

Policy Note on SJSN

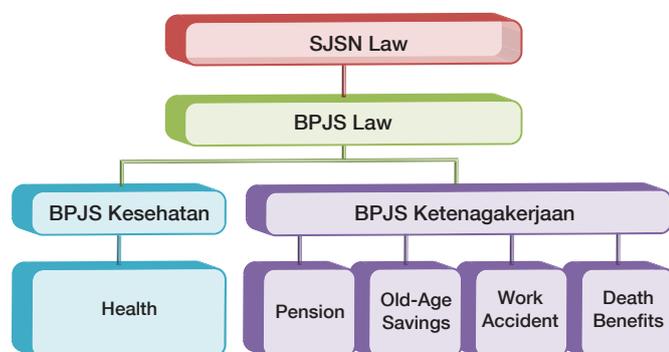
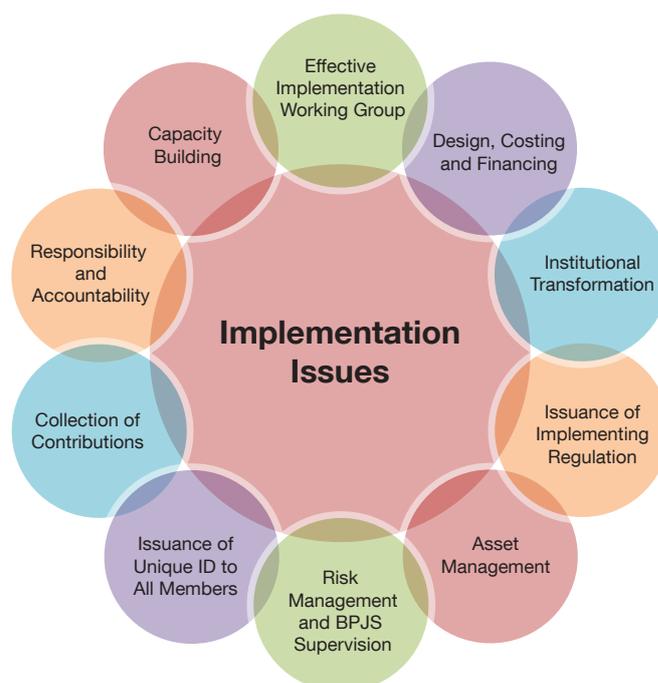
PROGRAM AND POLICY IMPLICATIONS

Issue 1, May 2012

Implementation of BPJS Ketenagakerjaan

The Government of Indonesia (“government” or “GOI”) will implement a new National Social Security System (*Sistem Jaminan Sosial Nasional* or SJSN) over the course of the next four years that will radically change the social protection paradigm. The legal bases for these changes are the SJSN Law No. 40/2004 and the Law No. 24/2011 on Social Security Administrative Bodies (referred as *Badan Penyelenggara Jaminan Sosial* or BPJS law).

The new social protection program will cover all Indonesians, including formal and informal sector workers, for five benefits – health, pension, old-age savings, death benefits and worker accident and provide the same benefits for all. The BPJS Law mandates the establishment of BPJS Kesehatan and BPJS Ketenagakerjaan, by transforming current administrators, PT Askes and PT Jamsostek, from state owned enterprises to public legal entities.



This policy note will give a brief overview of the current situation, identify GOI challenges and provide some recommendations for immediate government actions for the implementation of BPJS Ketenagakerjaan.

Current Situation, Challenges and Required Actions

The enactment of the BPJS law is a significant step in the implementation of the national social protection system for all Indonesians. However, much work remains to be done.

Implementation Working Groups. Implementing the SJSN employment programs and securing their sustainable financing will prove particularly challenging and will require a series of major actions from the government and BPJS Ketenagakerjaan. Collaboration among implementation working group members from multiple ministries will be needed to ensure collective agreement on the broad strategy for the implementation, and operation of the new system. Although Menko Kesra (the Coordinating Minister for People’s Welfare) issued Decree 17/2012 in February 2012, which was further amended by Decree 22/2012 issued in March 2012, outlining the bureaucratic structure for implementation of BPJS law, there is no clear indication of the roles and responsibilities of each member of the implementation working groups. This issue needs to be clarified since it will directly affect the success of the program implementation.

