Support System of the Indonesian Elderly: Moving toward the Sustainable National Pension System

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Abstract

Through Law No. 40/2006 on Social Security System in Indonesia (Jamsosnas), the Ministry of Finance issued Pension Fund Road Map that include improving the number of people registed into the pension program, improving the return pension coverage so that the elderly can rely on the pension program during their retirement period, and improving the management of the pension system in Indonesia. This paper investigates how the Indonesian elderly finance their retirement period without having sufficient pension program by specifically investigating how the support system differentiated by income level. To bridge the government plan and understand the implication of social security to the live of elderly, particulary those who are poor, this paper intensively discusses to what extent the existing support from the government reach the poor and fulfill their elderly consumption. For this purpose, we will use data developed by National Transfers Account (NTA) project lead by Lee and Mason (2006). The results show that the elderly finance their retirement age different by income level in which the poor elderly in both rural and urban areas rely heavily on public transfers. More importantly is that the poor elderly use this public cash transfers for supporting other household members.

I. Background

Population in Indonesia is gradually aging. The growth rate of the Indonesian elderly population is greater than this of the productive ages so that the proportion of the older population will reach 25% in 2050. At that time, number of elderly population will be approximately the same with populaiton of productive age group, while the population of the young will be less than the elderly population (BPS, Bapepam-LK 2006). This makes population of Indonesian elderly will be the largest in the areas. To accomodate the aging population and realizing the importance of guarranteed support system during the pension period to alleviate povery among the elderly, the government attempts to develop national pension system that covers not only for the formal sectors but also covers the employees from informal sectors through regulating by Law No. 40/2006 on Social Security System in Indonesia (*Jamsosnas*). The construction of social security system has been a long journey that began in 1965 (and 1974, 1992, 1998) when the law mandates the government to establish universal coverage of social security in which medical care program and pension program were among the components should be developed. For this purpose, the Ministry of Finance issued Pension Fund Road Map to increase the coverage of pension system in Indonesia in 2006. They attempt to improve the number of people registered into the pension program, improve the return pension coverage so that the elderly can rely on the pension program during their retirement period, and improve the management of the pension system in Indonesia.

The existing pension program covers only around 2.59% of the total workefoces and is only limited to government employees, army personnel and small coverage of fomal sector employees (Bapepam-LK, 2007). Lack of understanding of the importance of pension program from both employees and companies is one of the main reason of low enrollment rate of the pension program. Due to lack of the pension support, there should be other means that the elderly can rely on to support for their consumption during the retirement period. Understanding how Indonesian elderly support their pension period is essential step in oder to develop national coverage of pension system. According to previous investigation, most Indonesian elderly finance their retirement using their asset reallocations (Maliki, 2007). They accumulate assets when they are productive and earn cash from their assets to finance the retirement consumption as well as to support other non-productive household members. This figure, however, cannot reveal the support system of the elderly at the lowest income level of the households. This paper further analyze the support system by distinguishing the households by income level to obtain understanding how the poor support their live and how far the government support their well being. Income level is an important determinant of the elderly support system, particularly in the country without national coverage pension system. Elderly from low income families are hardly able to accumulate assets during their productive period and should find other means to support their consumption, such as extending their working period, relying government support or private credits if credit market is available for low income families.

This paper investigates how the Indonesian elderly finance their retirement period without having sufficient pension program by specifically investigating how the support system differentiated by income level and to what extent the government program support the gap between consumption and own-generated sources. For this purpose, data developed by National Transfers Account (NTA) project lead by Lee and Mason (2006) is used. Maliki (2007) has shown the preliminary results on National Transfers Account (NTA) for several years that are 1996, 1999, 2002, and 2005. He finds that the Indonesian elderly is characterized by longer period of working after retirement age that is generally at 55, transfering to the children, and depending on their assets for their retirement. Assets are the most important resources to support for the elderly consumption. His 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. In addition to finance their consumption, they also have to finance their children's consumption through familial transfers.

The National Transfers Accounts are useful tools in analyzing several aspects of government policy, for example the effect of govenrment fiscal policy on intergenerational inequalities, evaluating the pension policy to the support system among the elderly, and other important policy implications of population aging. Understanding the support system of the lowest income quartile would be benefit to design more comprehensive social security system specifically in Indonesia where majority of workforce categorized as self-employees and work in non-formal sectors that relatively have lower income. This paper, therefore, will significantly contribute to providing more background of understanding of the Indonesian elderly and how they cope with their retirement. Two important issues are found: first is the poor households rely heavily on public transfers for their retirement and second is that the non-poor, particularly in urban areas, rely more on the asset accumulation.

This paper is organized as follows; first development of social security in Indonesia is discussed that include the regulation and the government road map program, second description on public transfers and government program for the poor is presented to understand thoroughly on available assistance that may support the elderly consumption, third is methodology that include data sources and estimation method, fourth is the support system discussion, and last is conclusion.

II. Regulations on Social Security in Indonesia

The commitment to establish comprehensive social security system covering all Indonesian people, as well as protecting and empowering poor people, has been mandated by the supreme law (Undang-undang Dasar 1945 pasal 34 ayat 2). The first interpretation of the supreme law was the establishment of the Social Assistance for the Elderly Law in 1965 (Law No. 4/1965) that regulated cash subsidies and long term care assistance for the elderly who were unable to work and have insufficient support for their retirement period. Private institutions, in addition to the public institutions, were able to carry the services by government endorsement that were administered by the Ministry of Social Welfare. The support system for the elderly was in some degree successfull in carying support for the elderly that was relatively small number of population at that time. The law, however, was never implemented again during the Soeharto's regime (Arifianto, 2006).

Not until the political situation was settled in 1969, the government initiated the pension program through issuing Law No. 11/1969 on pension program by covering only civil servants or government employees or national armies and their widows. Even though the program only cover the civil servants, the establishment of the law was considered an important event for pension program development history in Indonesia. The system has triggered other institutions, such as government-owned enterprise and private companies to establish their own pension system and since then, the pension fund industries gradually developed. To increase the pension program participation, the government issued tax incentives for the pension funds through its Income Tax Law in 1983 (Law Number 11/1983).

Revising this first Law of Social Assistance for the Elderly, the government issued another law on the social welfare in 1974 (Law No. 6/1974) that extend the coverage programs not only to support the elderly but also to provide all citizens social assistance program, social security system, social rehabilitation activities, and education program. The implementation of the law, however, was done not until late 1992 when the government issuing another law that provided more detail instruction regarding each social welfare activities. Through Law No. 3/1992, Social Security for Workers (*Jamsostek*) was regulated. The social security package (*Jamsostek*) includes worker injury benefits, death benefits, retirement benefits, and healthcare benefits. In the implementation, *Jamsostek* only cover the formal sector workers, while the informal sector workers were left out. The Jamsostek, itself, was not able to provide enough incentive for the workers to save through the program for their retirement because of considerably small benefits (Leechor, 1996).

To cater the self-employed workers and to stimulate the growing of pension industries, the government issued Law No. 11/1992 that regulate more comprehensive items including both private and public institutions. Through this law, two types of pension fund program became available; first is pension program by the the workers' company that more suitable for formal sectors (Dana Pensiun Pemberi Kerja (DPPK)) and second is pension program that managed by the funding institutions that able to cover self-employees (Dana Pensiun Lembaga Keuangan – DPLK)).

