	Operational expenses
<b>Thailand</b>	-	-	Operational expenses
<b>Viet Nam</b>	-	-	Operational expenses

- = nil.

Source: Author's abstract from national legislations and latest information available.

## ▶ 12. Institutional setup

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An effective single window service should be established to handle processes from registration through to payment. Employment insurance schemes require an integrated institutional mechanism for processing unemployment benefit payments, offering public employment services and making referrals to vocational training programmes. In Indonesia, these operations are currently conducted by different authorities. The Provincial Manpower Offices are responsible for approving the registration of employees; the branch offices of BPJS Employment are responsible for registration, collection and payment of social security; and the Public Employment Service Unit and Vocational Training Unit under the Provincial Manpower Offices separately operate each service. These services should be integrated either physically or administratively. In particular for BPJS Employment, a significant factor is that they already provide mandatory coverage and periodic benefits under the JKK scheme to workers temporarily unable to work. Therefore, administrative procedures for payments are already in place and could presumably be adapted to the payment of periodic employment insurance benefits. The box below provides an example of how employment insurance operations are carried out by Hello Work in Japan.

Relation with other public schemes may be another area for discussions. The Government seems to be considering supporting unemployed workers through the pre-employment card programme (*Kartu Pra Kerja*). If the Government plans to link the programme to employment insurance, it may be important to discuss how to link two different implementation mechanisms in terms of the institutions or operations. For instance, key questions may be whether unemployed workers will have to submit separate, distinct applications for these two schemes; whether the verification process and approvers of unemployment status will be the same or different; and how to avoid paying both benefits to the same person. Similarly, it is important to prevent abuse of the system by ensuring that employment insurance benefits and other non-contributory benefits (such as PKH) are not being provided to the same individuals at the same time.

### ▶ Operations of employment insurance in Japan

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The employment insurance system is operated by the Hello Work office in Japan. Employers have to submit a list of new employees (including information about their social security memberships and contract durations) within ten days after hiring, and pay the contributions of total insurable earnings once a year. When employees leave an enterprise, the employer has to submit within ten days a list of these former employees; provide certificates of separation with reasons of the separation signed by the employees and the employer; and provide payroll histories. The Hello Work office then sends separation notices to the workers on the list through the employer.

Unemployed workers submit separation notices and job applications, and participate in a briefing session about unemployment benefits at the Hello Work office. The Hello Work office assesses eligibility against qualifying conditions, including insured period, average insurable earnings, reason for separation, and willingness and ability to work. The Hello Work office then issue a “certificate of qualified recipient”. If the employer and the worker submit different reasons for the separation, the Hello Work office has the authority to make a decision after hearing from both parties. One month after the application is submitted, workers have to present themselves at the Hello Work office and explain the results of their job search during the previous month. If the Hello Work office determines a worker is still unemployed and actively looking for jobs, the office verifies their unemployment status and make the first payment in about a week through a bank transfer.

### ▶ 13. Other rules

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There are some more rules to be defined concerning employment insurance, including its relation to other earnings, fraud or abuse, and its relation to tax. 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, but no unemployment benefits might be provided for pre-employment card, PKH, JP and JKK recipients. Moreover, in order to prevent fraud or abuse of the system, countries often impose penalties on false declarations, false claims or avoidance of contribution payment. For instance, if workers receive unemployment benefits based on false claims, they have to pay back three times the value of the benefits received.

### ▶ 14. Policy options and rules for further assessments

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As mentioned in the introductory section, this paper reviews policy options for key parameters based on international labour standards, international practices and previous national policy dialogues, and identifies areas for further analysis. Therefore, this paper does not provide definitive conclusions or recommendations, but rather provides possible scenarios and looks at international experience as a guide to different options. The Appendix summarizes possible base scenarios and alternative options that this paper has discussed. These options may be a good basis for further assessments and policy dialogues in the future.

