***Indonesia Social Security and Support System of the Indonesian Elderly***

*Preliminary Draft – January 20th, 2008 (not for citation)*

Maliki

(*National Development and Planning Agency, Bappenas*)

***Abstract***

Although population of Indonesia is currently relatively young with lower percentage of elderly, the absolute number of the elderly population is large and, in the future, the growth rate of the elderly population is greater than this of the productive ages. Unlike other Asian countries elderly-focused policy remains under explored in Indonesia. The Indonesian government is still underway to develop their universal coverage of social security for the elderly. So far, the pension program is limited to government employees and army personnel or small coverage of employees from private companies. This paper investigates how the Indonesian elderly finance their retirement period without sufficient social security program. Using data developed by National Transfers Account (NTA) project, we find that the Indonesian elderly is characterized by their longer period of working after retirement age (officially at 55) particularly of those who are self-employed, transfering more to the children, and depending on their assets for their retirement. Cameron (2000) and McKee (2005) previously supported the findings and revealed the high productivity among the elderly in Indonesia. Our findings are consistent with the lifecycle hypothesis where, in the absence of pension system, the retirement period consumption is financed by the accumulated assets from their productive ages. The Indonesian elderly prepared their retirement by accumulating assets during their productive ages and finance the deficits of their retirement consumption. In addition, they also transfers to their children. An increasing role of assets accumulation in the future emerges as the comprehensive social security is not yet under their retirement agenda.

## *1. Background*

Indonesian demographic composition is relatively young compare to its neighboring Asian countries and not until 2050 proportion of 65 years old and older population is expected to reach 25%[1]. However, although the proportion of elderly is predicted to be relatively lower than those in other Asian countries, the growth rate of the elderly population is greater than this of the productive ages. Moreover, the absolute number of elderly population is considerably larger compare to other Asian countries. Contrary to the fact, unlike other neighboring countries, such as Singapore and Thailand, elderly-focused policy remains under explored in Indonesia. Universal coverage of social security or medical care programs for the elderly is not yet available. Even though social assistance law for the elderly has been established since 1965 in Indonesia, which has been amended in 1974, 1992, 1998, and the more recent law on the National Social Security System Law of 2004, yet the pension program is limited to government employees and army personnel or small coverage of employees from private companies.

This paper examines how the Indonesian copes with their retirement period without sufficient social security program. Using data constructed for the National Transfers Account (NTA) project, this paper fills gaps in understanding the pattern of financing the consumption of the elderly, particularly in Indonesia. Our findings show that Indonesian elderly is characterized by their longer period of working after retirement age (approximately at 55) particularly of those who are self-employed, transfering more to the children, and depending on their assets for their retirement. The Indonesian elderly works until late 60s to finance their consumption as well as their

---

[1] Calculated based on data in The World Population Prospect, 2002, the United Nations

children. Resources flow from parents to their children that make them net givers for a relatively longer period than the elderly from other countries, such as Taiwan or Thailand. This finding supports previous research by Cameron (2000) and McKee (2005) that revealed the high productivity among the elderly in Indonesia. To finance the deficits due to both their own and children consumption, the Indonesian elderly relies heavily on their assets, which they accumulate during their productive age.

This paper is organized as follows; first is exploring their probability to live in extended families as well as how their productivity after they pass their retirement age; second is description on the social security in Indonesia; third is discussing on the support system of the Indonesian elderly; and finally is concluding and discussing the policy implications.

## *Co-residence and Productivity*

Coresidence, particularly between two generations that are parents and children, can be a means to cope with financial deficits. By living together, parents or children can take an advantage of scale of economies in financing their consumption. Moreover, adult children can take the benefits of parents' time by taking care of their children or parents take the benefits of children care, especially female children, by coresidence. Thus, coresidence does not only involve monetary reasons but also emotional or time transfers reasons for both in developing and developed countries. The direction of transfers, for both of monetary and time transfers, varied by countries that not only because of cultural differences but also differences in public policy.