Social Welfare for Elderly law was revised in 1998 through issuing Law No. 13/1998. The new revised law was expected to improve the concept of the elderly welfare program. In addition to broader benefits that should be given to the elderly compared to the previous Law in 1965, this 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. And, National Committee on Aging was established in 2004 by presidential Decree No. 52/2004 to provide assistance for implementation of the five-year National Strategy on improving the welfare of the elderly.

Previously, the social security program tend to be scattered and not integrated. While pension program was standing alone as part of the old age welfare law, the protection for the poor has been implemented through separate scheme. The protection for the vulnerable was already implemented particularly after the financial crisis as well as through establishment of welfare for elderly law. In addition, although the old age welfare law cover both formal and non-formal sectors workers, the pension program for formal workers more dominate and already surpassed the program for non-formal workers. While the protection on insurance-based social protection has been implemented through several previous mentioned laws, the government attempts to increase the access of both types of protection by issuing Law that regulates more comprehensive coverage of social security system. This includes social protection for the vulnerable and social security for both formal and non-formal sectors. For this purpose, the legislation issued another law that not only cover the elderly, but also for all the citizens, which is Law No. 40.2004.

The Law issued in 2004 (Undang-Undang No. 40/2004) mandates the government to establish more comprehensive and integrated social security program that consists of old age pension, old age savings, national health insurance, work-injury insurance, and death benefits. 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 and 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.

The government will subsidy premiums for national health insurance for the poor so that they can receive free health services. Thus, the Law 40/2004 opens more opportunities for informal sectors workers as well as the vulnerable to receive benefits of the social security program. Not more than 20% of the population join the previous pension programs with considerably limited benefits. To extend the benefits, in addition to the existing pension institutions, which are Jamsostek, Askes, Taspen, and Asabri, to manage pension funds, new institutions are possible to manage the funds and required to be 5 years as non-profit institutions. Gradually, the new institutions can adjust the type of companies depending on the contributions, benefit system and its mechanism, and funding system.

III. Public Transfers and Subsidies in Indonesia

Government transfers to the citizens are meant to reallocate resources from the rich to the poor so that to improve the efficiency use of available resources for people welfare as well as to reallocate the resources from productive age groups to the non-productive age groups, such as children and the elderly. In supporting the vulnerable and the non-productive group, the planned comprehensive social security system according to the Law No. 40/2004 consists of 2 major programs; first is protecting the vulnerable by providing them social services such as easy access to health services, empowering program as well as the employment insurance and second is establishing the insurance-based social security for the non-poor. The comprehensive social security system contains multi-pillar system that should involve both government, private institutions, and even the individuals by sharing the responsibilities that should be defined clearly. The government has main responsibilities in protecting the poor. The government redistributes the taxes paid by the private and non-poor citizens to establish the first pillar, which is providing the poor with minimum basic social services. The private sectors and individuals, on the other hand, give their contribution for the insurance-based social protection. In addition, the government should also consider the individuals to provide their retirement support by mandatory pension savings.

The government of Indonesia has played its role in redistributing the sources and provided more benefits to the poor through subsidies or cash transfers. The financial crisis in 1997 has forced the Government of Indonesia to establish the wider coverage of social safety net program. The financial crisis hit Indonesia the worst compared to other Asian countries. The impact to the households was considerably substantial. Their income declined, while their expenditures rised due to increased price of basic commodities. Number of poor households increased and number of vulnerable to become poor was also higher. The impact of financial crisis turned so fast and the Indonesian government faced a very limited time to help the vulnerable. Social safety net programs started intensively right after the crisis to reduce the impact.

The government allocated the programs from both government revenue and foreign loans to protect the poor and vurnerable such as widows or elderly from the impact of the financial crisis. The programs contain social safety net and social rehabilitations such as scholarships for poor students, block grants to schools, health services, empowerment generation, community empowerment, food security program (OPK), employment creation program (Padat Karya), and others. The spending on social safety net on fiscal year 1998/1999 was nearly 4.4 percent of GDP or 7.4 percent of GDP if including the fuel subsidies (World Bank Institute, 2004). The description of each of programs is as follows;

1. Food security program is a sales of subsidized rice to poor households. The government subsizes the rice for approximately 50 percent of the sales to protect the poor or newly poor from the increased rice price and in the same time reduction of their income. The targetted households are chosed based on the prosperity ranking from National Family Planning Agency.

2. Education program is program to target poor students that were threaten to terminate their schools. The program contained scholarships and block grants for schools. Scholarships were given to students from primary schools, secondary schools, and

upper secondary schools. Block grants were meant to reach majority of the poorest schools. The education program, however, is not considered as part of the social security program mandated in Law 40/2004 (Widianto, 2007).

3. Health care subsidies are given through Health Cards Program. Poor households can obtain health card as their free pass to medical services, family planning services, and midwife services.

4. Employment creation is activities to create labor opportunities. The programs were implemented by several government departments to respond for the increased unemployment rate.

Financial crisis has increased the dependence of foreign assistance to finance this health services so that the foreign assistance in funding public sector in health services increased by 17% in real terms (Lieberman, 2001). The increase of foreign assistance was to substitute the reduced the rupiah budget in health services of development allocation. The big spending that rise overall budget on health services was partly because of the big allocation to the health services component of social safety net program so called JPS-BK (Jaring Pengaman Sosial Bidang Kesehatan). Part of the JPB-BK program was health card subsidy that were accepted in every puskesmas or health centers. Among the social safety net program implemented after the financial crisis, health services for the poor are considered as an embiro of the social security program.

Subsidy on health services has taken several forms before issuing the health card program. The health card subsidy used to take the form of a referral letter from the local community leader and certified the poor members eligibility to acquire free health services before the financial crisis in 1997. The health cards issued after the financial crisis of 1997/1998 were accepted in every health center or so called *puskesmas* as government's attempt to increase the utilization of health centers and subsidiary health centers by the poor. Based on data from National Planning Agency (Bappenas), the coverage of the health card subsidy in 2003 was about 63% of poor families. According to *Susenas* 2003, however, only approximately 16% of the poor, 18.5% of whom were the poor elderly used the health card for health services (Maliki, 2005). The health card program has been proved to increase the demand of health services particularly in *puskemas*.

In relation to the insurance program for health services, several types of health insurances are available, but are not nationally coverage. First, Askes, abbreviated as 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.

The Law no. 40/2004 includes national coverage health insurance that is aimed to replace the existing health insurance scheme provided by Askes, Taspen, Asabri. The existing health insurance is considered failed to cover nationally because its improper governance, low rate of participation, and inadequate benefits (HPEA, 2008). The new system is expected to provide health services not only at the contracted public health centers and public hospitals, but also in private providers where fees enforced are still negotiated.

Previous mentioned social welfare programs, in principle, open more access of basic facilities such as health services and schoolings to the vulnerable households. Providing basic service facilities, however, do not guarantee poor households to use them. Some households have financial or social constraints to send their children to schools or to go to the health centers for getting the imunization for their children or checking their pregnancy. High opportunity cost of schooling or time to go to hospitals are among the main reasons.

