

Policy Note on SJSN

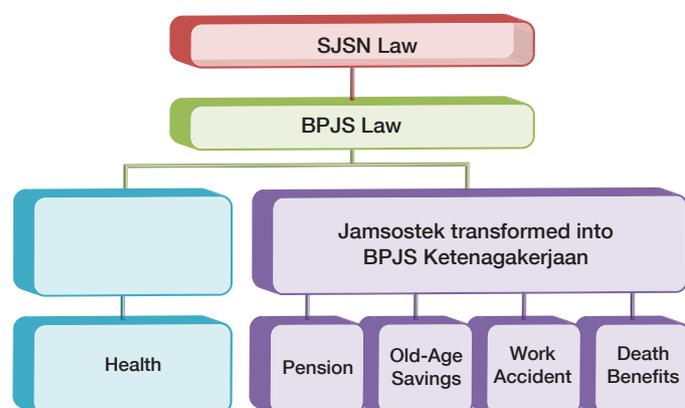
PROGRAM AND POLICY IMPLICATIONS

Issue 3, July 2012

Institutional Transformation 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 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 benefit programs 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 non-profit public legal entities. Transformation of Jamsostek into BPJS Ketenagakerjaan must be completed by January 1, 2014 and its operation of the SJSN employment programs should begin by July 1, 2015.



Transforming PT Jamsostek into BPJS Ketenagakerjaan is a major task. It is much more than just a change in name. Significant changes in legal, governance, organizational structure, staffing and competencies, job descriptions, business processes and IT system will be needed for PT Jamsostek as it transforms from a persero managing programs for a portion of the formal sector to BPJS Ketenagakerjaan managing nationwide programs covering thousands of employers and millions of both formal and informal sector workers.

This policy note will focus on the key issues that should be considered in the institutional transformation of PT Jamsostek into BPJS Ketenagakerjaan.

Change in Legal and Governance Structure. The BPJS Ketenagakerjaan will be a public legal entity, and no longer a persero, i.e. for-profit state-owned enterprise. It should operate on a not-for-profit basis and in the best interest of participants. This change will also require more transparent operations and more open public information. BPJS Ketenagakerjaan's reporting line is also changed. It will now report to the President, instead of to the Ministry of State-Owned Enterprises (MSOE). The BPJS is required to provide semi-annual and annual reports to the President. To meet this new responsibility, BPJS will need to develop new reporting and disclosure mechanisms.

BPJS Ketenagakerjaan's Board of Commissioners and Board of Directors will be appointed by the President and Parliament instead of by the MSOE. There is a different selection process and criteria for the respective appointments.

BPJS will be supervised internally by the Board of Commissioners and an internal audit department and will be supervised externally by the National Social Security Council (*Dewan Jaminan Sosial Nasional*, DJSN), the new Financial Services Authority (*Otoritas Jasa Keuangan*, OJK) and the State Financial Audit Board (*Badan Pemeriksa Keuangan*, BPK) instead of the Ministry of Manpower and Transmigration (MOMT). Different reporting formats may need to be developed to meet the needs of each supervisory body.

Item	Jamsostek	BPJS Ketenagakerjaan
Legal status	Persero	Public Legal Entity
Legal type	For-profit	Not-for-profit
Reporting line	MSOE	President, with copy to DJSN
Boards appointment	Boards appointed by MSOE	Boards appointed by President and Parliament
Supervisory bodies	Technical supervision by MOMT	DJSN, OJK and BPK
Enforcement of contribution compliance	MOMT	BPJS
Contribution and investment return	Part of Jamsostek assets and liabilities	Held by separate legal entity. Assets held by State custodian bank

By law, BPJS Ketenagakerjaan, not MOMT, will have authority for contribution collection enforcement, and it has been given the right to impose administrative sanctions in cases of non-compliance. BPJS Ketenagakerjaan should ensure appropriate capacity and IT systems are established to carry out this task. Certain standard operating procedures and mechanisms for ensuring participants' compliance are necessary, especially since the SJSN employment programs will also cover informal workers.