Living arrangement is perceived to be an alternative to escape from living under poverty line among the elderly (Rendall and Speare (1995). Lillard and Willis (1997) also assess that living arrangement is commonly act as old-age security during elderly and they find that familial support through forming extended family is important in Indonesia. Children are a potential source of income to support their remaining time. Contrary to Lillard and Willis (1997), Cameron (2000) argues that the Indonesian elderly with higher income, savings and wealth prefers to stay together with their children.

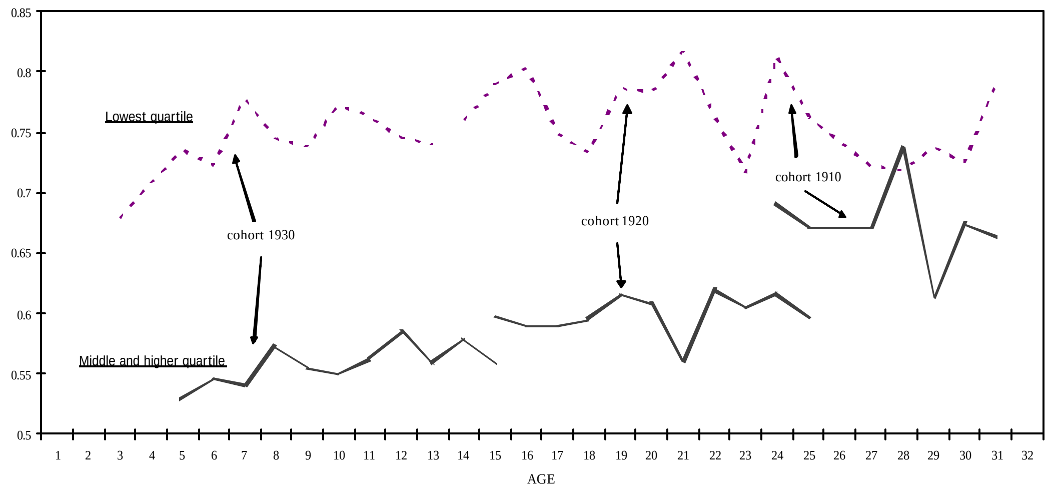
Changes behavior of the elderly also occur in Taiwan where the elderly does not depend on the familial support as much as earlier period as the public supports are increasing (Mason, Lee, Tung, Lai, and Miller, 2005). Japan is the extreme cases for changes of coresidence incidence between generations. The decline of coresidence with the same time of declining familial support and increasing of public pension makes the Japanese elderly is more independent (Ogawa et al. 2008). In Malaysia, Devanzo and Chan (1994) state that higher income elderly has lower probability to coreside with their children and only elderly from the middle to lower income countries live together with their children. The increase of elderly dependency to the public support tends to deteriorate the familial support system. In addition to the increase of public support system, the economics growth is also partially responsible for the changes of elderly behavior towards the coresidence. As the population aging, there will be an increase of burden of public support that eventually might be financed by the young generation. Aknowledge of the importance of coresidence to ease the burden of population aging in the future, some countries, such as Singapore, encourage young generation with tax-incentive to coreside with their elderly parents (Devanzo and Chan 1994).

Evidences indicate the elderly in Singapore and Taiwan receive significant support from their children (Chan 1997; Mason et al. 2006).

Using data from Socio-economic Survey (Susenas), we find that more than 50% of the elderly of 60 and older lives either with married, non-married adult children, or other relatives. Cohort profiles (cohort 1910, 1920, and 1933) displayed in Figure 1 show an increasing probability to live in extended families by age of the elderly. The elderly from lowest quartile of per capita expenditure coresides with their children at highest probability. The difference with the higher income elderly is even significant at age 60s where the wealthier retired elderly is relatively independent. As the elderly is getting older, the tendency of living together with their children converges for all income level.

