# Indonesian Workforce Demography: Labor Law and Policy amidst Aging Society

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I. Introduction

A nation's demographic landscape shapes its economy, presenting both opportunities and challenges. Indonesia's population has grown significantly since independence, nearly tripling from 97.02 million in 1961 to 270.2 million in 2020, with projections reaching 312.51 million by 2040 (Central Bureau of Statistics 2022, 3–4). However, growth rates have declined from 2.4% in the 1970s to 1.25% in 2010–2020. The working-age group (15–64 years) rose from 53.39% in 1970 to 69.28% in 2020 but is predicted to decline by 2030. Meanwhile, the youth population (0–12 years) fell from 44.12% in 1970 to 24.56% in 2020, reflecting a declining birth rate (Central Bureau of Statistics 2022, 12). In contrast, there is a gradual increase in the composition of the elderly population in the Indonesian society. In 1970, the elder population comprised 2,49% of the total population and has grown to 6,16% in 2020, projected to more than double in just next 20 years. Additionally, as defined by the World Health Organization (2020), a nation is ageing when its 65 years or older population surpasses 7 percent of the nation's population. Overall, the demography in Indonesia reflects a nation in transition, with a shrinking youth population, a substantial working-age demographic poised to drive economic growth, and an increasing elderly population that will demand strategic policy to ensure sustainable development and social welfare in the coming decades.

Figure 1 – Indonesia's Population Trends, 1961-2040.
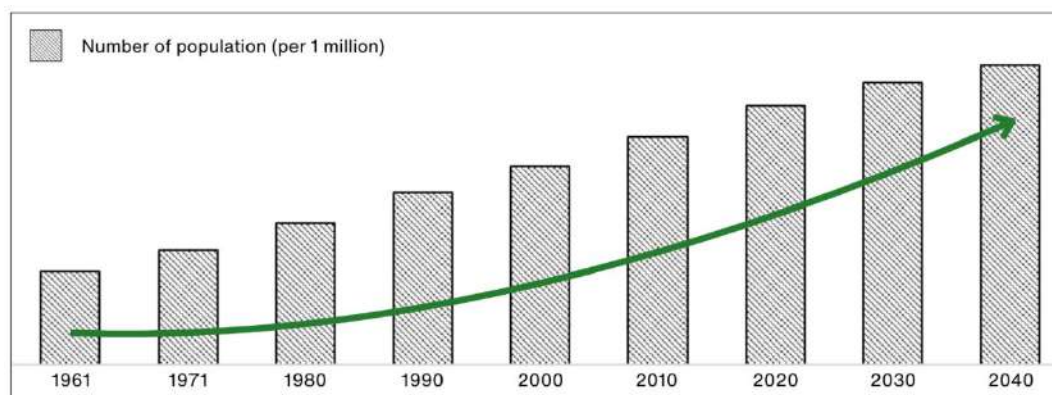

Sources: Statistics Indonesia, 2022.

The demographic transformation will likely have profound impacts on the social, economic, and policy-making aspect of the country. The phenomenon addressed previously will eventually lead Indonesia into an aging society, which the country is already slowly transitioning. By 2050, it is estimated that the elderly population will grow to 74 million, representing about 25% of the total population (Hastuti et al. 2020, 1).

Globally, governments facing an aging population have generally implemented policies that promote active and healthy living, expansion learning experience, and retirement planning (United Nations, Department of Economic and Social Affairs, Population Division 2020, 1–4). Hence, this demographic shift has been accompanied by the well-being of the aging society as a priority. As a population ages, so does the level of dependency of the older population, especially retirees aged 65 and above, towards the working age group. In Asia, it is projected that the region will experience an overall increase of total dependency ratio at least until 2050 (Ogawa et al. 2021, 39–40). If current trends continue, and without the implementation of appropriate policies, the increasing dependency ratio combined with a low birth rate could render the economy unsustainable.

This report examines Indonesia's demographic transition and its implications. It will explore the Demographic Dividend, dependency ratios, workforce challenges, and national policies. Additionally, it will assess policy gaps, focusing on retirement systems and economic sustainability.