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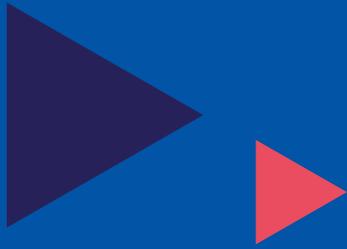
## ► Appendix. Summary of possible base scenarios and alternative options

Parameters	Base scenario	Alternative options
Coverage	All employees in private sector enterprises (employees already enrolled in JKK and JKm).	<ul style="list-style-type: none"> <li>► Including or excluding employees in the public sector, migrant workers and domestic workers.</li> <li>► Extending gradually to 8.4 million construction workers currently registered on a bulk basis and other groups.</li> </ul>
Benefit formula	A flat benefit rate of 50 per cent of average earnings in the past 12 months.	<ul style="list-style-type: none"> <li>► Reducing the benefit level to 45 per cent.</li> <li>► Paying higher benefits for the first few months with a reduction in subsequent months (but still above 45 per cent on average for the first three months).</li> </ul>
Minimum benefit	350 700 rupiahs (adopted by the JP in 2020)	<ul style="list-style-type: none"> <li>► 404 398 rupiahs (poverty line in March 2019).</li> <li>► 50 per cent of provincial minimum wage.</li> </ul>
Indexation of minimum benefit	Increase in average wage of previous year.	<ul style="list-style-type: none"> <li>► Inflation rate of previous year (adopted by the JP).</li> </ul>
Re-employment allowance	No	<ul style="list-style-type: none"> <li>► IA lump-sum re-employment allowance equivalent to 50 per cent of remaining benefits.</li> </ul>
Benefit duration	3 months within 12 months	<ul style="list-style-type: none"> <li>► 6 months within 12 months.</li> </ul>
Composition of insurable earnings	Basic salary ( <i>upah pokok</i> ) and fixed allowance ( <i>tunjangan tetap</i> ), excluding non-wage allowances.	n.a.

Parameters	Base scenario	Alternative options
Maximum insurable earning for benefits and contributions	8 939 700 rupiahs (adopted by the JP in 2020).	n.a.
Indexation of maximum insurable earnings for benefits and contributions	Increase in average wage of previous year.	▶ Inflation rate and GDP growth of previous year (adopted by the JP).
Contribution requirements	12 months in the last 24 months.	▶ 3 to 12 months in the last 12 to 24 months.
Voluntary unemployment	No benefit for voluntary unemployment without just cause.	▶ Allow voluntary unemployed eligibility.
Continuation of benefits	<ul style="list-style-type: none"> <li>▶ Be available and capable of working.</li> <li>▶ Look for a job on their own and not just await job referrals from the public employment office.</li> <li>▶ Submit proof of job search results every month to the public employment office.</li> </ul>	n.a.
Consequences of job or training refusals	Disqualified from receiving further benefits if they refuse to take up suitable job offers or public vocational trainings.	n.a.
Non-compensable waiting period	<ul style="list-style-type: none"> <li>▶ The first 7 days of unemployment are not compensated.</li> <li>▶ Monthly payments will start one month after the submission of benefit claims.</li> </ul>	n.a.

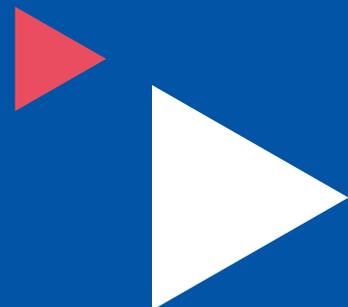
Parameters	Base scenario	Alternative options
Relation with severance pay	No impact on either unemployment benefit or severance pay.	▶ Delaying the payment of unemployment benefits to those who receive severance pay.
Financing modality	Only unemployment cash benefits.	▶ Including operational costs for ALMPs.
Subsequent or repeat claims	Have to contribute for the required period.	n.a.
Other earnings	<ul style="list-style-type: none"> <li>▶ Allow earnings up to 50 per cent of benefits.</li> <li>▶ No unemployment benefits for JP and JKK recipients.</li> </ul>	n.a.
Fraud or abuse	Penalize employee/employer for false declarations, false claims or avoidance of contribution payments.	n.a.
Actuarial review	Every 3 years.	n.a.

n.a. = not applicable



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