

Employees are a company's
most important asset.

Their contribution determines
the company's success.

Providing care and protection
for employees through
Employee Benefit Programs
will ensure employees' welfare
now and beyond.



Thousands of AIA sales force, staff & management are crowding Jl. Jend Sudirman Jakarta ini AIA Charity Walk event on Dec 13, 2009.

Market Spotlight Indonesian Pensions

Country Overview (as of 2009):

Population: 243 million	Average Life Expectancy: 71 years
GDP : USD \$539.37 billion	Income per Capita: USD \$2,329
Unemployment Rate: 7.87%	Official Retirement Age: 55
Inflation Rate: 4.89%	Foreign Reserve : USD \$66.1 billion
Currency: IDR (Rupiah)	Exchange Rate: US\$1 = IDR 9,900

Sources: CIA World Factbook; Society of Actuaries

Quick Facts & Definitions

• Private Pension Programs (Voluntary):

- **Dana Pensiun Pemberi Kerja** ("DPPK" or "Employer's Pension Fund"): An employer-established program which can be either a 'Defined Benefit' (DB) or 'Defined Contribution' (DC) pension scheme. The employer is responsible for its operation, funding, and maintenance.
- **Dana Pensiun Lembaga Keuangan** ("DPLK" or "Financial Institution Pension Fund"): A pooled trust that currently can be established only by a bank or a life insurance company. The financial institution manages the fund, whereas participating employers are responsible for payment of contributions. DPLK are 'DC' pension plans.

• Government Pension Programs (Compulsory):

- **Jamsostek**¹: A government-backed insurance scheme for private companies that provides nominal protection for workers, including cover for accident, health, and an old age savings plan.
- **Taspen**² & **Asabri**³: Similar to Jamsostek, but intended specifically for Indonesia's civil servants and armed forces, respectively.

- **Labor Law**⁴: Companies are obliged to pay pension benefits to employees who reach retirement age. These benefits can be funded through regular employer contributions to pension funds.

Any such payment made directly by the company to an employee is treated as severance income and taxable up to a maximum of 25%. However, if the employee's pension benefits are paid through an externally managed pension fund, payments are subject to the lower tax rate capped at 5%.

- **Workforce Coverage**⁵: It is estimated that only 13% of the working population is covered under a pension / savings program; with only 2% receiving benefits from private pension programs.

1) Law 3/1992
2) Government Regulation 25/1981
3) Government Regulation no.67/1991
4) Law 13/2003
5) BPS, BKN, Depnakertrans, BapepamLK

Retirement Funding & Income

	Plan Type	Funded	Vehicles	Costs ^A	Benefit ^B	Ratio ^C
JAMSOSTEK	DC	Yes	JAMSOSTEK	3.70%	16.87	14.10%
Labor Law	DB	No	None	6.5% - 9.0%	32.20	26.80%
Pension Plan	DB/DC	Yes	ERPF/FIPF ^D	Variable	Variable	Variable

- A) Cost to employer, as a percentage of employee's wage
B) Multiple of final monthly salary (net of employee's contribution)
C) Replacement Ratio: Monthly income as a percentage of final monthly salary
D) ERPF - Employer Pension Fund, FIPF - Financial Institution Pension Fund

Key Assumptions:
• Net interest and salary increases: 12% and 10% per annum,
• Annuity Factor = 120,
• 30 years of service at retirement age 55

The above table is a high level summary of the various sources of retirement income for Indonesia workers. Notably, the benefits provided under Labor Law do not need to be funded, meaning they can be paid directly out of an employer's account.

Upon retirement, employees receive pension benefits from their employer under Labor Law and Jamsostek. Employers may also choose to contribute additional amounts to the employee's pension benefits. Nevertheless, in general, the total pension benefits received under Labor Law and Jamsostek represent only roughly half of the ideal replacement ratio of 70 - 80% of their last working salary and is usually insufficient to cover an employee's total retirement expenses. Therefore an employee may supplement his retirement income through other means such as a DPLK.

DPLK Tax Benefits

The government allows several tax benefits to facilitate and encourage DPLK retirement savings.

- Contributions deposited towards a pension fund are excluded from taxable income.
- Taxes on any investment earnings are deferred until withdrawal, which allows assets to accumulate more rapidly.
- Per Government Regulation No. 68/2009, the pension benefits tax rate has been significantly decreased from a maximum of 25% to 5%. Any income below IDR 50 million is excluded from tax.

Payment of DPLK Benefits

Ministry of Finance Regulation No. 91/PMK.05/2005 currently stipulates that retirement funds with assets totaling less than IDR 125 million can be paid to the retiree via one lump sum payment. For accounts with balances exceeding this amount, payment will be administered via one lump sum payment of up to 20% of total assets, with the remainder structured into monthly income through some form of life annuity.

AIA in Indonesia

AIA is a leading life insurance company in Indonesia and a member of the AIA Group. AIA has been operating in Indonesia for 26 years with over 1000 employees. It currently has over 600 corporate clients, covering 1.2 million lives and manages assets totaling IDR 15.8 trillion (per 2009). The company offers a comprehensive range of Employee Benefit and Pension products and services, and is well recognized for its commitment to quality and customer satisfaction.

Notes:
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For further information, please contact:

**CUSTOMER SERVICE
DPLK AIA Financial**

Tel: (62-21) 5421-8888

Ext: 56241-56245

Email: id.pn.service-DPLK@aia.com

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