The assets of the BPJS will be legally kept separate from those of the Social Security Funds (SSF) that it administers. The assets in these SSF are managed by the BPJS but do not belong to the BPJS. SSF assets will be held at the State-owned custody bank. The asset separation will keep the BPJS from having direct control of the assets that belong to members, and allows the custodian bank to review the financial transactions requested by the BPJS to assure they comply with the law. This will require a different business process than today and a different, transparent system of checks and balances to ensure the monies are deposited in the appropriate accounts and managed in a way that ensures financial stability of the programs and protects the interests of participants and the State budget.

Change in Program Coverage.

The nationwide SJSN employment programs will differ in both design and coverage from the existing programs. The health program currently managed by Jamsostek will be transferred to BPJS Kesehatan by 1 January 2014 while other existing programs (old-age savings, worker accident and death benefits), and a new defined benefit pension program will be managed and administered by BPJS Ketenagakerjaan.

The implementation of the new pension program will require a new set of competencies -- both technical and operational -- since Jamsostek currently does not offer and manage any defined benefit pension program. The BPJS will need to gather and store data required to calculate benefits, receive and approve applications for benefits, calculate benefit entitlements and pay monthly benefits to old-age pensioners, disability pensioners and survivor beneficiaries. BPJS will also need capacity to adjust benefits for annual indexing and to stop benefit payments when recipients are no longer eligible. The government will also need to decide whether informal sector workers will participate in the new pension program as the SJSN law seems to preclude them from participation.

The SJSN old-age savings program will eventually be significantly larger than the existing Jaminan Hari Tua (JHT) program that Jamsostek manages today. The administrative procedures may also be very different. This will likely require

significant changes to current business processes, particularly for recordkeeping and accounting, managing investments (investment paradigm and policy), and paying benefits.

The SJSN work accident benefit also raises a number of issues that will impact how BPJS Ketenagakerjaan administers the program. The government should take into account integration of universal health care with the health portion of the worker accident program and how the worker accident program will be applied to informal sector workers.

Change in Membership. Currently Jamsostek offers benefit programs to formal sector workers only while BPJS Ketenagakerjaan will provide nationwide SJSN employment programs. BPJS Ketenagakerjaan will cover the entire Indonesian labor force, which consists of about 110 million workers, of whom 40 million are salaried and 70 million are non-salaried. Unlike Jamsostek, BPJS Ketenagakerjaan will be responsible for enforcing participation of workers from all segments of the labor market (including informal workers). BPJS should also educate the public about the rights and obligations of participants, the purpose and goals of the programs, the procedures for the SJSN employment programs and the operations of BPJS Ketenagakerjaan. Collaboration with relevant ministries and/or organizations may also need to be explored to ensure BPJS meets its responsibility for ensuring total labor force participation in the SJSN employment programs.

New Functions

- Contribution collection enforcement
- Register non-salaried workers
- Issue unique IDs
- Pension payments
- Reporting requirements
- Separate investment policies for each of the four SSF employment programs
- Manage four separate SSF with separate legal entities
- Financing from fees charged to SSF

Change in Organizational Functions.

Implementing the nationwide SJSN employment programs will introduce new functions for which Jamsostek is not currently responsible but which will be critical to the success of BPJS Ketenagakerjaan as well as the entire SJSN employment programs.

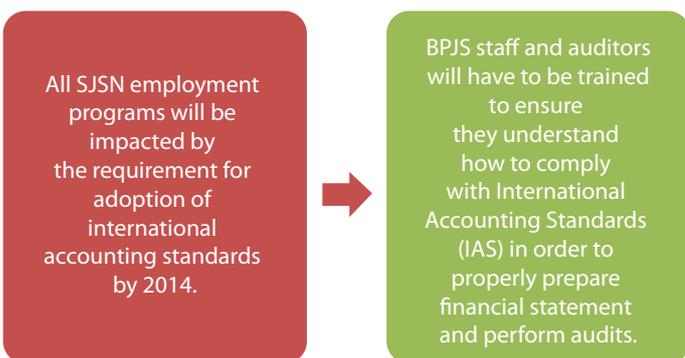
Unique individual identification numbers (ID) for all participants is the key for properly administering the social security programs. **BPJS Ketenagakerjaan will need to work together with BPJS Kesehatan and the Ministry of Home Affairs (MOHA)** on an identification program. If the unique ID developed by MOHA is not ready in time for the start of the SJSN programs or is not sufficiently robust, **BPJS will likely need to develop a separate unique ID number solely for the BPJS Kesehatan and Ketenagakerjaan systems.**