There is still quite significant number of Indonesian elderly who work, as self-employed worker, after their retirement age. The 60 years old elderly work approximately 15 to 20 hours a week depending on their gender and slowed down with age up to 2 to 3 hours per week at age 80's. As applied to the productive age group, hours worked of male elderly are significantly higher than those of female. The difference is converging as the elderly getting older. At early 60s the different of hours worked is about 5 hours and only less than 1 hour at 80s. The findings are consistent with Cameron and Cobb-Clark (2002, 2001) and McKee (2005) who found that the elderly still actively works that makes familial financial transfers are not substitute for their labor income.

Figure 1. Probability of the Indonesian elderly to live at the extended family: by cohort




### *Social Security System: Pension Reform and Health Insurance Program*

The Indonesian government established the Social Assistance for the Elderly Law in 1965. The Law entitled cash subsidies and health or long-term care assistance for the elderly who were unable to work and did not posses sufficient support for their retirement period. While the law was never fully enforced due to unstable political situation, the government issued another law on the social welfare in 1974. Through these laws, the government commited for the social assistance program, social security system, social rehabilitation activities, and education program for all the Indonesian citizens.

The government announced the Social Security for Workers Law or *Jamsostek* in 1992 after the Social Welfare Law in 1974 was not successfully implemented. The program supports the workers with injured, death benefits, health, and retirement benefits. *Jamsostek* is a provident fund and social insurance system program with contribution rates approximately 7.24% to 11.24% and additional 2% of their wages for their retirement benefit program. Because *Jamsostek* funds were invested in the bank, the returns is only valued approximately at 38% below the level of inflation and 63% less than the average market rate (ILO, 2003: 94). The members also do not have enough incentives to pay the contributions because they will be paid only around 7% of their final basic salary after 35 years of working (Leechor, 1996). Moreover, ILO reported that the average value of the pension paid is about five and a half months of their basic salary (ILO, 2003: 90). Finally, even though the law was established, only medium and large-size enterprises adopt the scheme that makes majority of workers from small enterprises and self-employed, approximately 80%, are not covered and supported by the scheme.

The government attention on the welfare of the elderly came out by establishing the Social Welfare for Elderly in 1998, after the last unsuccessful law on the elderly social welfare in 1965. The law stated that the government, community, and the families of the elderly should share the responsibility for improvement of the elderly welfare. As a follow up, five-year National Strategy to Improve the Welfare of the Elderly were established in 2003 to support the Old Age Welfare Law of 1998 implementation.

In 2004, the law mandates social security emphasizing on old age pension and old age savings was established. National health insurance, work-injury insurance, and death benefits are included on the social security. The old age pension takes a partial pay-as-you-go system that accumulates contributions for 15 years and starts to pay the benefits right after the retirement age at 55. The formal workers are entitled for percentage of their income for the contribution, while the informal and self-employed workers are entitled for flat-rate contributions. The benefit paid is approximately 70 percent of the minimum wage. Widow and children receive 40% and 60% of the minimum wage. Early retirement is compensated by the accumulated amount of the pension contributions with the returns in lump sum without monthly pension. The old age savings program is a retirement program in which participants will be entitled to receive benefits before or upon reaching retirement age. The amount received is the accumulated amount plus returns.