Children are income sources for some poor households so that if they go to schools they loose their source of income. Poor households also do not consider imunization or pregnancy checking are necessary. Thus, the government of Indonesia find a neccessity of stimulating demand side of households for basic facilities, especially for schooling and health. An option of stimulating the demand side that has already implemented by other countries, such as Brazil and Argentine, is conditional cash transfers. The eligible households are given some amount of cash transfers in condition of their children school enrollment or visiting health services for pregnant women or immunization needed children. This conditional cash transfers so called Program Keluarga Harapan (PKH) was started in 2007 as pilot project in some selected provinces. The PKH was part of the government program in constructing more integrated social security program.

IV. Methodology

This paper mainly applies methodology of National Transfers Account (NTA) introduced by Mason, Lee, et al. (2006). The National Transfers Account (NTA) objective is to measure the shift of economic resources from one age group to another at the agregate level. The NTA system consists of the age profile of consumption and production, lifecycle deficits that are derived from the different between consumption and production, and reallocation. Several data sources are utilized for constructing Indonesia National Transfer Accounts (NTA), which are household survey, National Account, Population data, published Government Budget Account, and other nationally published data.

Since National Transfer Accounts (NTA) attempts to show the reallocation from one age group to another, each variables in NTA should be based on individual information that can be approximated by household survey. For this purpose, Socio-economic Survey (*Susenas*) data published by Central Statistical Bureau (*Badan Pusat Statistik* – BPS) of the Goverment of Indonesia was used. Susenas is a national representative survey data annually conducted to collect information on both individuals and households regarding their socio-economic status. The survey has sample size of approximately 1 million individuals or about 250 thousand households in 2005. The survey questions were divided into several blocks based on the topics and asked to the individuals or households. Health, employment status, education status were taken to each individuals in the households, while information on housing and sanitation access were based on households. For our purpose to quantify the benefits of public services such as health, education, and social services program, we use information on health service utilization available for approximate the individual utilization on public health budget, school enrollment for estimating the spending on public education, and household information on receiving public assistance, such as scholarships, health card, subsidized rice program.

In addition to the core information of both households and individuals in the households, every three years Susenas also collect detail thematic informations, such as consumption and income, education, health, etc. This three-year cycle *Susenas* is so called *Susenas-Module*. In 2005, the Susenas-Module takes detail information on consumption of the household, earning of the individual, and other income of the households. These comprehensive information on consumtion and income of individuals and households are important sources for constructing the National Transfers Account (NTA). *Susenas-Module* 2005 has information such as consumption, earnings, self-employment income, and non-labor income. The individual information is extracted from household data, particularly for consumption, self-employment income and non-labor income. The earnings, on the other hand, are collected for each working individuals in the households.

The age profile of consumption combines both private and public consumption. Individual private consumption is estimated from household survey that is adjusted to the national aggregate data from National Account. The components of private consumption are separated into education, health, durables, imputed housing, and other consumption. Education consumption are considerably unique and easily estimated by regression method on number of household members who enroll at school. The education spending are allocated to those who enroll at school weighted by the coeffisiens obtained from the regression. Health consumption of the individual is also estimated using the regression method, while the other consumption are calculated using the equivalence scale method. Public consumption are goods and services publicly provided by the government that are also separated into education, health, and other components of public consumption.

Table 1. Reallocation System on National Transfers System.

	Asset-based Reallocation		**Transfers**
	Capital and Property	**Credit**	
Public	*Public Infrastructure*	*Public debt* *Student Loan* *Money*	*Public Education* *Public Health* *Unfunded pension plans*
Private	*Housing* *Consumer durables* *Factories* *Farms* *Land*	*Consumer credit*	*Familial support* *Children and parents* *Bequests* *Charitable contributions*

	Inventories		
Sources: Mason, Lee, Tung, Lai, and Miller (2006)			

The lifecycle deficits indicates total amount of resources that are required to be reallocated from one age group to another to meet the consumption demand. Lifecycle deficits of age group $\boldsymbol{a}$ are expressed as $LCD(\boldsymbol{a})$ such as;

$$LCD(a) = C(a) - Y(a)$$

Where $C(a)$ is consumption of the respective age group and $Y(a)$ is the production of the same age group. If the age reallocation is expressed as R(a), then the $LCD(a)$ has to be equal to R(a) or LCD(a) = R(a).

Reallocation comes from productive age group to the other age groups that are considered to be non-productive, such as the young and elderly. National Transfers Account takes both public and private reallocation system at the individual levels with households level as the basis for the calculation as illustrated in Table 1. The age reallocation ($R(a)$) consists of asset based reallocation and transfers that each of the components are separated into private and public sectors. Public asset based reallocation is the reallocation of government spendings on capital investment, while the private asset based reallocation is mostly income from housing, consumer durables, land, and inventories. Public transfers consist of good and services provided publicly as well as cash transfers given by the government to households.

Public transfers similar to public consumption are separated into several sectors based on their possibility to distinguish the beneficiaries, such as health, education, and unfunded pension plans. Other sectors are grouped into other sectors and are estimated using percapita so that all individuals are assumed to receive the same benefits. Public transfers inflow is public consumption that basically is in-kind transfers publicly provided plus the cash transfers given by the government as part of the social benefits. Public transfers outflow is resources come from the households as taxes or other parties, such as foreign loans or government obligation. Private transfers consist of familial transfers to support the consumption of children or other non-productive members. More elaborate explanations of the NTA system is described in Mason, Lee, Tung, Lai and Miller (2006) and methods for estimations of NTA variables can be found in detail on NTA web site (www.ntaaccounts.org).

One important economic benefits of public resource reallocation is reducing inequality that is part of this paper objective. The high income groups pay taxes to the government and the government reallocate the taxes for the social assistance programs targeted to the poor, in addition to providing public services for all citizens. Framework of National Transfers Accounts (NTA) is used to explain the public resource allocation and its implication on the support system of all the income groups. Thus, public resource allocations are analyzed in more detail by separating the National Transfers Accounts (NTA) by household income level, which are poor/non-poor rural and urban. Using methodology of NTA, we separate the accounts into those income level so that we understand how the resources are flowing from one household income group into another. The government are supposed to transfers the resources from the rich to the poor. The accounts that public transfers account for the poor has to be positive and consequently the accounts for the rich has to be less positive. In line with the government plan to establish the comprehensive social security program where the poor households are subsidized, this estimates will be an important tools for the policy makers in understanding the support system of different household income level so that an efficient resource reallocations are drawn.

The Central Bank and Central Statistical Bureau have been working together with Institute of Social Studies (ISS) and Cornell Univesity to publish aggregate data so called Social Accounting Matrix (SAM) or *Sistem Neraca Sosial Ekonomi* (SNSE) started in 1975 and 1980. Since then, the Central Bank and Central Statistical Bureau publish the data at least every five years. The SNSE is useful tool to analyze the relationship between economic growth, income inequality, and unemployment. However, after the financial crisis, there is a need to analyze the relationship between financial sector and real sector. The relationship is not obviously clear. Particularly after the crisis in 1997, even though stock market and capital market show positive growth, there is no indication of positive growth in real sectors (Central Bank and Central Statistical Bureau, 2008). Thus, the two institutions take initiative to construct an account that can comprehensive and integrated link betwen financial sector and real sector. In this account, the flow from financial sector to the real sector can be clearly shown. The Social Accounting Matrix (SAM) previously published can only analyze the link in a limited way. The relationship between financial sector and real sector is not only limited from capital account or savings from institutions such as households, government, or private companies, but also from credits as well as from issuing obligations. To examine detail relationship between savings, real sector, and financial sectors, Central Bank and Central Statistical Bureau construct Financial Social Accounting Matrix (FSAM) by disagregating capital account in SAM. FSAM 2005 published in 2008 has four types of household, which are poor-urban, poor-rural, non-poor-urban, and non-poor-rural. Information from FSAM, included consumption, production, and transfers, are used for adjusting to the agregate level that is differentiated based on types of household.