## II. Indonesia's Current Demographic Dividend Amidst an Aging Population

Figure 2 – Indonesia's Population Pyramid Age by Age Group (in thousand

2000 Population Pyramid

2010 Population Pyramid

2020 Population Pyramid

2030 Population Pyramid

2040 Population Pyramid

2050 Population Pyramid
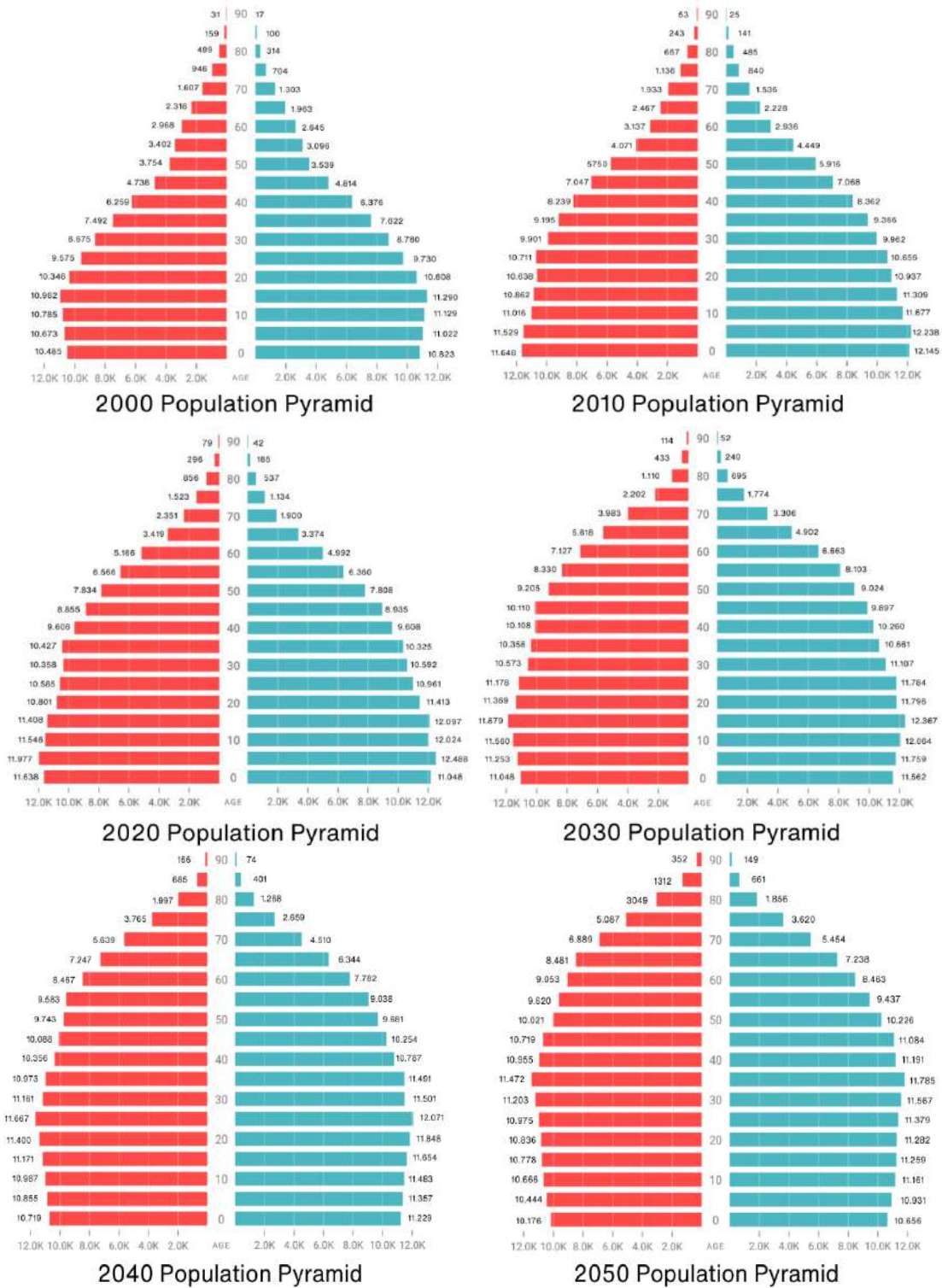
Source: United Nations, 2017.

Aging populations have been a significant trend affecting the globe. While each country experiences different age structure in their population, the trajectory is quite clear that the Indonesia is aging in this coming century (Figure 2). Projections suggest that by 2050, the global population of individuals aged 65 and older will surge to 1.5 billion (Statistics Indonesia 2022, 3–4). This demographic transformation is also unfolding in Indonesia, which has acknowledged that the country has entered an aging population phase since 2021 (Directorate of Social Welfare Statistics 2024, 4–5). This is especially marked by the continued drop on fertility rate, which illustrates the ongoing demographic transition in Indonesia.

