Indonesia's Workforce in Transition: Labor Law and Policy amidst Aging Society

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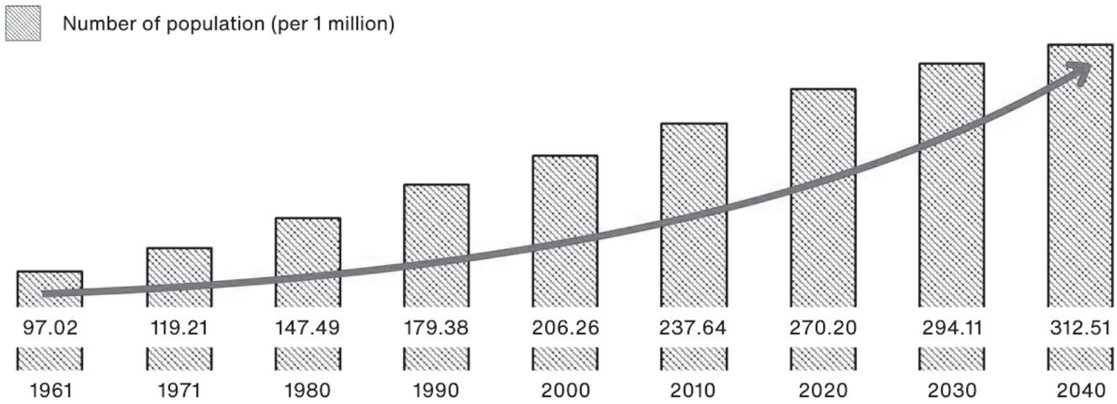
I. Introduction

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.

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 regulations 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 regulations, 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 Demographic Dividend, dependency ratios, workforce challenges, and national regulations. Additionally, it will assess policy gaps, focusing on retirement systems and economic sustainability.



Source: Statistics Indonesia 2022.

Figure 1. Indonesia's population trends, 1961–2040

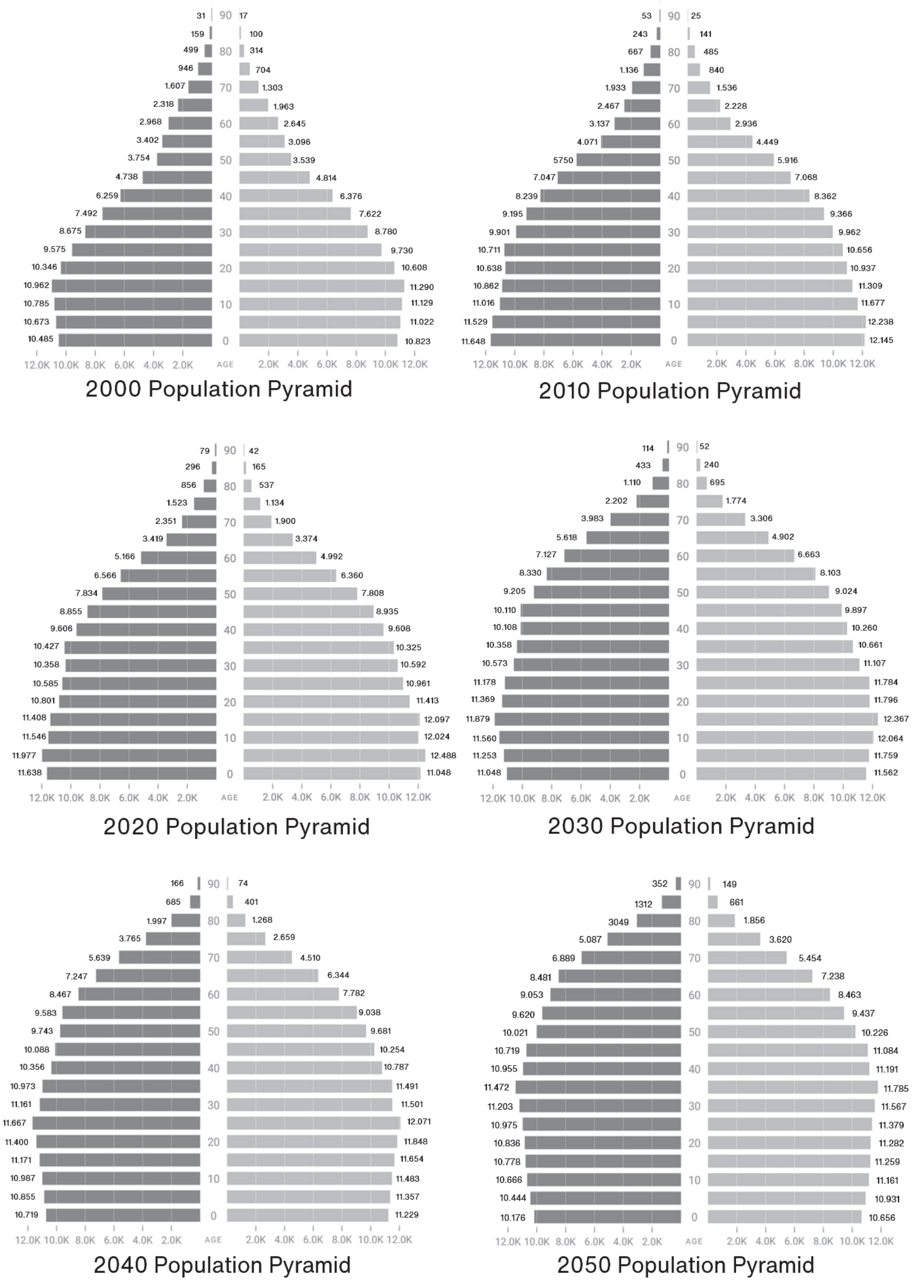
II. Indonesia's current demographic dividend amidst an aging population