Table 2 illustrates FSAM 2005 structure and shows that Social Accounting Matrix (SAM) or *Sistem Nerasa Sosio-Ekonomi* (SNSE). SAM includes only inflow and outflow from production, institutions, and production sectors, while the FSAM already incorporate the capital and financial sectors. For estimation of NTA purposes, information on production and consumption of different types of households are used. Intersection between institutions are considered as transfers that is also utilized for NTA estimation.

Table 2. Financial Social Accounting Matrix (FSAM) 2005 Structure

<table>
<tr><td>Outflow</td><td>Inflow</td><td>Production</td><td>Institutions</td><td>Production Sectors</td><td>Capital</td><td>Financial Sectors</td></tr>
<tr><td colspan="2">Production</td><td colspan="3" rowspan="3">SNSE (SAM)</td><td></td><td></td></tr>
<tr><td colspan="2">Institutions</td><td></td><td></td></tr>
<tr><td colspan="2">Production sectors</td><td>Investment</td><td></td></tr>
<tr><td colspan="2">Capital</td><td></td><td>Savings</td><td></td><td></td><td>Obligation</td></tr>
<tr><td colspan="2">Financial</td><td></td><td></td><td></td><td>Assets</td><td></td></tr>
</table>

Sources: SNSEF 2005, Central Bank and Central Statistical Bureau (2008)

V. *Support System*

Data from SNSEF 2005 is used for controlling aggregate variables in NTA. This aggregates value is differentiated between rural/urban and poor/non-poor. The first sources of aggregate value is source of income as illustrated in Table 3. Three types of household income is available, labor income, non-labor income, and transfers. NTA methods uses labor income as addition of earnings and return for labor component of self-employed income. SNSEF 2005 already counts the labor income by household income level and areas (rural and urban). Labor income of urban households are still considerably larger than this of rural, which is approximately 60% of total national labor income. Per capita labor income of poor households in urban areas is considerably smaller than poor household in urban areas and labor income of poor households at both places are much smaller than this of non-poor households. The non-poor households in rural areas has approximately half of labor income than non-poor households in urban areas per year. Per capita labor income is also placed in USD in Panel C at the same table.

Table 3 distinguishes non-labor income in 2 types; first is returns from investment placed in finance institutions, such as bank or non-bank, and second is returns from durable assets, such as house rents. The first component, interest income or dividends, shows that non-poor households in urban still dominates the income over the non-poor households live in rural area. The non-poor households in urban areas earn as much as 10 times of interest income and dividends compared to the non-poor households in rural areas. Fewer variations of finance institutions and capital markets in rural areas compared to this of urban areas is one of the reason of this smaller non-labor income. Unlike the income from finance institutions, asset income of the same households in rural and urban is approximately similar. The different of asset income of both households is not as large as the interest income and dividend. In nominal terms, the amount of income from finance institution or capital market is relatively smaller than income from durables or housing concluding that households still prefer to invest their money in assets and rent them out.

Asset income gives significant contribution to the total income of poor households in both rural and urban areas. Poor households in urban areas earn asset income about 80% of their labor income or around 30% of the total income. Meanwhile, poor households in rural areas earn asset income for approximately 50% of their labor income or about 25% of the total income. Interest income, however, is negative for poor households in rural areas. Negative value of interest income or dividend means households pay to the finance institutions that may be for credit payment. Unlike poor rural households, the poor urban households receive some amount of interest income or dividend that is approximately 10% of the total income.

Table 3. Source of Income of Households by Income Level

Type of Income	*Urban* *Poor*	*Non Poor*	*Rural* *Poor*	*Non Poor*	*Total*
Population	14.217.812	83.373.036	28.089.718	96.123.359	221.803.926
Panel A. Annual Income, 2005, Billion Rupiah					
Labor Income	10.978	923.236	23.508	526.301	1.484.024
Income from Financial Asset	2.540	154.639	(1.303)	22.967	178.843
Income from Real Assets	8.264	239.281	11.792	176.616	435.953
Transfers	6.478	200.760	11.431	52.661	271.330
Total Income	25.720	1.517.916	46.731	755.579	2.191.307
Savings	203	145.821	173	45.571	191.768
Panel B. Annual per capita Income, 2005, Rupiah					
Labor Income	772.099	11.073.561	836.894	5.475.271	6.690.700
Income from Financial Asset	178.623	1.854.785	(46.402)	238.936	806.310
Income from Real Assets	581.243	2.870.005	419.798	1.837.389	1.965.488
Transfers	455.647	2.407.973	406.933	547.853	1.223.290
Total Income	1.808.989	18.206.324	1.663.625	7.860.513	9.879.478
Savings	14.284	1.749.017	6.174	474.087	864.584
Panel C. Annual per capita Income, 2005, USD (1 USD = Rp. 9.100)					
Labor Income	85	1.217	92	602	735
Income from Financial Asset	20	204	(5)	26	89
Income from Real Assets	64	315	46	202	216
Transfers	50	265	45	60	134
Total Income	199	2.001	183	864	1.086
Savings	2	192	1	52	95

In addition to the labor income, interest income, and asset income, households also receive transfers, either from other households or from the government. Total transfers for poor households in urban and rural areas is considerably smaller than their labor income with aggregate number of transfers received by poor rural households is considerably larger than this of poor urban households. Per capita transfers received by poor rural households, however, is smaller than this of poor urban households due to much larger poor population in rural areas. Transfers also important part of total income of non-poor households and it is larger than interest income or dividend for all households.

Table 3 provides detail information on transfers received by households as well as transfers given by households. Transfers are defined as any cash flow from or to households where households do not have any obligation to return. Any transfers from other to households that are made because households have any obligations to the respective institutions are not transfers. For example, households receive returns of government obligation is not transfers but it can be considered as income on assets. Households can receive any credit from other households and it is not counted as transfers. So, households receive or give cash to government, other households, or transfers from rest of the world.

Households receive cash from government in forms of services and cash. Government servies are considered as in-kind transfers from government to the households and cash transfers are government assistant for poor households, such as scholarships for students or any other cash transfers. Table 3 shows these 2 different types of government transfers received by households. All households receive almost similar per capita in-kind services and more variety per-capita cash transfers. Not only poor households receive cash transfers from the government, but households categorized as non-poor also receive the benefits. The clear cut criteria between poor and non-poor used in this paper is based on the criteria defined by Central Statistical Bureau (*BPS Indonesia*). The government cash transfers program, eq. Scholarships or other cash transfers program, is distributed not only poor but also households who considered to be vulnerable to be poor that cannot be illustrated in Table 3. Thus, there is some amount of cash transfers are also received by non-poor households. Poor households in urban areas receive less government cash than this of poor rural households. This is due to several reasons; poor population in rural areas is larger and government focus on targeting the poor rural households for some programs.

Households pay various taxes to government, which are income taxes, consumption taxes, and property taxes. The government uses these taxes to finance cash transfers and basic services for the households as final recipients. Non-poor households in both areas as well as poor households in urban areas pay taxes that are larger than cash received. Taxes paid by non-poor households contribute to almost 70% of total taxes received by the government and they receive 50% of the total cash transfers.

