

International Conference on Social Protection for the Elderly

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Australian Government



KEMENTERIAN KEUANGAN
REPUBLIK INDONESIA

Responding to the Growing Elderly Population Challenges through Social Protection in Indonesia from Fiscal Policy Perspective

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International Conference on Social Protection for the Elderly

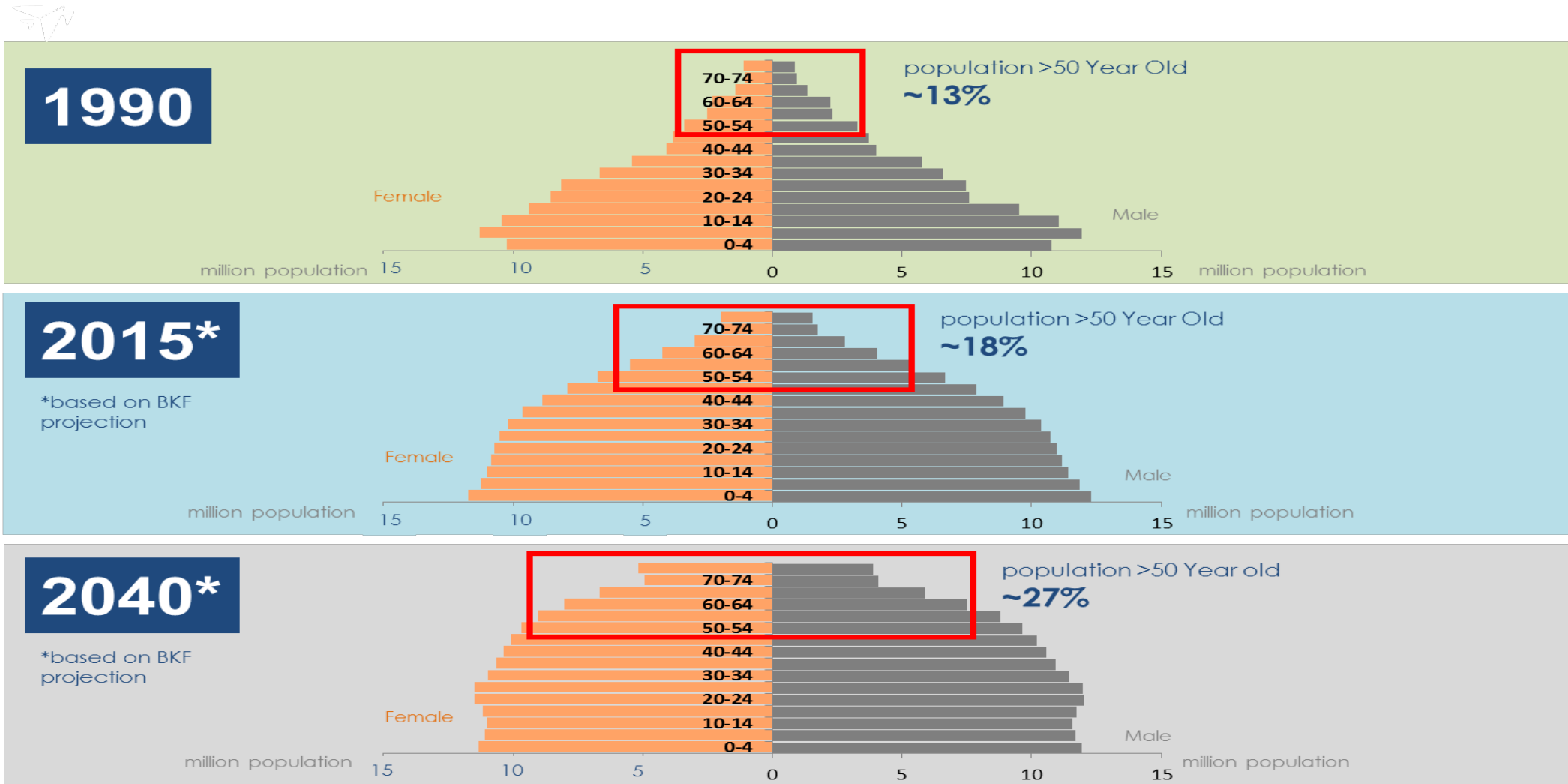
EXECUTIVE SUMMARY

- By 2020, around 10% of Indonesia's population will be aged 60 years and above. Today's working age are tomorrow's grandparents, so we need to make sure their needs are addressed.
- The highest rates of extreme poverty are found among the elderly, where one in five are living below the national poverty line. Women are more impacted than men, as they are often widowed and lack spousal support.
- This places a major financial burden on families. For example, most elderly people are living with their children – but 80% of the population aged 65 years and above are living in households that earn less than 50,000 IDR a day. If families have to focus their limited income on the care of the elderly, they have less money to invest in their own children. This can have a negative impact on the future labor force.
- The elderly population is growing faster than the rate of new children born, which means that, in the future, there will be even fewer children to take care of their elderly parents. The burden of their care will fall to the state. Therefore, the time to prepare the investment in the social protection for the elderly is now.