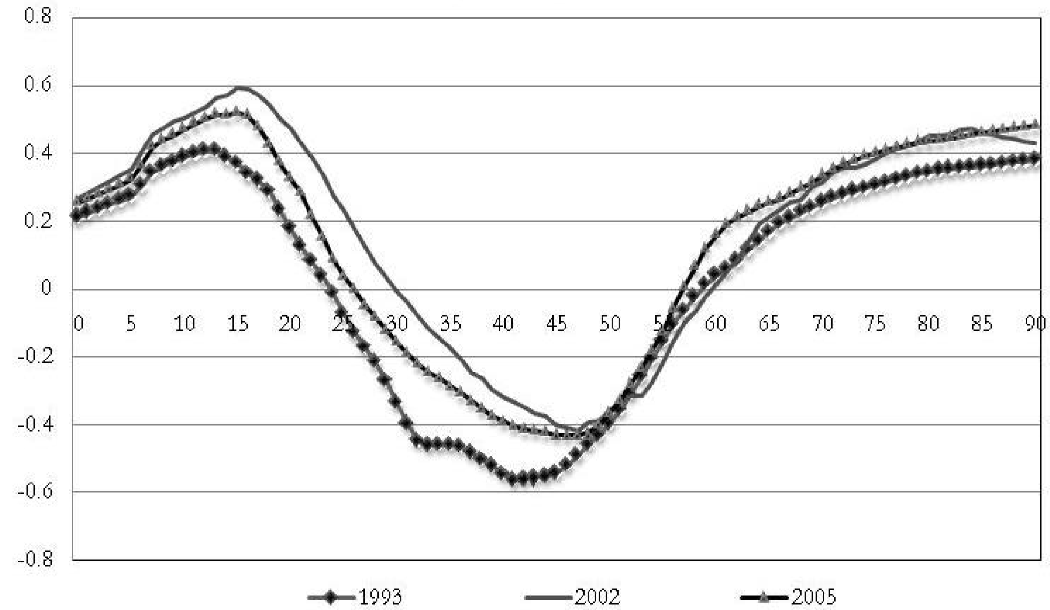
In addition to government attempts on improving the welfare of elderly, several types of health insurances are available, but are not nationally coverage. First, *Askes*, abbreviated health insurance, is an insurance that covers government employees, retired army personnel, and their families. Some private company employees also participate in health insurance, called labor force health insurance (*Astek*, *Asuransi Tenaga Kerja, which is* literally translated as "labor force insurance") managed by government-owned enterprise (*Persero Askes*). Also available is privately managed insurance. Private employees primarily belong to this group, and are independent from *Astek*. Third is the community health preventive and curative certification programs (*JPKM*) that are managed by legal institutions, and could be either governmental or private. They provide preventative, curative, health promotion, and rehabilitation services for those who join the program and pre-pay the premium. Fourth is health insurance managed locally by the community and are called Community Health Insurance (*Dana Sehat*).

Members pay a regular premium, granting them access to free health services. Lastly is government managed health insurance provided for the poor, which is called *Kartu Sehat* (Health Card). Currently, the utilization of Kartu Sehat or health card is expanded for almost any kind of health treatment.

### *Support System of the Indonesian Elderly*

A distinguished different of the consumption of Indonesian elderly compared to the consumption of other Asian countries' elderly is the fact that it is declining by the elderly age (Maliki, 2007). Total consumption of the Indonesian elderly decline as they are getting older, while while the consumption of elderly of other Asian countries raised as the they are getting older (Tung, forthcoming). One of the reason is because of low health expenditures among Indonesia elderly as opposed to the elderly from other Asian countries. Consumption of health among the elderly is considered very low compared to other countries, which is only approximately 3 percent of total consumption. Pattern of consumption for the Indonesian elderly is relatively stable over time taking observation from 1993, 1996, 1999, 2002 and 2005.

Figure 2. Lifecycle deficits relative to Y30-49, 1993, 2002, 2005




As the elderly consumption decline, they still earn quite significant or about 10% to 30% of the production of those prime age group (30-49), particularly for the self-employed workers (Maliki, 2007). Their lifecycle deficits, however, turn positive at around 55 years old. Lifecycle deficits is consumption less production or labor income as shown in Figure 2. In the begining, the lifecycle deficits turn negatif at age 25 in 1993, earlier than those in 2002 and 2005, which is around 27 and 30. Longer school participation due to nine year compulsory education program in 1994 could be the reason of shifting of these ages. In addition, financial crisis has increased the consumption unproportionally compared to the increased of earnings. Unlike these turning points, the points where lifecycle turns positif shift slightly over time, which are around 55 years old to 58 years old or about retirement age. Those who work in the formal sectors are retired at this age but those who are working at the nonformal sectors still continue to work eventhough their income start to decline substantially compared to their consumption.