By law, BPJS has been assigned the responsibility for registering and collecting contributions from both salaried workers and their employers, non-salaried workers and the government. BPJS will need to collect the right amount of money on time from millions of participants. While registration and contribution collection mechanisms for formal sector workers are already in

place, there are no such mechanisms available for informal sector workers, whether paid or unpaid. The non-salaried, informal workforce consists of entrepreneurs, micro-enterprises, family businesses, and unpaid family workers. Much of this workforce is in rural and remote locations and almost all are essentially self-employed. There are also no procedures for contribution payment enforcement. Therefore, **it is imperative for BPJS Ketenagakerjaan to work with BPJS Kesehatan and the government to explore, develop and determine a strategy for effectively and efficiently registering participants, collecting contributions and enforcing payment from the large and highly diverse group of informal sector workers. To implement the best solution, BPJS will likely need to pilot test possible options for registering and collecting contributions from informal sector workers.**

The BPJS will have to maintain systems for verification and monitoring of benefits and will have to process and make payments to individuals. **Payment of monthly annuities to old-age pensioners, disability pensioners and beneficiaries entitled to survivor benefits will be a critical function for BPJS Ketenagakerjaan as Jamsostek may not have the competencies required.**

Reporting procedures for BPJS include semi-annual reports to be submitted to the President and to DJSN as well as an annual report (whose executive summary must be widely published by BPJS). BPJS must also inform participants about their rights and, at least once per year, account for the benefits they have earned in the pension and old-age savings programs. These new reporting demands will require different procedures than in the past. Adoption of international accounting standards by 2014 will also require a different set of competencies among both BPJS employees and auditors responsible for auditing the financial statements of BPJS Ketenagakerjaan.



Contributions from employers, workers and the government, and investment income on those contributions, will be placed in the appropriate Social Security Fund (SSF), one for each program. Each fund will require different technical reserves based on recognized standards of actuarial practice. Each fund will **require a different investment strategy and methods of actuarial reserving than for the current Jamsostek programs.** Furthermore, the SSF assets can only be used to pay benefits to participants and to pay for administrative expenses; there can be no cross-subsidy between funds. Each

SSF should be managed so it will be able to fully cover and pay all future benefit payment obligations in both the short term and the long term. To assure that assets are properly managed, the government should issue investment and risk management regulations defining the financial framework and governance structure of the new system.

Different investment policies and strategies are appropriate for different funds, depending upon the type and characteristics of each program and the demographics of plan members.

BPJS operating income will come primarily from fees charged to each SSF to cover the costs of BPJS administrative services. BPJS can charge fees as a percent of contributions and/or as a percent of investment income to cover its administrative costs for each of the programs. This charging function will be a novelty. Fund assets will be separated from BPJS assets and each SSF will likely have a different fee structure that reflects the nature of administrative expenses for that particular program. **Expense charges will have to be more transparent than in the past and procedures for assessment and payment of fees from the SSFs to the BPJS will have to be established to support the required level of transparency.**

Recommendations

Re-evaluation of the structure of the organization

BPJS Ketenagakerjaan will need to have an appropriate organizational structure and employees with relevant education, experience and competencies to be able to carry out the duties required to support the implementation and operation of the SJSN employment programs. Since the programs, coverage, legal and governance structure, and required functions have changed, **it will be necessary to re-evaluate the organizational structure of Jamsostek and its human capital to see to what extent these meet the requirements for successful BPJS Ketenagakerjaan operations and SJSN employment programs implementation.**