EXECUTIVE SUMMARY

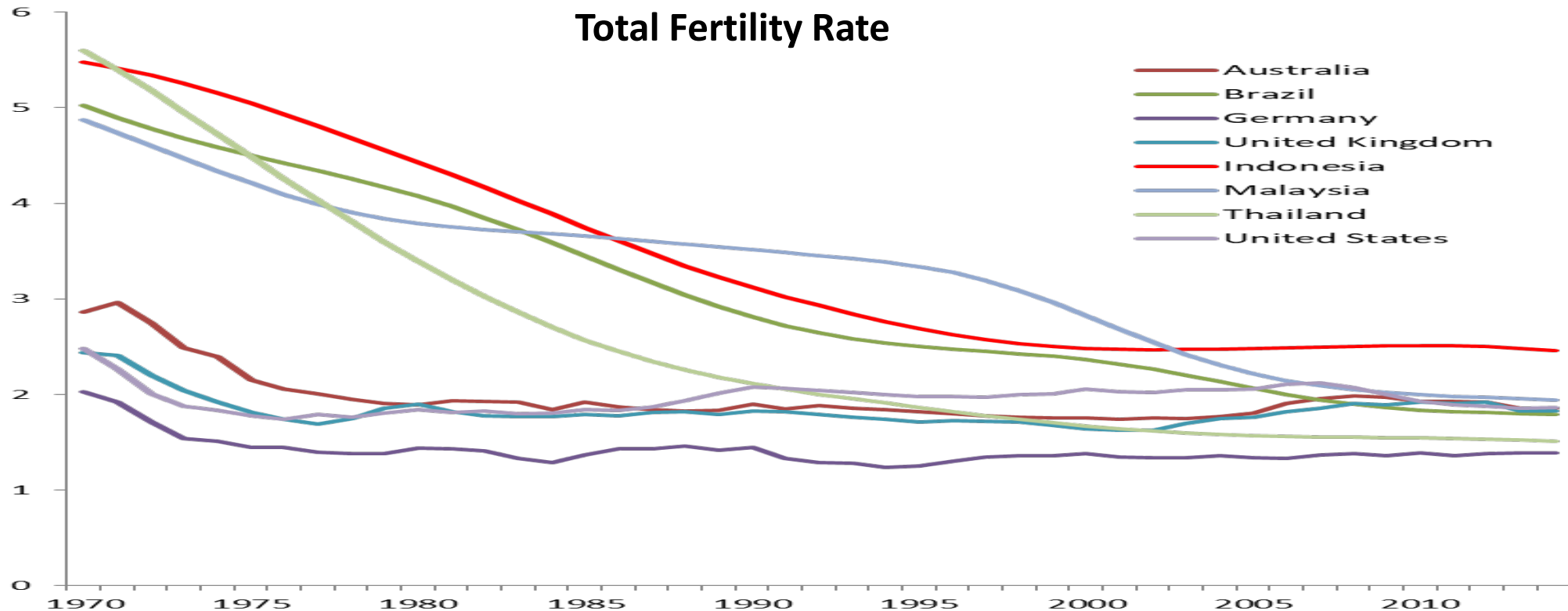
- Indonesia invests much less than other poor and middle income countries on social protection for the elderly. For instance, Nepal, a low-income country, spends 1.3% of GDP on an elderly grant. Indonesia currently invests 0.0006% of GDP (from the previous ASLUT program in which the program has now been integrated as part of PKH).
- Providing a modest monthly grant for the elderly is affordable. For example, were Indonesia to provide every individual over the age of 70 with IDR300,000 a month, this would cost less than 0.2% of GDP.
- Indonesia during the last 7 years, is currently experiencing economic growth of 5.5%. **The Indonesia development focuses on the priority of the human capital investment, the infrastructure and the social assistance program for reducing poverty and inequality.** At the same time, there is a need for creating a potential fiscal space for social investment in anticipating the aging population/