Figure 3 – Indonesia's Population Composition by Age Group (Percentage), 1970-2040.
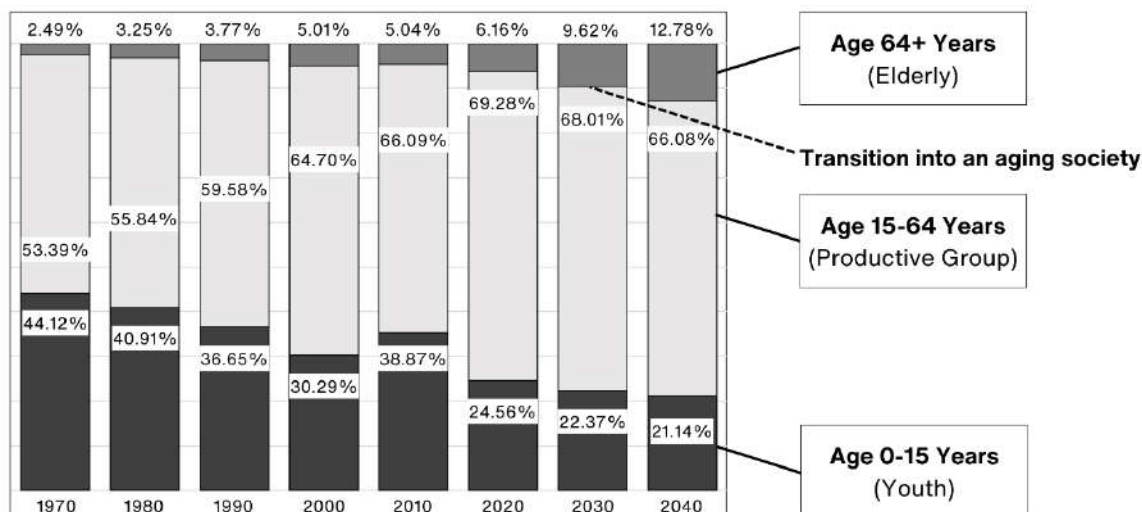
Sources: Statistics Indonesia, 2022.

With a larger proportion of working-age individuals compared to the dependent population (those younger than 15 years old and older than 64 years old), Indonesia's demographic structure is currently experiencing a demographic dividend, projected to peak from 2020 to 2035. Hence, within this context, understanding the dynamics of Indonesia's current population is critical before addressing the implications of an aging society in the country.

While a majority of the population is comprised of productive population, the nation's current birth rate is still declining albeit still sits at 2.18. As the proportion of children decreases and the share of productive-age individuals increases, Indonesia has experienced a favorable dependency ratio, where the working-age population is larger than the non-productive age groups, children and elderly. In 2020, the child population comprised 24.56% of the total, while the working-age population reached 70% (Statistics Indonesia 2022, 18). This demographic advantage has translated into greater economic potential, particularly as the working-age population contributes to labor supply and overall consumption in the economy.

As a result, Indonesia is currently undergoing a period in which productive population is large enough to support unproductive population. However, this period is estimated to peak in around 2030, after which the share of the working-age population is expected to decline while the share of older population to increase. Hence, as Indonesia's demographic composition is expected to shift in the coming decades, there is an emphasize on workforce dynamics, social policies, and economic planning to adapt to the gradual increase in the aging population. While Indonesia's workforce is predominantly composed of individuals within the productive age group, the elderly population continues to play a significant role in the labor market. More than half, specifically 55.32 percent, of the elderly demographic in Indonesia remains economically active (Directorate of Social Welfare Statistics 2024, 11).

To address current population structure as well as the looming economic issues in the future, there are several legal measures and strategy that has been implemented by the Indonesian government. From a broader strategy

perspective, Indonesia has set what known as the Golden Vision 2045. The Nation has implemented several measures and included predicaments faced by each demographic group into its strategic plan called the National Medium-Term Development Plan *(Rencana Pembangunan Jangka Menengah Nasional)*. During this window, the government policies mostly focus on tapping the productive population's potential through various programs, trainings, and initiatives as this demography is deemed to be playing an important role in accelerating the nation's development.