It will be necessary to conduct job analysis and to develop relevant job descriptions or terms of reference. In addition to the need for external recruitment, staff taken over from Jamsostek should be offered professional or technical training/education programs to ensure that BPJS human capital will be able to cope with the tasks required to operate the nationwide SJSN employment programs. Jamsostek employees will need to be quickly trained and new employees with needed competencies/expertise should be quickly hired so they can properly perform their duties from day one. Some training will be general and for all employees, while some should be specific to the duties and responsibilities of each individual. Considering the limited supply of workers with necessary expertise, it is likely BPJS Ketenagakerjaan will need to hire many employees with proper aptitude but lack of proper experience, and then

provide extensive training in social security programs, benefits calculations, determination and payment of benefits, investment and asset management, recordkeeping and accounting. Financial staff must also be trained to ensure they understand International Accounting Standards (IAS) in order to prepare and audit financial statements.

Re-think business process and supporting IT system

It is crucial to first develop high level business processes that affect members and management of enterprise activities. Business processes affecting members include registration, collections, payments, reporting and funds management. Business processes for managing enterprise activities of the organization (BPJS Ketenagakerjaan) include operations, human resources and relationships with other parties. The IT systems should be implemented early in the process to assure business processes are automated from the start and don't have to be changed and that people are not hired to manage the increased workload in the short term. It is best to rethink and revise all current business processes and IT systems at an early stage of the transformation, taking into account all the new functions and responsibilities of the organization, the expanded coverage and the new legal and governance structure. Moreover, compliance with new reporting and disclosure requirements will also require modification of accounting, finance and actuarial systems. Systems for complaints handling will also be key.

BPJS Ketenagakerjaan and BPJS Kesehatan should have one integrated and shared system for individual ID numbers, for employer and worker registration, and for contribution collection and enforcement. It wouldn't make sense to have two different ID numbers, one for each system, and to have two BPJS separately collecting contributions from the same employers and workers. To meet this goal, there are several areas requiring very close attention including **development of linked business processes and IT systems between BPJS Ketenagakerjaan and BPJS Kesehatan.** In addition, since the programs are nationwide, IT systems should be able to capture employment movement of its members. Current administrative systems may not be able to provide this essential service.

Develop policy concepts & conduct technical reviews of required actions for the implementation

The implementation working groups comprising officers from various ministry offices and government agencies, with technical assistances from development partners, should work together to quickly analyze needed changes, develop policy concepts, conduct technical reviews and agree on required actions to meet the government's technical and financial needs for the implementation of BPJS Ketenagakerjaan, taking into account relevant global, regional and local experience and expertise in all aspects of institutional transformation. To ensure the smooth and successful transformation of Jamsostek to BPJS Ketenagakerjaan, the implementation working group should agree on and take immediate actions on the following key implementation issues:

- Development of the required roadmap for the establishment of BPJS Ketenagakerjaan and implementation of the four employment programs.
- Technical aspects of the transformation of PT Jamsostek to BPJS Ketenagakerjaan in the areas of organizational structure and staffing, job analysis and job descriptions, human capital development and professional certification, business processes and IT systems.
- Use of unique ID numbers for the SJSN system.
- Development of contribution collection and enforcement systems taking into account global experience with collection from the informal sector.
- All aspects of implementation of the new defined benefit pension program including design, cost, financial modeling, development of a financing and investment strategy, and administrative functions.
- Administration and investment paradigms for the old age savings program.

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). 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). The authors would like to thank Erwin Ariadharna, Staffan Synnerstorm and Suresh Gummalam (WB-Jakarta-based Public Sector Management team) for comment and discussion. The Funding for this note was made available by the Australian Agency for International Development (AusAID).

Significant input for this note was provided by partners from the Government of Indonesia, particularly Rahma Iryanti (Director for Manpower and Employment Opportunities Development) from Badan Perencanaan dan Pembangunan Nasional (Bappenas), the National Development Planning Agency.

The findings, interpretations, and conclusions expressed herein do not necessarily reflect the views of the Board of Executive Directors of the World Bank or the Governments they represent.

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