The supporting system of the Indonesian elderly is largerly affected by the lack of social security system in Indonesia and the fact that the self-employed elderly work until late age. The uncertainty of resources at the retirement age pushes the elderly to work more and to accumulate assets. While the elderly in other developing countries, particularly in Asia countries, uses the familial support as one of their main retirement sources, the Indonesian elderly doesn't follow the same path. Eventhough the proportion declines, labor income has been a substantial source to finance the elderly of 65+ consumption in 2005 (Figure 3A). Approximately 50 percent of their consumption is financ ed by their labor income in 1996. The proportion declines gradually from 50 percent in 1996 to 34 percent in 2005. For 75+ elderly (Figure 3B), only 10 percent of the total consumption is covered by production.

The Indonesian elderly has been individually responsible for their retirement at least until the average age of 70. Labor income are substituted by asset reallocations, familial transfers, and public transfers approximately at this age. The role of transfers either from family or the government are shown to be marginal compared to assets reallocation. In fact, the elderly of 65 to 74 is considered to be net givers. There are substantial negative familial transfers among the elderly of aged 74 and younger. High amount of transfers from old generation to the younger generation is almost similar to those of Thailand (Phananiramai & Chawla, 2008). The eldelry in the Philippines (Racelis & Salas, 2008) or Taiwan (Mason et al., forthcoming) on the other hand receive positive transfers from their adult children even for smaller proportion of their consumption. In Taiwan and Thailand, the elderly finance higher 10% of their consumption out of familial transfers as consistent with the traditional society values. The fact that the Indonesian elderly as net givers, however, are actually consistent with findings by Cameron and Cobb-Douglas (2002). They found that familial transfers are not important for the Indonesian elderly because they still work.

As the elderly getting older, they cannot depend on their production anymore and they replace labor income by assets reallocation to support their consumption. When the productivity goes down, the elderly start to dissave. The amount of asset reallocations for age 65+ are around 70 percent of the total consumption and less for age 75+. The proportion has been changes all the time, but the assets reallocation certainly dominates the financing system of the older elderly. The important role of assets reallocations are consistent with the lifecycle theory that the workers save some of their income to anticipate their retirement period.

The changes pattern of financing the elderly consumption are clearly shown in Figure 4 (A-C) displaying average growth rates of percentage of financing the consumption for labor income, assets reallocation, and intervivos transfers. The figure shows the growth rates of financing pattern for five age groups during four periods. It is shown that the trend of financing through labor income is relatively stable for all age groups during the last 15 years (1993-2005). Between 1993-1996, labor income is important and the financing of the elderly consumption through labor income raised. The growth rate is approximately 1 percent per year for those age 55-59 and higher for older people (1 percent higher). After the crisis, in 1999, however, the labor income covers the elderly consumption as much as at the earlier period. The youngest elderly (55-59) is even experienced a deeper decline in using the labor income as a source for financing their consumption. It could be that during the crisis, there was a lot of laid off and a lot of people loose their jobs that makes the labor income declined while the consumption increased.

The importance of labor income is shown again several years after the crisis, 2002, by increasing around 5 percent for the youngest elderly and only 1 percent for the oldest elderly. The economic recovery might be the major reason that the elderly use their income to finance their consumption in 2002. The significance of labor income fluctuates again during the next period; it declines approximately 2 percent to 6 percent in average between 2002 and 2005. Here, the young elderly are clearly affected the most by the changes of the economics; financial crisis and economic recovery. The fluctuation of significance of labor income is partially compensated by the changes of familial transfers. Among youngest elderly, however, compensation of the decline of labor income is not off-set by an increase of private transfers or assets reallocation.

Unlike labor income, assets reallocation and intervivos transfers show a clear pattern over the last 15 years. While growth rates of financing the elderly consumption through assets reallocation tend to decline, the growth rates of financing the elderly consumption through intervivos transfers consistently raised over the last 15 years. At age 55-59 in period between 1993 and 1996, their consumption financed by asset reallocations increased as much as 5 percent annually. At the later period, after the crisis, assets reallocation remained important but the percentage of consumption financed through this way does not grow as much as previous period. Here, it grows only for about less than 5 percent. Percentage of consumption financed by assets reallocation remains at the same level at period 2002-2005 for age groups except age grop of 75 and older. They experience a large decline of financing their consumption through assets reallocation in period 2002-2005. Compared to period 2002, the role of assets realocation to finance the elderly of 75 and older consumption tend to be lower.