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. The phenomenon of an aging population is illustrated by the shift in the demographic pyramid, which depicts population trends across six decades, from 2000 to 2050 (Figure 2). In the earlier years (2000–2020), the pyramid displays a broad base, indicative of high birth rates and a significant proportion of youth. However, by 2030, the base progressively narrows, while the upper segments expand, indicating a growing elderly population. This trend continues and becomes more evident in the 2040 and 2050 projections, where the pyramid assumes a downward-tapering shape with a wider upper structure, reflecting an escalating aging population. By 2050, it is projected that 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.

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.

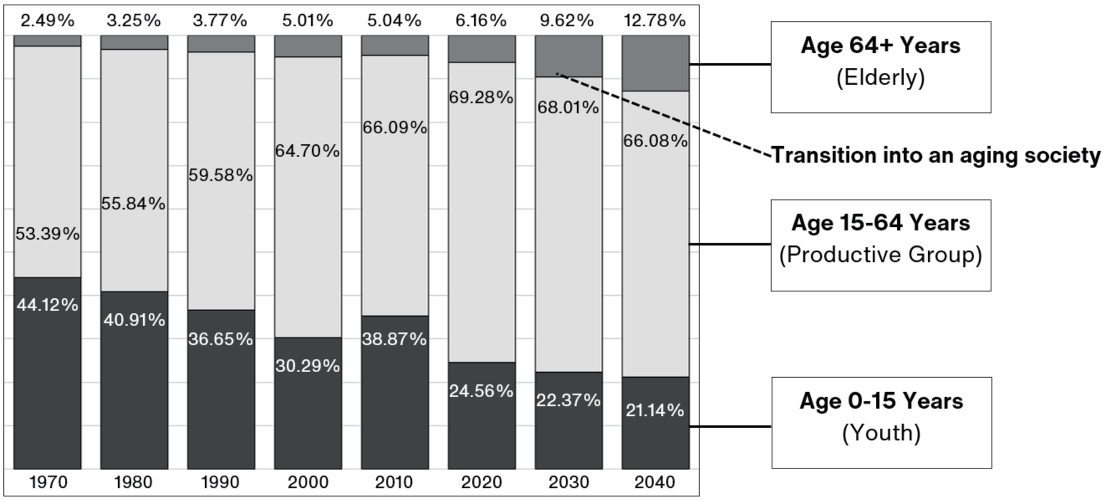
While a majority of the population is comprised of productive population, the nation's current birth rate is still declining albeit still sits at 2.18. As the proportion of children decreases and the share of productive-age individuals increases, Indonesia has experienced a favorable dependency ratio, 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 regulations, 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