Households receive cash from other households. Table 4 indicates that in aggregate the amount of transfers received and given by non-poor households in both rural and urban are larger than those of poor households. And the non-poor households tend to give more transfers than they receive, while the poor households receive more than they give. Per capita transfers received by poor household in rural areas are larger than per capita received by the non-poor households in the same areas. The same poor households, however, provide less transfers than the non-poor households in rural areas. Similar trends are also shown for transfers from rest of the world. The poor households even never send money outside the country, while the non-poor send and receive cash to the rest of the world. The non-poor, even, receive more than giving the cash.

Table 4. Summary of transfers from and to households

Type of Transfers		Urban		Rural		Total
		Poor	Non Poor	Poor	Non Poor	
Panel A. Transfers, 2005, Billion Rupiah						
Total	**Received**	16,387	125,898	35,700	114,581	292,565
	Given	3,537	177,190	5,245	77,712	263,684
Government Transfers	**In-kind Received**	15,037	85,070	29,160	95,714	224,981
	Cash Received (1)	2,589	5,293	6,194	10,827	24,904
	Given (2)	3,377	158,081	5,121	75,048	241,627
Interhousehold Transfers	**Received**	414	5,933	1,044	2,967	10,358
	Given	159	7,702	124	2,370	10,356
Transfers from ROW	**Received**	935	34,896	5,496	15,900	57,227
	Given	-	11,408	-	293	11,701
Panel B. Annual per capita Iransfers, 2005, Rupiah						
Total	**Received**	1,152,541	1,510,055	1,270,923	1,192,015	1,319,025
	Given					
Government Transfers	**In-kind received**	1,057,628	1,020,349	1,038,108	995,737	1,014,322
	Cash Received	31,056	63,482	74,297	129,865	298,700
	Given	237,541	1,896,064	182,303	780,748	1,089,372
Interhousehold Transfers	**Received**	29,150	71,156	37,156	30,866	46,697
	Given	11,217	92,375	4,424	24,660	46,689
Transfers from ROW	**Received**	65,763	418,549	195,659	165,412	258,006
	Given	-	136,831	-	3,048	52,754

1) Transfers are estimated from cash transfers program and recipients' survey from Susenas.

2) Income and estimated consumption tax

Table 5 illustrates how the government consumption financed by taxes or other means. Only income taxes and consumption taxes are shown clearly here and the combined of both taxes cannot cover all consumption of the government including the cash transfers. The difference of the government expenditures is financed by other way, such as property taxes, government dividend over state owned enterprise, or foreign/domestic loans. Government consumption here is defined as government expenditures that is used for government operational cost to provide government services to households. This does not include the expenditures for investment that will be treated in separate way on National Transfers Account (NTA).

In addition to the government consumption, Table 5 also shows the private consumption or household consumption by income level and place of residents. Non-poor urban households consume the largest compared to other households. The poor households in both urban and rural consume much smaller amount compared to the non-poor households.

Table 5. Summary of Government Consumption and Cash Transfers Program

		Private Consumption	*Taxes*		*Government Consumption and Transfers*			
			Income Tax (1)	*Consumption Taxes (2)*	*In-Kind*	*In-kind + Social Transfers*	*Total (3)*	*Difference (4)*
		(1)	(2)	(3)	(4)	(5)	(6)	(7)
Urban	***Poor***	8,774	1,149	928	15,037	17,626	19,664	(15,550)
	Non Poor	1,026,369	54,075	108,524	85,070	90,362	195,299	72,237
Rural	***Poor***	16,299	867	1,723	29,160	35,355	34,031	(32,764)
	Non Poor	598,216	11,108	63,253	95,714	106,541	116,378	(32,180)
		1,649,658	***67,199***	***174,427***	***224,981***	***249,884***	***365,372***	***(8,257)***

1) Transfers from HH to gov are assumed to be tax (any kind of tax)

2) Estimated

3) Including other obligations to households

4) Taxes received less in-kind and cash transfers (social transfers)

5) The differences are financed by property tax, government income, or loan

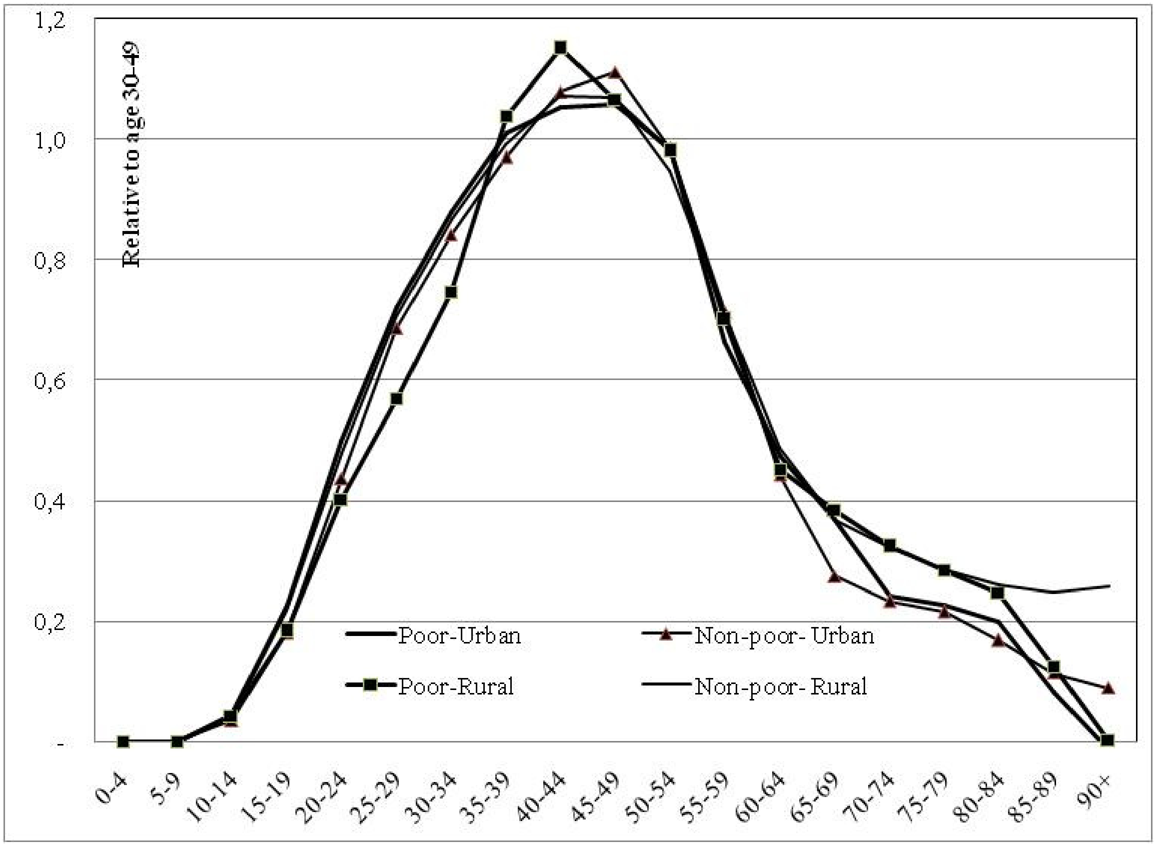
Last, Table 6 shows government consumption and cash transfers program by sectors. The government consumption is estimated from annual government finance report (LKPP 2005) published by Ministry of Finance. The government services and social protection are separated by sectors, which are only education, health, and other sector. Education sectors include education cash transfers to both Ministry of National Education and Ministry of Religious Affairs. These aggregate data is used to control the NTA variables mostly estimated from national household survey (*Susenas*).

