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Pension Funds in Indonesia

by Jeffrey P. Newnam

Pension funds in Indonesia have been operating for many years as pension foundations, group endowment plans, and book reserve plans. Law number 11/1992 together with Government Regulations 76/1992 and 77/1992 was enacted to strengthen the funding standards and formalize the tax benefits of pension funds. This legislation has created two separate types of pension funds known as DPPK or Employer's Pension Funds and DPLK or Financial Institution Pension funds.

A DPPK program is established by an employer who is responsible for the establishment, operation, funding, and maintenance of the program. The operational provisions of the plan must be written and filed with the Ministry of Finance, which must approve these provisions. The employer is directly responsible for record keeping, meeting the minimum funding requirements, establishing and maintaining custodian arrangements of the assets, and any short fall in the required assets for the fund.

A DPLK is a pooled trust that is founded by a financial institution such as a bank or an insurance company. Individuals and employee groups are able to join a DPLK program established by the financial institution without the government reporting requirements associated with a DPPK program. Legal responsibility for the operation of this type of a pension fund rests with the financial institution, and the only liability for the employer is to make any required contributions when they are due. Insurance companies are competitive in this market, so further comments will be focused on DPLK.

The size of pension assets under management has shown strong growth over the last few years in Rupiah terms but the weakening exchange rate has left the growth flat or declining in U.S. dollar terms. The size of the DPLK market in U.S. dollar terms is roughly the same for 1996 and 1999, and there is a sharp decline in DPPK assets in U.S. dollar terms between 1996 and 1998.

Market Size (in millions of Rupiah)

	DPLK	DPPK	TOTAL
1996	247.858	13,025.134	13,272.992
1997	389.481	15,819.956	16,209.437
1998	721.130	21,492.258	22,213.389
1999	1,056.494	Unavailable	

DPLK programs are exclusively defined contribution programs. These programs are becoming very popular with employee groups and are experiencing strong growth. The high investment returns of the last two years have contributed to the growth. There is also a consumer demand for the product, and many new cases are being written.

Market growth (Percentage change in plan assets)

	DPLK	DPPK
1996-1997	57.14%	21.46%
1997-1998	85.15%	35.86%
1998-1999	46.51%	Unavailable

DB/DC Market Share (Percentage of total pension assets)

	DB Plans	DC Plans
1996	97.21%	2.79%
1997	96.15%	3.85%
1998	95.19%	4.81%

Competition among DPLK providers is very keen with three to four companies competing for most sales. Several local banks have established DPLK programs, but most of these competitors are undergoing recapitalization and are focusing on core banking operations. These banks are not effectively competing for business, and no foreign bank is currently competing in this market. Life insurers effectively dominate the DPLK market. The foreign companies appear to have a business edge in terms of technology and know-how. Mutual fund companies are not allowed to establish DPLK programs, but they are active as investment service providers to companies wishing to outsource this function.

The Indonesian pension market offers several opportunities for insurance companies. There will be many corporate restructurings over the next three to five years, and many of these will involve changes to the companies' pension funds to reduce balance sheet liability. Many state-owned enterprises are in the process of being privatized, and their employee benefit programs including pension promises are being reviewed and revised. Termination of defined benefit pensions will bring opportunities to sell immediate annuities to current retirees.

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