Strong leadership is required for implementation due to the large number of stakeholders with diverging interests, the significant impact of these programs to the social structure

of the country, and the significant potential impact on the State budget, the labor market and the macro economy. **It is crucial to develop a roadmap outlining activities, roles and responsibilities to ensure smooth, effective transformation.** Each working group member needs a job description outlining his or her specific responsibilities, expected output and timeframe. The primary focus of the implementation working group should be policy, good governance, protection of the interests of participants and efficient implementation of the road map.

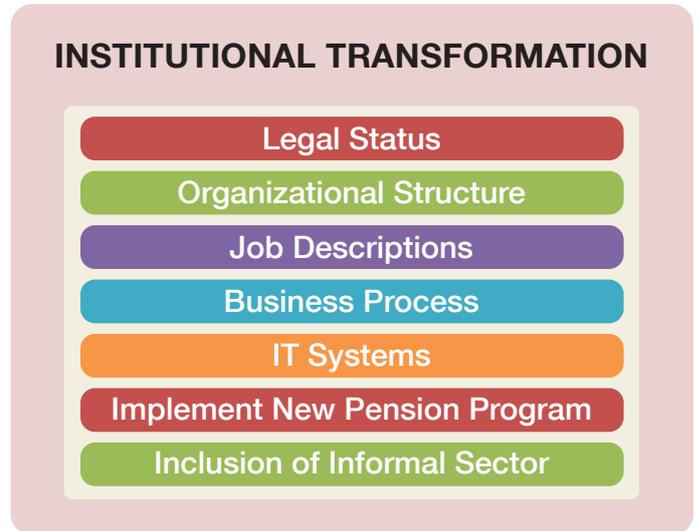
Design, Costing and Financing of the SJSN Employment Programs. The nationwide BPJS Ketenagakerjaan programs will differ in both design and coverage from the existing programs and will include a new defined benefit pension program. The complexity of defining new benefit designs and setting contribution rates for SJSN employment programs will need to **take into account different characteristics, needs, and ability and willingness to pay contributions between formal and informal sector workers.**

A series of policy dialogues to discuss issues and possible program design options will be needed. The working groups will also require financial analysis and computer models to understand the financial impact of proposed designs on workers, employers, the government and the macro economy. The policy dialogues and financial modeling will enable the government to decide on the benefits to be provided under each of the four employment programs and the required contribution rates from formal and informal sector workers and the government. The government should ensure that required contributions from various groups of contributors in the aggregate are sufficient to fully pay for all benefits and administrative costs for that program. No cross-subsidies among social security funds are permitted. The government should also take into account integration of universal health care with the health portion of the worker accident program, how the worker accident program will be applied to informal sector workers and whether informal sector workers will participate in the new pension program.

It will also be necessary for the implementation working groups to understand other countries' experience with the implementation of national social security systems. Indonesia's proposed design is unique in the world in many ways. No other country with such a large informal sector has implemented a national social insurance scheme covering all workers. Nonetheless, there is still much to be learned from the implementation experience of other countries which are comparable to Indonesia in terms of size, geography, economic level and political structure.

Institutional Transformation. Transforming PT Jamsostek into BPJS Ketenagakerjaan is a major task. **Significant changes in legal, governance, organizational structure, job descriptions, business processes and IT system will**

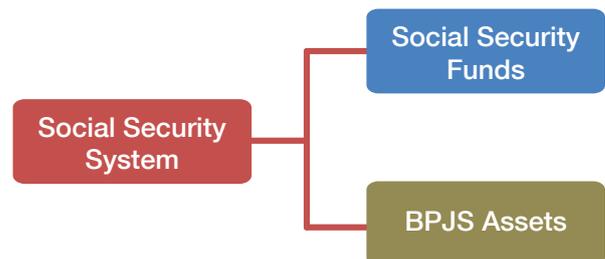
be needed for PT Jamsostek as it transforms from a persero managing programs for a particular labor market segment to BPJS Ketenagakerjaan managing nationwide programs covering thousands of employers and millions of informal sector workers. Moreover, implementation of a new pension program will require a new set of skills -- both technical and operational. Jamsostek currently does not offer and manage any defined benefit pension program.