Regulations that support elderly welfare have been implemented (which will be discussed in later part of the report), which encourage healthy, independent, and productive transition into elderhood in hopes of improving life expectancy as well as quality of life. Workplace reintroduction, retraining, or affirmative action for the elderly is still an unexplored framework during the demographic dividend phase, as the majority of jobseekers are mostly youth. However, as the pre-elderly population (age 45-59 years old), who comprises a quarter of the productive population, will eventually retire as the demography dividend phase ends, there is a projected fiscal restraint for the country due to a fluctuation of social security provision for the elderly.

III. Policies

The Indonesian government has been strengthening social protection for its growing elderly population, acknowledging their increased vulnerability in the labor force. Currently, social securities that revolve around pensioners are pension and old-age benefits. Pension benefits are paid monthly while old-age benefits are paid in lump sum. However, both will only be disbursed to participants who have reached retirement age, experience permanent total disability, or passed away. Additionally, for old-age benefits can also be disbursed when the workers do not participate in the labor market anymore.

No.	Law/Regulation	Coverage
1.	Law No. 6/2023 on the Stipulation of Government Regulations intended to become Law, in Lieu of Law No. 2/2022 on Job Creation.	Delegating provisions regarding pension benefits due to laid off from previously regulated in the labor law to its own Government Regulation.
2.	Government Regulation No. 35/2021 on Fixed-Term Employment Agreement, Outsourcing, Working Hours and Rest Periods, and Termination of Employment.	Severance pays for workers who are terminated due to reaching retirement age although at reduced rate from previous regulation.
3.	Law No. 24/2011 on the Social Security Organizing Agency (*Badan Penyelenggara Jaminan Sosial*).	- Emphasizing that Employment Social Security Administration (*BPJS Ketenagakerjaan*) administers the Old Age Security and Pension Insurance programs. (Article 6) - Regulating that Social Security Organizing Agency (*BPJS*) is obligated to provide participants with information regarding their Old Age Security balance and Pension rights once a year. (Article 13)
4.	Law No. 40/2004 on the National Social Security System.	- Emphasizing Old-Age Security and Pension benefits as a form of social insurance. (Article 18) - Old-age security is implemented based on the principles of social insurance or compulsory savings. (Article 35) - Old-age security benefits may be disbursed partially up to a certain limit once the participant's

		membership reaches a minimum of 10 (ten) years. (Article 37) - Pension benefits are paid to participants who have reached the retirement age, in accordance with the formula established. (Article 41)
5.	Government Regulation No. 45/2015 on the Administration of Pension Program.	- Regulating pension benefits administration. - Detailing membership and registration procedures. - Defining pension benefits and contribution requirements. - Specifying administrative sanctions for violations.
6.	Government Regulation No. 46/2015 on the Administration of the Old Age Security Program.	- Regulating old-age benefits program administration. - Outlined membership and registration procedures. - Defining contribution amounts and payment methods. - Specifying old-age benefits. - Establishes administrative sanctions for violations. - Covering program supervision and complaint handling.
7.	Presidential Regulation No. 88/2021 on the National Strategy for Ageing.	Established as an effort to realize an independent, prosperous, and dignified elderly population. To accelerate this objective, the regulation stipulates coordination across sectors between the central government, local governments, and all relevant stakeholders.

Indonesia's national social security framework, established under Law No. 40/2004, guarantees every citizen's right to old-age security and pension benefits. To expand coverage, the law mandates the inclusion of informal sector workers and the unemployed over the coming years, ensuring broader access to financial protection in retirement.

A key component of this system is the Pension Program, regulated by Government Regulation No. 45/2015, which outlines membership requirements, contribution rules, and benefit entitlements. Retirement age in Indonesia is determined in the company regulation. While the Government has set a retirement age in its legislation, it is only for the purpose of minimum age for pension disbursement. Beginning in January 2025, the official retirement age will increase to 59 years, up from the previous 58 in 2022, in accordance with Presidential Regulation No. 88/2021. This gradual increase—rising by one year every three years—aims to give workers more time to accumulate pension savings and improve their financial security in later years. Under this program, individuals who have contributed for at least 15 years are eligible for monthly pension payments at the minimum of IDR 300,000 and up to a maximum of IDR 3.6 million, adjusted annually based on inflation. Additionally, workers who continue employment beyond retirement age can choose to defer receiving benefits for up to three years.