The pattern of intervivos transfers in the same period of the same age group (75 years and older) is relatively higher, shown by positive growth rates at that period. Earlier before the financial crisis, the growth rates are negative. Elderly of 55 and older do not receive intervivos transfers and tend to reduce the probability of receiving transfers from other family members. But, after the financial crisis, the elderly tend to increase this probability.

Figure 3A. Finance of the Indonesian elderly's consumption, 65+, 1993-2005

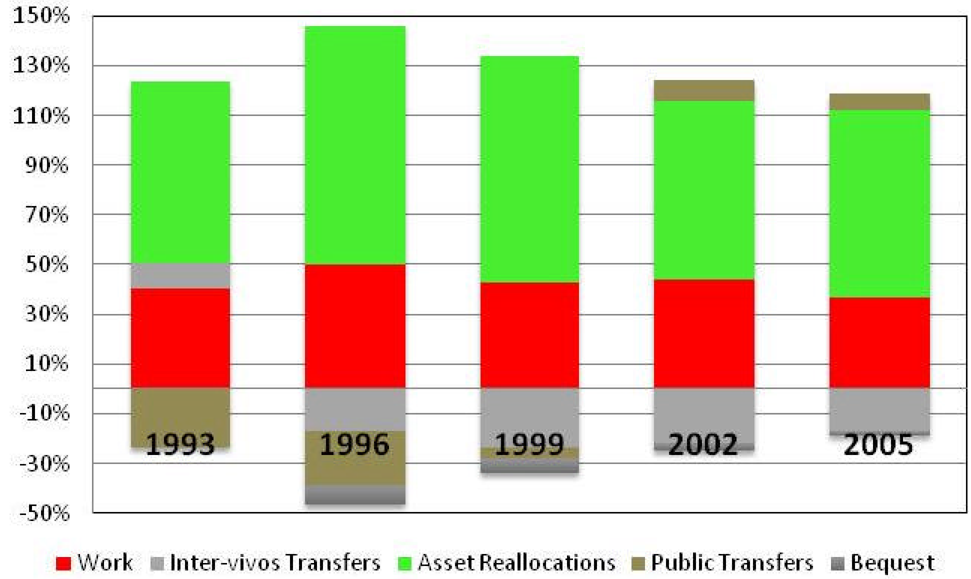
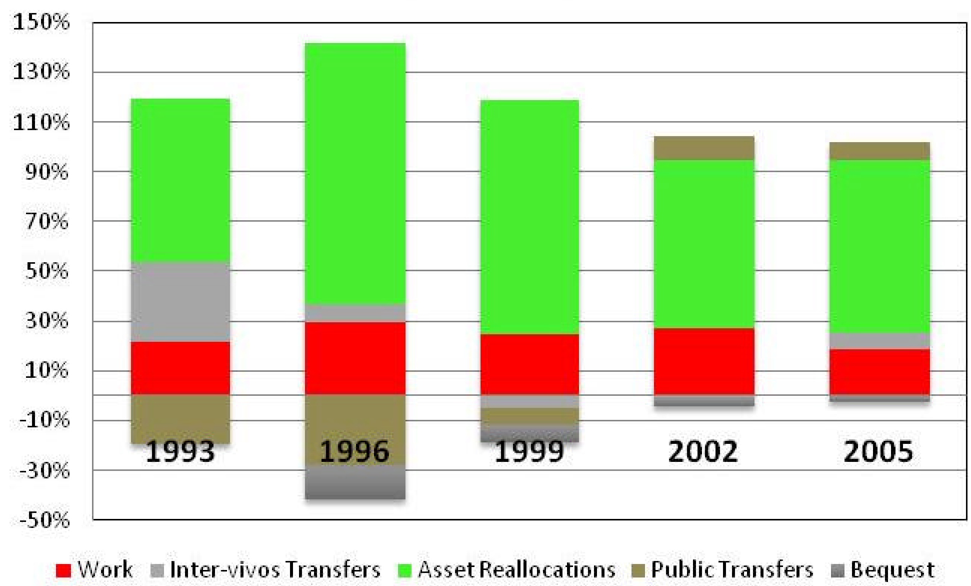