Source: United Nations 2017.

Figure 2. Indonesia's population pyramid age by age group (in thousands)



Source: Statistics Indonesia 2022.

Figure 3. Indonesia's population composition by age group (percentage), 1970–2040

(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 regulations 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.

However, in 2004, 2015, 2021 and 2023 the government issued several laws and regulations related to retirement.

III. Legal frameworks

In response to the growing aging population, various laws and regulations have been established to address the specific needs of the elderly population, particularly in ensuring social protection and welfare support systems.

In the labor sector, one notable regulatory measure addressing the aging population in Indonesia is the gradual adjustment of the statutory retirement age. Article 15 of Government Regulation No. 45/2015 stipulates that the retirement age is set at 56 years and starting in 2019, increases into 57 years and will continue to increase by one year every three years until it reaches 65 years. This approach is intended to extend workers' employment period, allowing them more time to accumulate pension savings and enhance their financial security upon retirement. As of January 1, 2025, the statutory retirement age stands at 59 years, and it is scheduled to increase to 60 in 2028, 61 in 2031, and continue gradually until reaching 65 in 2043.

Under the existing legal frameworks, workers reaching retirement age are given access to several forms of benefits and programs designed to provide financial security upon retirement. These include Severance Payment, Length of Service Compensation, Compensation Rights Pay, Pension Security, and Old-Age Security.

As stipulated in Article 156 of Law No. 6/2024, also recognized as Job Creation Law, workers are entitled to Severance Payment, calculated based on a fixed formula that correlates years of service with multiples of monthly salary. The entitlement ranges from less than 1 year of service, which receives 1 month's salary;

Table 1.

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, (BPJS))*.	- 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.

1 year or more but less than 2 years of service, which receives 2 months' salary; and so on, increasing progressively up to 9 months' salary for those with more than 8 years of service.

In the same regulation, workers are also entitled to Length of Service Compensation, a benefit designed to recognize and reward workers' loyalty and length of service, thus applies to workers who have completed a minimum of 3 years of service. The calculation of this benefit is determined based on years of service, starting from 2 months' salary for workers with at least 3 years but less than 6 years of service. Entitlement increases, reaching up to 10 months' salary for workers with more than 24 years of service.

In addition to the above benefits, workers are also entitled to Compensation Rights Pay. This includes payment for unused annual leave, transportation costs to return to the workers' hometown, and other benefits as stipulated in the Employment Agreement, Company Regulations, and/or Collective Labor Agreement (CLA). The specific amount payable may differ depending on each company's regulations regarding this entitlement.

Apart from the previous benefits, all workers are also guaranteed access to the Pension Security and Old-Age Security programs, as stipulated in Law No. 40/2004 on the National Security System. A key component of this system is the Pension Security program, regulated by Government Regulation No. 45/2015 on the Implementation of Pension Security Program, which outlines membership requirements, contribution regulations, and entitlements. Under this program, workers who have paid contributions *(premi)* for at least 15 years before retirement are eligible for monthly pension payments. In the first year, the amount payable is calculated based on a formula, which correlates both the workers' total contribution period and their average salary during the contribution years. In the following years, the pension amount is adjusted annually based on an indexation factor to account for inflation and shifts in the cost of living. Additionally, workers who continue employment beyond retirement age can choose to defer receiving benefits for up to three years.