Complementing the Pension Program is the Old Age Security Program, governed by Government Regulation No. 46/2015 (later revised by Government Regulation No. 60/2015). Unlike the pension scheme, which provides ongoing payments, this program offers a lump-sum cash benefit upon reaching retirement age or under certain qualifying conditions. Furthermore, participants who have contributed for at least 10 years can withdraw a portion of their funds early—30% for homeownership or 10% for other preparation retirement-related expenses—providing greater financial flexibility. Beyond direct financial assistance, the government has also laid out a broader framework for elderly welfare through the National Strategy for Ageing (Presidential Regulation No. 88/2021).

Despite this comprehensive legal framework, many workers in the informal sector lack awareness of their rights and available benefits, limiting program participation. Additionally, pension adequacy is affected by the gap

between wages and the rising cost of living, making it difficult for some retirees to sustain themselves solely on pension payments. Another complicating factor is that retirement age policies often depend on individual company agreements, as outlined in Law No. 13/2003 amended by Law No. 6/2023 on Manpower, allowing flexibility but also creating inconsistencies in implementation.

IV. Challenges

The productivity of the elderly is vital for maintaining their well-being while also contributing to national economic development. A considerable proportion of the elderly population continues to participate in the workforce well beyond the conventional retirement age. For many, the necessity of continuing to work is not a choice but a matter of survival. Alarmingly, approximately one-fifth of those aged 80 and older fall under the national poverty line, experiencing extreme poverty (Directorate of Social Welfare Statistics 2024, 204–6). With one-third of the Indonesian population projected to be over the age of 60 in 2050, coupled with the elderly's declining economic participation, millions face the risk of falling into poverty in old age. Additionally, more 80 percent of older population works in informal sector, and 33,6 percent of them have only graduated elementary school or lower.

Although most of the elderly population are informal workers, Indonesia has not provided protection for workers in the informal sector, including no pension program. The concentration of workers in the informal sector is higher in rural areas (65.24%) than in urban areas (48.55%). Informal works in rural areas are often associated with manual and heavier labor, which might impact the health and quality of life of elders.
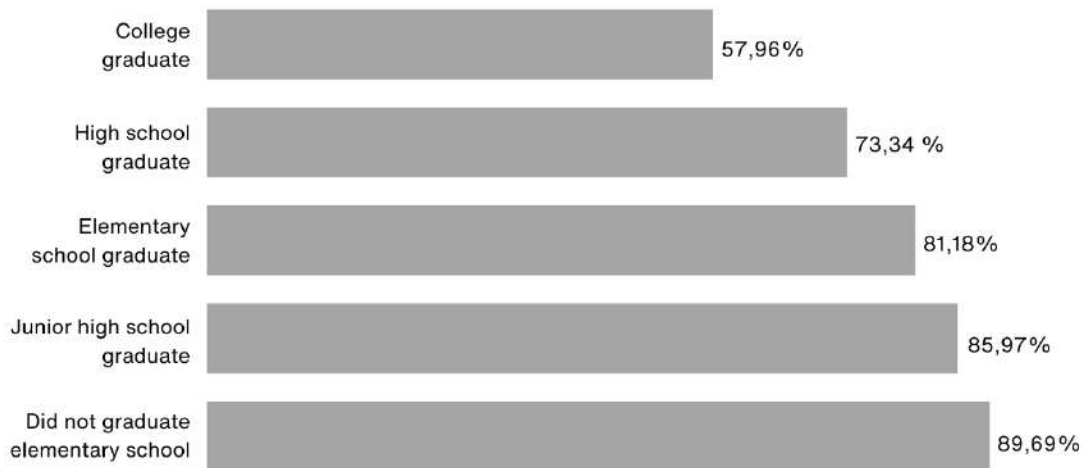
Figure 5 – Indonesia's Elderly Workforce Participation by Area (Percentage).
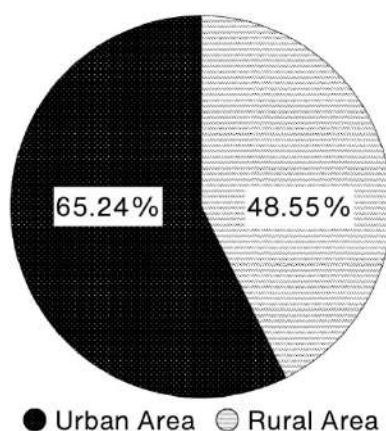
Source: Statistics Indonesia, 2024.

Moreover, the elderly population in Indonesia generally has low educational attainment. Only around 32 percent attained elementary school as their highest education, while almost 40 percent did not finish elementary school or even not even started school at all (Directorate of Social Welfare Statistics 2024, 46–48). This limited educational background has historically hindered their access to formal employment, even during their prime working years, leaving informal works as the only option. As a result, it is more likely that, as people enter retirement age, they do not have savings and thus more likely to be trapped in poverty line.