Issuance of Regulations. The BPJS law requires the government to issue many regulations and/or decrees that will play a key role in determining the future set-up of the BPJS. All regulations for the employment programs must be issued within two years of enactment. However, until now, no draft implementing regulations and/or decrees have been shared publicly.

It is important for the government to **develop policy notes underlying needed regulations and/or decrees.** The implementation working group should work together in preparing policy papers as guidance for developing required regulations. The policy papers should identify issues, possible solutions and risks, financial impacts and required government actions. The development of policy papers should be completed in conjunction with the analysis of design, costing and financing of SJSN employment programs.

Asset Management. The BPJS law improves the legal and financial structure of the social insurance system by legally separating the assets of BPJS from the assets in the Social Security Funds (SSF).



The separation of assets in different legal entities and the use of a custodian to hold fund assets are important safeguards for fund members and are consistent with international best practice. However, it will be a significant challenge to assure that the legal structure is properly implemented and the system operates as intended. To assure assets are managed correctly, the government should **issue investment and risk management regulations defining the financial framework and governance structure of the new system**. It should be noted that different investment policies and fee structures are appropriate for different funds. Therefore, it is necessary to ensure the integration of reserves, investment policy and asset-liability management.

Risk Management and BPJS Supervision. It is important for the government to formulate and implement policies and procedures to ensure the fiscal sustainability of the SJSN social insurance funds and assure that the financial risks of the social insurance programs are properly managed. If the contribution rates are set too low relative to promised benefits, or if the contributions and/or benefits are not periodically adjusted, or if program funds are mismanaged, the social security funds could become insolvent. This SJSN implementation creates a potentially large contingent liability for the State budget, which is the ultimate guarantor of fund solvency. Consequently, the Government has a strong incentive to assure the programs are properly managed. This will **require the creation of risk management capability within the government and strong supervision and control of BPJS** operations to protect the rights of participants, prevent fraud and corruption, assure proper financial management and control operational expenses.

Good governance and oversight of the system is critical given the huge amounts of money that will flow into the two BPJS and the critical role they play in the social protection system for the country. The law states that the new Financial Services Authority, Otoritas Jasa Keuangan or OJK, along with DJSN are responsible for external supervision, but doesn't clarify their respective roles and functions. **More clear supervisory roles and responsibilities for OJK and DJSN are needed in the implementing regulations and/or decrees.** Their respective roles and responsibilities must be clearly defined.

Administrative Systems. The issuance of unique individual identification numbers (ID) to all members is important to properly administer the social security programs. The Ministry of Home Affairs (MOHA) is working on an electronic identification program, but the time frame for its roll-out is unclear. Therefore, if the unique ID developed by MOHA is not ready in time for the start of the SJSN programs, **BPJS will likely need to develop a separate unique ID number solely for the SJSN system.**

The collection of contributions raises another set of concerns. While contribution collection mechanisms for formal workers is already available, there is no such mechanism available

for informal sector workers. The government should start exploring the contribution collection model for the informal sector now. Otherwise, there will be low participation from the informal sector, which will not help to reduce financial security risk for this group of workers and there will be significant anti-selection that will undermine the finances of the social security funds. The government will need to study a wide range of possible collection mechanisms, examine other countries' experience and pilot test possible options for collecting contributions from informal sector workers.

BPJS Ketenagakerjaan will also need to ensure that the required contributions are paid on time and in the correct amount. By law, BPJS have been given the right to impose administrative sanctions in cases of non-compliance. Despite the availability of administrative sanctions, collecting from millions of informal sector workers and from micro-enterprises as well as improving formal sector collection will prove very challenging.