Figure 3B. Finance of the Indonesian elderly's consumption, 75+, 1993-2005



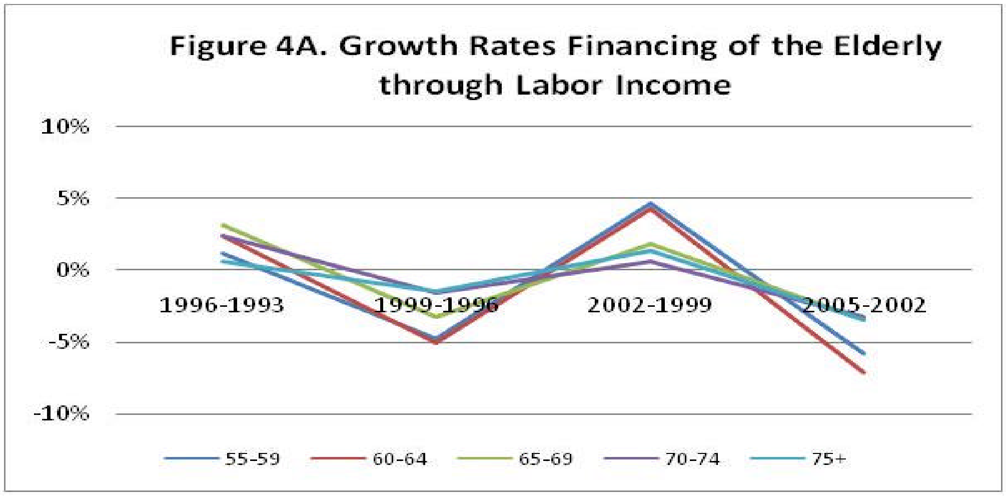


Figure 4A. Growth Rates Financing of the Elderly through Labor Income
10%
5%
0%
-5%
-10%
1996-1993
1999-1996
2002-1999
2005-2002
55-59
60-64
65-69
70-74
75+

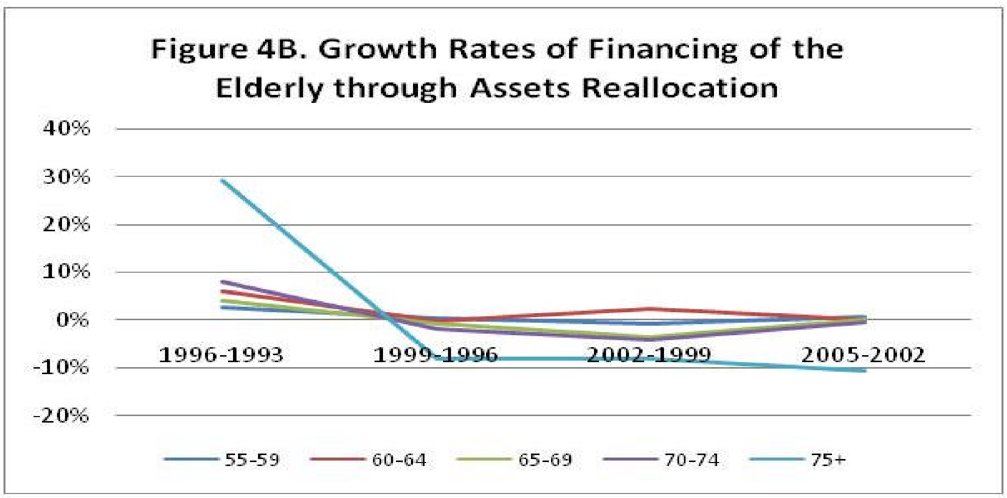


Figure 4B. Growth Rates of Financing of the Elderly through Assets Reallocation
40%
30%
20%
10%
0%
-10%
-20%
1996-1993
1999-1996
2002-1999
2005-2002
55-59
60-64
65-69
70-74
75+