Figure 6 – Educational Attainment of Elderly Workers in Indonesia's Informal Sector.

College graduate — 57,96%
High school graduate — 73,34 %
Elementary school graduate — 81,18%
Junior high school graduate — 85,97%
Did not graduate elementary school — 89,69%

Source: Statistics Indonesia, 2024.

With younger population composing the majority of the demography, the government is currently prioritizing the absorption of the productive-age workforce. From the perspective of employers, there is a tendency to favor the recruitment of younger workers, under the assumption that they are likely to exhibit higher productivity levels. With the lack of senior-focused framework within the law, this might lead to the marginalization of older workers within the labor market. Moreover, as aging often accompanied by a decline in physical capacity, it becomes the biggest impediment for reintegration as the process directly impacts labor productivity (Directorate of Social Welfare Statistics 2024, 6).

In regard to the pension program's participation, only 8.5% of households with elderly members in Indonesia are covered by pension schemes, with most elderly individuals (86.2%) working in the informal sector (Directorate of Social Welfare Statistics 2024, 120–21). The same issue extends to their participation in old-age benefits programs. One of the factors that might contribute to the low adoption of such program can be attributed to the inconsistent implementation of regulations pertaining to old-age benefits in Indonesia.

For instance, the previous regulation (Government Regulation No. 60/2015) mandated that old-age benefits to be disbursed to participants who have reached retirement age, experience permanent total disability, or passed away. However, the Ministry of Manpower in 2022 subsequently added that those who have cease working are also considered as retiring.

This shift has resulted in numerous participants of the old-age security program claiming their benefits prior to reaching the official retirement age. Consequently, many of these individuals find themselves without sufficient savings upon reaching retirement age. Additionally, for informal workers who are not entitled to pension benefits, they might find themselves without any savings if they took their old age benefits early. To address this issue, the Indonesian government has implemented conditional cash assistance programs for elderly individuals living in poverty, such as providing Rp 200,000 (or around $12) per month. However, the coverage of this assistance remains limited, reaching only around 14% of elderly individuals, with the amount provided insufficient to meet their daily needs (Hastuti et. al 2020, 24).

Several barriers contribute to this, including a lack of awareness on available programs, inadequate income preventing contributions, limited access to employer-sponsored pension schemes and financial institutions, the absence of official documentation for policy targeting, frequent job changes, and residence in rural areas with limited financial infrastructure. Additionally, these workers often come from low-income backgrounds with lower educational levels, resulting in limited knowledge about pension and savings products, as well as insufficient resources for long-term savings.

VI. Conclusion

While the country is currently benefiting from a demographic dividend, this advantage will diminish as the proportion of the elderly population grows, increasing the dependency ratio and placing pressure on economic sustainability. By 2050, Indonesia's elderly population is projected to reach 74 million, making it imperative for policymakers to adopt comprehensive strategies to support aging citizens.

The Indonesian government has recognized these demographic shifts and has implemented several policies aimed at ensuring the well-being of the elderly. However, these policies have not addressed the unique circumstance that Indonesian seniors face. First, the government is yet to implement pension program to include informal workers. Meanwhile, most working seniors are working in the informal sector. Second, there are still regulations that overlap and inconsistent with other job security programs. This has caused participants to disburse their old-age benefits early and leaving them vulnerable later on. In addition, such inconsistency may also lower the number of participants in said program. Third, while Indonesia has no mandatory retirement age, the ever-increasing minimum age for a participant to disburse their benefit keeps increasing. This may minimize the participants' ability to enjoy the program benefits as the limit keeps going up. Lastly, recent amendment has reduced the share of benefit received by workers who are laid off, including those who are laid off due to retirement.

Moving forward, Indonesia must strengthen its social protection mechanisms, ensuring that pension and healthcare systems remain sustainable. Pension programs for informal workers should be put into priority to ensure resilient retirees financially, thus minimizing the burden the society must afford. Some regulations need to also be revisited to evaluate their practical effects, such as to avoid premature disbursement for old-age benefit. Age limit for pension benefit disbursement should be evaluated periodically instead of using arbitrary increase to ensure participant may maximize its benefits. Further, strategic investments in elderly care, community-based support, and workforce adaptation will be critical in fostering an inclusive society that values and supports its aging population.

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