Complementing the Pension Security program is the Old-Age Security program, governed by Government Regulation No. 46/2015 (later revised by Government Regulation No. 60/2015). Workers will receive Old-Age Security benefits not monthly, but in a lump sum. Workers who have paid contributions *(premi)* for at least 10 years can withdraw partially of their funds before reaching retirement age, up to 30% for home ownership or 10% for other retirement-related expenses. The contribution is deducted from the worker's monthly salary at a rate of 5.7%, with 3.7% covered by the company and 2% by the worker. Both the Pension Security and Old-Age Security programs are regulated to be paid out to participants or workers who have reached retirement age, experienced permanent total disability, and/or passed away.

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 regulations 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.

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.

IV. Issues

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 than 80 percent of the older population works in the informal sector, and 33.6 percent of them have only graduated elementary school or lower.

Pension Security (JP) in Indonesia does not currently cover informal workers, including those employed in agriculture, plantations, and street vending. This presents a significant concern, as over 80% of the elderly population—equating to more than 7.5 million individuals—are engaged in the informal sector. The absence of pension protection for this group increases the risk of financial insecurity in old age. Additionally, informal workers in rural areas are often involved in physically demanding labor, which can adversely affect their health and overall quality of life as they grow older. These factors underscore the critical need to extend Pension Security programs to include informal workers.

One of the factors behind the large number of workers in the informal sector is the low level of education. Only around 32 percent attained elementary school as their highest education, while almost 40 percent did not finish elementary school or 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 work as the only option. As a result, it is more likely that, as people enter retirement age, they do not have savings and thus are more likely to be trapped in poverty line.

Furthermore, the high number of workforces, combined with very limited job opportunities (job vacancy), has led to a diminished focus on the needs and well-being of senior citizens. Due to the high number of workforces, while the labor demand/job vacancies remain limited, the government has prioritized efforts to expand labor demand and enhance the employability of the productive-age population. One of the key strategies includes the establishment of diploma (D3) and vocational education programs aimed at equipping graduates with practical skills that align with current labor market needs.

The government is focusing more on creating Labor Demand/Job Vacancy because every year, more than 4 million graduates enter the labor market, whereas the available vacancies are less than 2 million.

Source: Statistics Indonesia 2024.

Figure 4. Educational attainment of elderly workers in Indonesia's informal sector

Consequently, competition for jobs is intense, often leading to the exclusion of older workers from employment opportunities, including the non-renewal of work contracts. For this reason, the government appears to be paying less attention to elderly workers.

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 is 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 be disbursed to participants who have reached retirement age, experience permanent total disability, or passed away. However, the Ministry of Manpower in 2022 revised/amended that those who have ended their employment relationship with the company are also considered as retiring. Those rules are inconsistent with each other.

That changes of rules have led many participants/workers to claim Old-Age Security before reaching retirement age, leaving them with insufficient savings upon reaching retirement age. If this happens, they will have no access to Pension Security programs, and this will make the elderly informal workers suffer more. 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.

V. 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 law and regulation aimed at ensuring the well-being of the elderly. However, these law and regulation have not addressed the unique circumstance that Indonesian seniors face. First, inconsistent regulations can result in disharmonious relationships with other regulations. For example, allowing Old-Age Security benefits program to be disbursed when the participant has ended their employment relationship with the employer (not due to retirement age) can threaten their financial security in later years.

At the same time, there are very few regulations protecting elderly workers in the informal sector. 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. One possible solution is to allow informal workers to participate in the Pension Security (JP) programs by paying premiums. This will provide them with more financial support upon retirement age. Further, Indonesia needs for further comparative studies and observations, especially from countries with high composition of working-age, that also are facing transition into an aging society. For example, by learning from their experiences and regulations, Indonesia can advance the strategies to create a more inclusive and sustainable approach to an aging society.

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