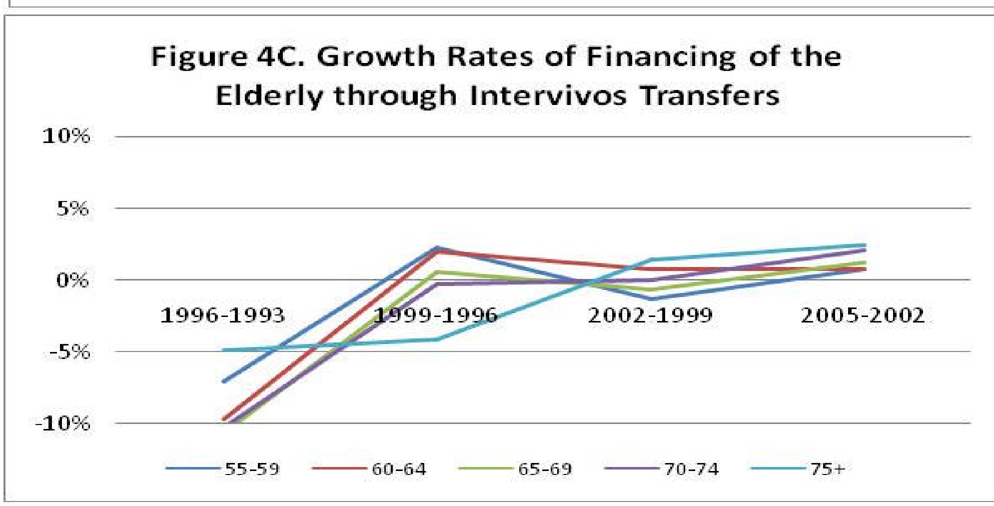


Figure 4C. Growth Rates of Financing of the Elderly through Intervivos Transfers
10%
5%
0%
-5%
-10%
1996-1993
1999-1996
2002-1999
2005-2002
55-59
60-64
65-69
70-74
75+

Assets reallocation and intervivos transfers show opposite pattern. If the elderly has enough resource from their assets for their retirement, then they dont need transfers from other family members to finance their consumption. The amount of assets reallocation still dominate to cover the elderly consumption. The magnitude is quite high, but, in proportion, consumption of the elderly the asset reallocations slightly decline. It is mainly because the consumption rised substantially in 2005 for all age groups, including the elderly's. In addition, the intervivos transfers experience a significant jump from negative transfers to the 75 years in 2002 and older turns to be positive in 2005. That makes the elderly is net receiver that some of the consumption is now covered by transfers from family member.

## *Conclusions*

The Indonesian elderly heavily depend on the production at their early retirement periods. They work as self-employed to finance their consumption. This is largely because majority of the Indonesian elderly does not have sufficient pension funds. The second important source of their retirement consumption is asset reallocations. They dissave of what they saved during the working period. According to the lifecycle theory, retirees accumulated assets during their productive time and dissave during the retirement age. Lack of pension system in Indonesia force the workers to save and use their assets later.

Familial transfers comes at late age of retirement. At age around 65, the Indonesian elderly is still net givers, who still transfer to their children or other younger generations.

These elderly still work and use some amount of savings for their own consumption plus the young generation consumption. Once they reach 75 years old, they relatively depend on the younger family members. Familial transfers play an important role in financing the elderly consumption.

It is important to understand how the elderly finance their consumption because the elderly tends to be more vulnerble to poverty compared to young and productive generations. Lack of pension system in the country makes them even more susceptible to become poor. It is also important to know that there is a big potential of investment from the accumulated assets performed by the workers to finance their retirement age. This potential of huge savings are an important findings due to the fact that the government can mobilize this savings into a more productive investment.