Table 6. Government service and social protection program by sectors

	Government Services	Social Protection
Education	66,988	15,908
Health	20,070	3,026
Other	137,923	5,970
Total	***224,981***	***24,904***

Sources: LKPP 2005, Ministry of Finance

Figure 1. Annual per capita labor income by income level relative to average production age 30-49, 2005



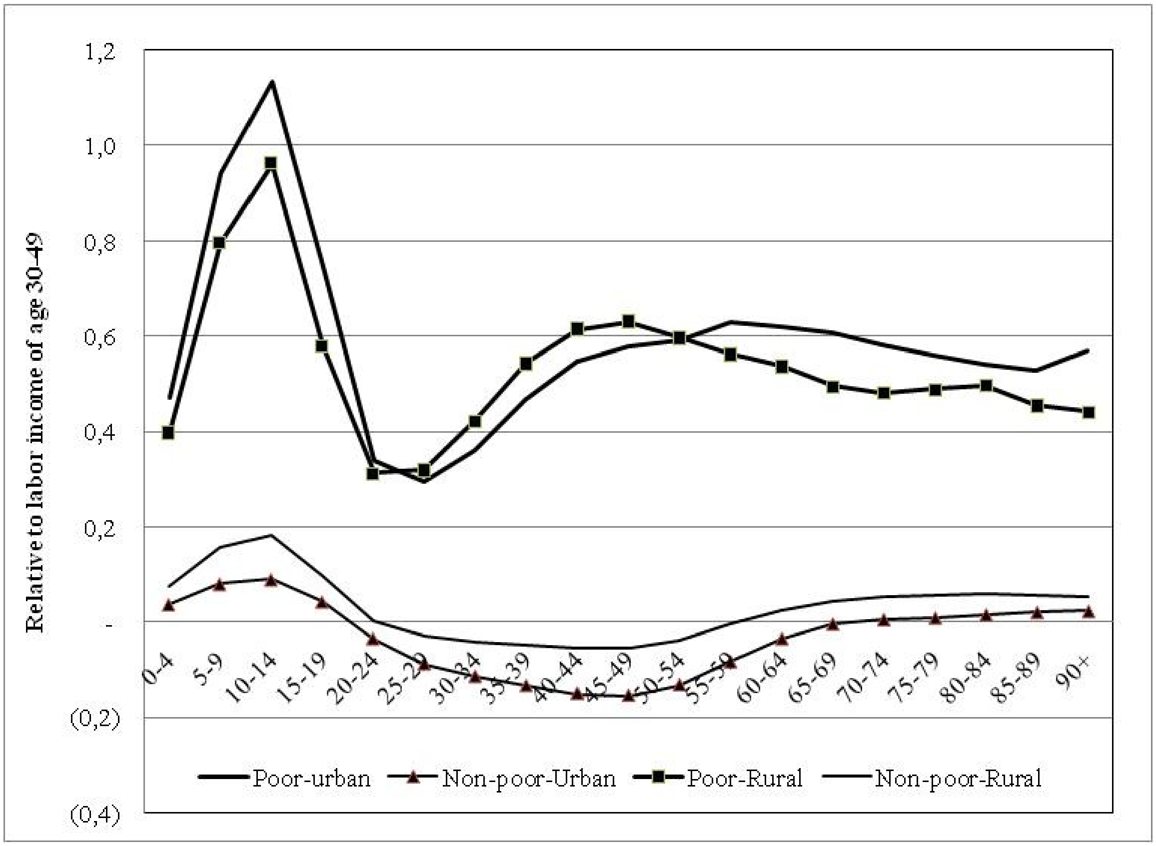
Annual per capita labor income that includes earnings and self-employed income shows productivity slightly varies by income level. Per capita labor income profile of all income level is relatively similar. The magnitudes of the peak of all household income level relative to productivity of age 30-49 at the same income level are also relatively the same, which are about 1.1 of average production of prime age group (30-49) with this of poor households in rural areas are slightly earlier and higher magnitude than any profiles of other households. Profiles of age group between 20-39 are also different for poor households in rural areas such that the magnitude is slightly lower with steeper profiles than profiles of any other households. Profile of poor households in urban areas of the same age groups tends to be similar to profiles of labor income of non-poor households in both places.

Labor income is one of important component for financing the elderly consumption. Figure 1 shows that the profiles of labor income at older age are not exactly similar for all income level. The non-poor households in urban areas do not supply much labor at their old age. The production is only about 20% of production of the prime age groups. Unlike the non-poor households in urban areas, non elderly in rural areas either poor or non poor work more at the same age, which is beyond 60 years old. Their productivities are around 30% of the prime age groups. The productivity of poor elderly in urban areas, however, is between non-poor households in the urban and households in rural areas. Even though the different is large, the poor households have to work longer than their non-poor elderly counterpart. So that, the non-poor households need other means to finance their retirement period, while the poor households have to find new sources to finance the same period after retiring from labor.