Above all, **integrated systems and operations for BPJS Kesehatan and BPJS Ketenagakerjaan is a must.** It doesn't make sense for the two BPJS to separately issue ID numbers and collect contributions from the same participants. Instead, BPJS Kesehatan and BPJS Ketenagakerjaan must work together to assure that the ID numbers are issued and are unique -- everyone has one and only one number -- and that one system is used for collecting contributions from participants, employers and the government for all five SJSN programs. The collected contribution monies should then be automatically split and transferred to the correct social security fund.

Responsibility and Accountability. Another area of concern with regard to the implementation of the new BPJS Law relates to governance structures. While the BPJS report to the President, it is not clear who in the President's office will actually be responsible for supervision and control of BPJS operations. DJSN is responsible for synchronizing the administration of the SJSN system, but it is not clear what their specific functions are and whether they will have the expertise and staff necessary to carry out their functions. Greater clarity regarding roles, responsibilities and accountability is needed.

Capacity Building. Risk management and overall capacity building are needed to assure the SJSN programs are properly managed. This will require enhanced capabilities in the Ministries of Finance, Manpower and Health, in the implementation working groups, among senior government policymakers, among those in PT Askes and PT Jamsostek responsible for the BPJS transformation, and in DJSN, OJK and other relevant government offices/agencies to assure proper technical oversight and supervision of BPJS operations. Until now there has been limited discussion of these needs.

How The World Bank can Support the Government

The World Bank will work together with various government offices/agencies and other development partners to meet the government's technical and financial needs for the implementation of BPJS Ketenagakerjaan.

The Bank has strengths in many areas relevant to the implementation of BPJS Ketenagakerjaan. We have global, regional and local expertise in pensions, computer modeling, actuarial analysis, program administration and institutional transformation. Our prior work with the government on SJSN actuarial modeling and training, and on passage of the BPJS law will also allow us to add value to the implementation process. Moreover, our PROST (Pension Reform Simulation Toolkit) model is recognized internationally as a valuable tool for fiscal analysis of pension programs such as the SJSN pension and civil service pension programs.

The Bank can provide assistance to the government in several areas of the implementation of BPJS Ketenagakerjaan as follows:

Policy Dialogue. We can provide policy advice and technical support on several implementation issues as follows:

- Review and comment on a draft roadmap or assist in developing the required roadmap for the implementation of BPJS Ketenagakerjaan.
- Prepare financial models to support the analysis and formulation of the benefit package and required contributions for the SJSN employment programs (pension, old-age savings, work accident and death benefits). We already have actuarial and financial models that can be used for analysis of benefit designs, estimating required contributions and analyzing the financial impact of these four programs.
- Support the development of the legal framework and implementing regulations for the BPJS law. We already prepared a draft policy note containing a high level overview of BPJS Ketenagakerjaan implementation issues, which includes an overview of the current situation, challenges and required actions.
- Prepare a comparison study of international experience with national social security systems in other countries that are comparable to the SJSN system.
- Assist on the transformation of PT Jamsostek to BPJS Ketenagakerjaan by providing technical assistance as requested on the organizational structure, job descriptions, business processes and needed IT systems, and a roadmap for the transformation process. We have experts in our Jakarta office who would be able to provide assistance for the transformation.

Administrative Systems. We can advise the government on the use of unique ID numbers for the SJSN system and the development of contribution collection systems that take into account global experience with collection from the informal sector.

Capacity Building. We can assist with the design and implementation of programs to strengthen the knowledge and capacity of the institutions, implementation working groups and senior government policymakers responsible for the design and delivery of social security programs. We can provide technical assistance to the government to help it develop risk management capacity to manage the financial risks of the SJSN programs.

This Policy Note was produced as part of the World Bank inputs to the Government of Indonesia on the implementation of SJSN (Sistem Jaminan Sosial Nasional, National Social Security System) and is the first in a series of Policy Notes on SJSN. This note was prepared by the Poverty–Social Protection unit of the World Bank Office Jakarta and written by Mitchell Wiener (Senior Social Protection Specialist, EASHS) and Iene Muliati (Consultant, Social Protection Specialist, EASHS). Funding for this note was made available by the Australian Agency for International Development (AusAID).

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