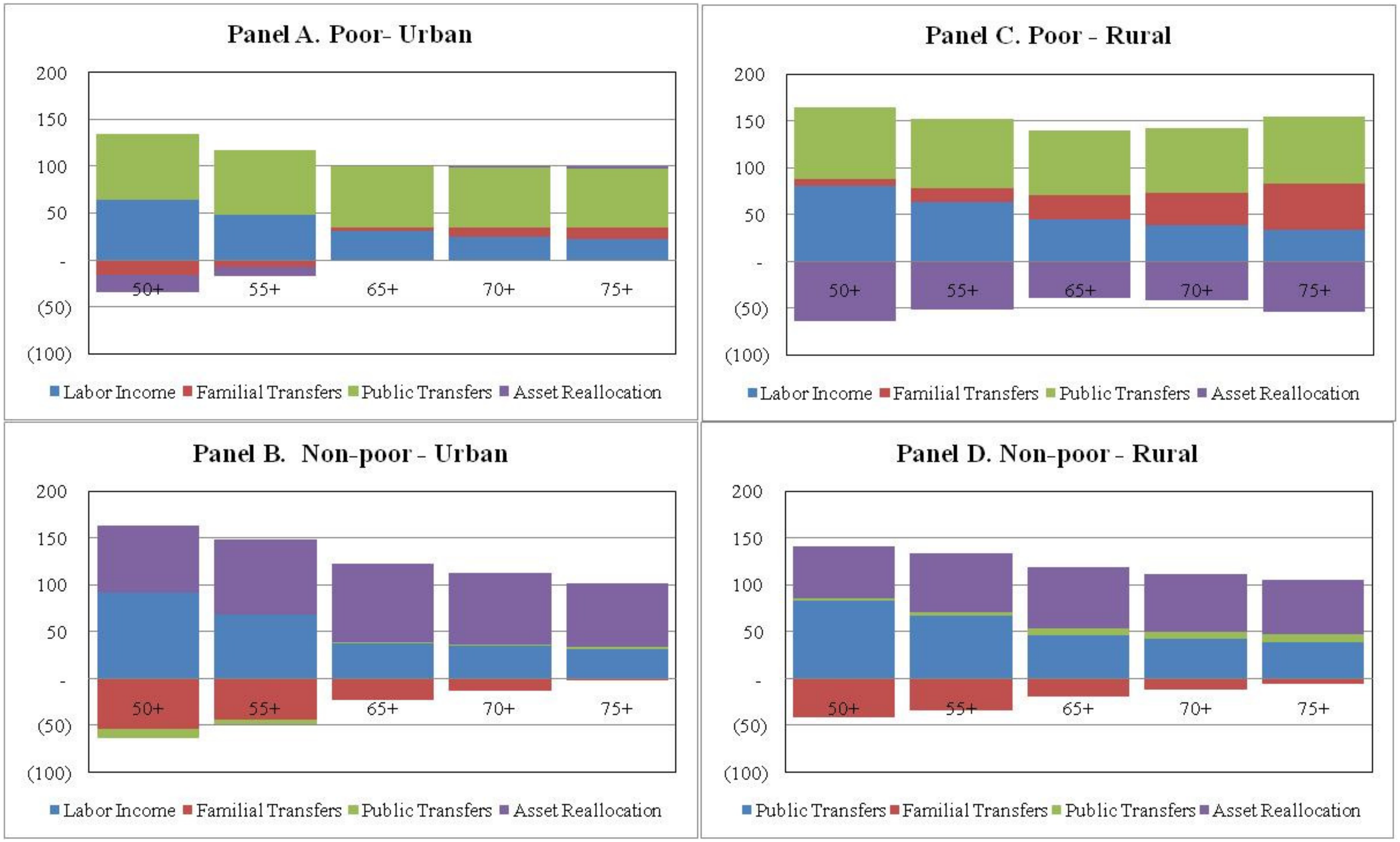
Government support, either by cash or in-kind support, is one of the source that the poor households expect to rely on. Scholarships and direct cash transfers are two main cash transfers program as part of the gasoline subsidy in 2005. While scholarships are given to enrolled students from elementary level to higher education, direct cash transfers or *Bantuan Tunai Langsung* (BLT) are cash given directly to poor (eligible) households to compensate the increase of gasoline price due to reduced gasoline subsidy from the government. Age profile of cash trasnfers recipients is estimated based on the household survey (*Susenas*) 2005. For this purpose, household head is assumed to be the recipient in the households and the head redistributes the cash to other household members through intra-household transfers.

Net public transfers is in-kind services and cash transfers received by households less taxes and other household contribution to the government. Public transfers inflow is estimated by sectors and the outflow age profile supposes is proxied by following the labor income and consumption profiles. Figure 2 shows net public transfers by income level. The net public transfers profile, in aggregate, should reflect the government transfers shown in Table 6. The productive age groups of non-poor households are net public transfers providers by giving more transfers to government than receive the transfers. On the other hand, the poor households receive more benefits from the government than pay taxes as shown in Figure 2. The young age groups, school age groups, receive most of the government benefits by school enrollment. As Table 6 shows, the education spending is relatively large for both in-kind services and cash transfers program compare to health sectors. The peak occurs at same age groups of both poor and non-poor households. Different profiles, in addition to all positive net public transfers for poor households, are apparent particularly for profiles of 30-59 age groups. Among the non-poor households, these age groups have negative net public transfers meaning they pay more than receive it. The same age groups of poor households, however, have positive signs. On the estimation method, household heads are assumed to hold all cash transfers given. Thus, this makes a considerably high positive peak among the productive age group of the poor households. The amount of the benefits are about 60% of the labor income of the 30-49 age groups of the respective household income level. The amount of net public transfers, on the contrary, is very small portion of labor income of the 30-49 age groups of the non-poor households. This concludes that public transfers are considerably important for the poor households and contribute to more than half of their income.

Figure 2. Per capita net public transfers relative to average production of age 30-49, Indonesia, 2005



Previous sections have described macro figures of labor income, transfers, as well as income on assets. Labor income and consumption profiles are also discussed for all age groups. In this section, we narrow down the discussion only for the elderly. The elderly cut off age, however, is not clear and depends on the countries. In Indonesia, retirement age is about 55 years old in formal sectors. But, as known, the majority workers are in non-formal sectors that work in small and middle industries. A lot of them are self-employed and, thus, the age of retirement really depend on the needs and ability of the workers. Figure 3 shows the finance of elderly consumption. As comparison purposes, age 50+ is displayed in addition to the older age groups.


Panel A. Poor- Urban
200
150
100
50
-
(50)
(100)
50+
55+
65+
70+
75+
Labor Income
Familial Transfers
Public Transfers
Asset Reallocation
Panel C. Poor - Rural
200
150
100
50
-
(50)
(100)
50+
55+
65+
70+
75+
Labor Income
Familial Transfers
Public Transfers
Asset Reallocation
Panel B. Non-poor - Urban
200
150
100
50
-
(50)
(100)
50+
55+
65+
70+
75+
Labor Income
Familial Transfers
Public Transfers
Asset Reallocation
Panel D. Non-poor - Rural
200
150
100
50
-
(50)
(100)
50+
55+
65+
70+
75+
Public Transfers
Familial Transfers
Public Transfers
Asset Reallocation

Consumption, as earlier described, is financed through 3 ways, which are labor income, transfers, and asset reallocation. Transfers consist of familial transfers and public transfers. Two types of familial transfers are made that are intra household transfers and inter household transfers. The finance of consumption is displayed in Figure 3 by income level. Panel A and C of Figure 3 show poor households in both rural and urban areas. Labor income and public transfers are sources of income. As the age groups becoming older, the role of labor income gradually decreases. As a consequences, public transfers become main sources of income and the role of assets and familial transfers is also gradually important. For age group 50+ of the poor households, slightly more than 50 percent of the consumption is financed by labor income. Public transfers are also counted more than 50 percent that give surplus to the poor household head. The poor household heads in urban areas transfer back to other family members either through interhousehold transfers or intrahousehold transfers as well as save for future use. The poor heads from rural areas, however, are considered as net receiver of familial transfers as early as at 50+ years old, while the remainings of their income are saved.

The poor of age group of 55+ use public transfers as main source income after they reduce their labor hours. After collecting all sources of income, poor urban elderly still have surplus that is transfered back to other household members and save the rest. Poor rural elderly receive more percentage public transfers compared to their own consumption than those of poor urban elderly. Receiving transfers from other household members, the poor rural elderly save more. As age getting later, the public transfers become more and more important source of income for both poor rural and poor urban elderly. The poor rural households, however, save some amount of surplus income, while the poor households in urban areas are not able to save a lot and tend to disave in the later age.

Differences in supporting the consumption are abvious between poor and non-poor elderly; first is public transfers are negative for non-poor households in urban areas, second is non-poor elderly dissave to finance their consumption, and third is familial transfers of the non-poor are hardly positive. These make labor income and assets as main sources for the non-poor households in both rural and urban areas. Non-poor households in rural area receive small amount of public transfers, while they also depend on their labor income and income on assets.

While the non poor households in urban areas become net givers of government transfers, poor elderly in rural and urban areas use government transfers as main source of income. Even though not as main source of income, public transfers are also considered as source of income for non-poor households in rural areas. Not only the public transfers are important for the poor elderly and non-poor rural elderly, redistributed through familial transfers, other age groups from poor families also receive the benefits of public transfers.

VI. Future Challenges

The proposed social security program amanded by Law No. 40/2004 consists of three pillars (SMERU, 2006). The first pillar is that the government use their state budget and/or funds from community to support vulnerable people. The second pillar is a compulsory social insurance scheme financed by both employers and employees, and the third is self-responsibility pension funds. Relating our findings to the implementation of three pillars implies that high dependency of the vulnerable to public supports is a proof the importance of first pillar. Second implication is that the social insurance for self-employed workers has to be confirmed because the importance of self-employed income especially in rural areas. Third, the importance of accumulated assets for supporting the the retirement implies self-responsibility pension plan especially by high income earners. The third findings imply that financial education among the workers is important so that their retirement investments are more fruitful and save. Thus, three main challenges are designing the support scheme for the poor, improving participation of self-employed workers into the system, and third financial education for the workers as well as strengthen the domestic financial institutions to accomodate self-responsibility pension savings.

Currently, the government program to support the poor has not yet integrated and tends to be more sectoral. The conditional cash transfers recently began was meant to be the embryo of more integrated social security program. High dependency of the poor, including the non-poor elderly in rural areas, to public transfers can be a proof that the social security program will be an important source of suport for the poor. Public transfers are even more important when the poor elderly transfer back the surplus to support consumption of other family members through intra household familial transfers. A multiplier effect of public transfers to the poor elderly is apparent when the elderly use their accumulated assets as part of surplus from public transfers to support consumption of other household members.

As component of government support, providing affordable health services is one of the government homework that needs to be prepared by coordinating with other relevant stakeholders. Table A in the appendix illustrates health services reform from as early as after indepence to the latest reform. This table provide us how far the health reform in Indonesia approaching more sustainable health services program for the poor. The problems for each period were basically similar, inefficient management, conflict of interest, and moral hazards. Health services program for the poor started as early as in 1945 after the independent when the government provided free health services for the households received income less than 850 Rupiah per month at that time. Moral hazards, inefficient management, high administration cost caused the program did not progress as expected. The embryo of health insurance was born in 1968 when the government regulated health insurance for government employees, armies, and their families. In the same time, the government also established Health Services Funding Agency (*Badan Penyelenggara Dana Pemeliharaan Kesehatan – BP DPK*) to manage the health insurance program. The government subsidised public hospitals to cater the services, while private hospitals received fund reimbursement for their services to the poor. After several changes of health insurance and subsidy scheme, by the end of the period 2007, health services for the poor has changed from insurance type to subsidy type where the government pays directly to the hospitals that carry health services for the poor people. Weak coordination between the government and the insurance company, which is PT. Askes (*Persero*) was one of the reason behind the changes of scheme. This means that government agenda to realize the Law No. 40/2004 could still be hard to reach, particularly here in integrating the health services for the poor into the social security program.

In addition to the support for health services for the poor, the government also has to manage other financial supports that are cash assistance and old-age income supports. Several factors have to be considered in developing the programs are the needs, source of funds, organizationsal issues, and implementation. Cash assistance and old-age income supports contribute for significant percentage of consumption of the poor elderly in both rural and urban areas.

The implication of compulsory participation on pension program for both employees and employer as the second pillar has been discussed thoroughly by Arifianto (2004a, 2004b). They argue pros and cons on the application of compulsory participation. From our findings, self-employed income is important in supporting the elderly consumption at least until 65 years old. Self-employed income is also an important source of income for middle to lower income households, particularly who work in agriculture field. Thus, thinking of bringing them into the compulsory pension program requires applicable system to accomodate high varieties of self-employed workers. Similar to health insurance system, the compulsory pension program requires thorough understanding on organizational issues and implementation because different nature of self-employed industries and formal industries.

Previous findings have shown that the retired elderly used some forms of investment to support their retirement consumption as well as supporting other household members. To optimize the use of their assets into more productive and less risky investment as well as to prepare their retirement period, financial education is urgently needed. The government need to provide guidelines translated by private institutions into more systematic and sustainable financial education programs. Even though there is still an argument on the importance of enforcement of compulsory pension savings, the most important part is that the workers understand how they invest their assets so that they can get sufficient funds for their retirement.

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Table A. Long way to National Social Security Program (Jaminan Sosial Nasional – Jamsosnas)

Period	***System***	***Problems***
After 1945-	- Applied Colonial Rule Restitution Regelling 1948, - Households with income less than Rp. 850/month are eligible, - Public and private hospital cater the services and reimbursement systems were used for services provided by private hospitals	- Moral harzards, - inefficient utilization lead to inequality, - pension and retire persons not included, - high adminstrative cost caused burden to government budget, - long process of disbusrsement in case of private hospitals
1968-1984	- Embryo for the health insurance system program (Presidential Decree No. 230/1968) - Managed by Health Services Funding Agency (*Badan Penyelenggara Dana Pemeliharaan Kesehatan – BP DPK*) - Provide benefits for government employees and the retired government employees, armies, and their families - Public and private hospital cater the services and reimbursement systems were used for services provided by private hospitals	- Moral hazard, - inefficient management, - out of control budget and increased government debt to private hospitals in 1969/1970
1984-1992	- Perum Husada Bakti, a government-owned company, replace BP DPK through Government Regulation (PP) No. 23/1984 - Perum Husada Bakti is established as government-owned company to ensure professionality of public services and in the same time collecting revenues. - Provide benefits for government employees and the government employee retirees, armies, and their families - Public and private hospital cater the services and reimbursement systems were used for services provided by private hospitals	- Limit benefits only to government employees, armies, and their families
1992-now	- Establishment of PT. Askes (Persero) - Government Regulations (PP) No. 69/1991 regulated that o government employees and armies obligated to participate o others are suggested to participate - Government Regulations (PP) No. 6/1992 regulated PT. Askes to go public to ensure the efficiency and to flexibly accomodate private employees joining the program	
After Decentralization – now	- Subsidies to compensate the increase of gasoline by providing assistant for health services - Law 40/2004 regulate the Social Security Program to order PT. Askes Indonesia to cater health services for the poor/vulnerable - Ministry of Health Decree No. 1241/Menkes/SK/XI/2004 assigned PT. Askes (persero) to manage the health insurance for the poor - Change from subsidy type to insurance type	- Lack coordination between central government and local government - Inadequate administrative quality in local government - Supreme Court (Mahkamah Agung) involvement to mediate conflict between local and central government in managing the health insurance - Return to subsidy system after conflicting with PT. Askes (Persero)

	of health services for the poor	

Sources: Trisnantoro (2008)

Table B. Fifteen Years of Pension Fund Law

Year	*Regulation*	*Notes*
1926	Staatsblad No. 377/1926	Enabling accumulation of pension fund from workers and their employees
		Civil servants as participants
1969	Law No. 11/1969	Pension Law for Government Employees
1983	Law No. 7/1983	Tax incentive for pension fund
1992	Law No. 11/1992	Pension Funding Law foster the pension industries
		The Law legitimated two types of pension funds: 1. Pension Fund From Employer (Dana Pensiun Pemberi Kerja (DPPK) 2. Pension Fund Managed by Finance Institutions (Dana Pensiun Lembaga Keuangan – DPLK)
2003	Law No. 13/2003	Labor force Law stated the obligation of the employer to provide compensation for retired employees
2004	Law No. 40/2004	National Social Security System include the pension fund for every workers

Sources: Bapepam-LK, 2006