CHANGES OF POPULATION PROFILE: AGING POPULATION



INDONESIA'S FERTILITY RATE IS DECREASING

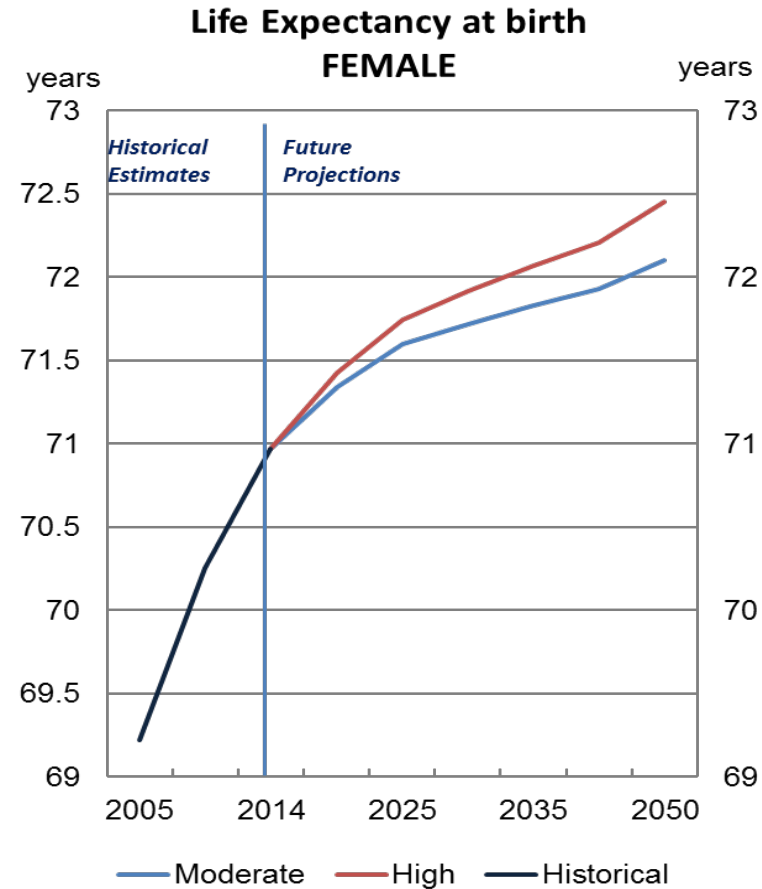
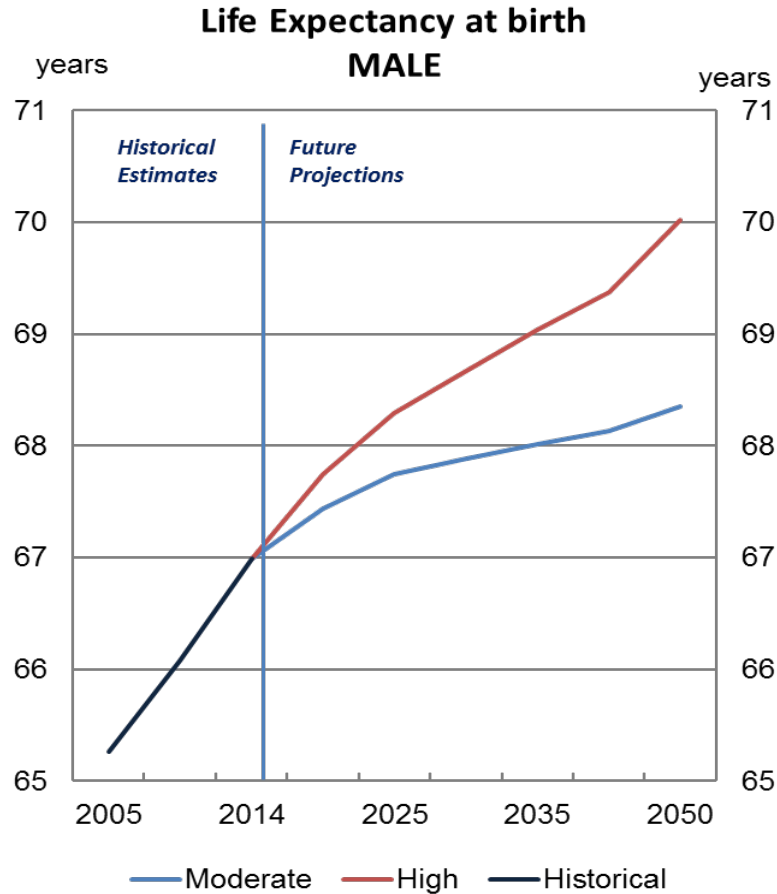
influenced by government family planning programs (KB) and quality of life



Source: World Bank

LIFE EXPECTANCY INCREASES

along with health access improvements



- Increasing in public awareness and health help improve life expectancy
- Health, education, and social protection programs help improve the quality of life

Source: World Bank

INDONESIA DEMOGRAPHIC POTENCY

large source of labor force dan market potential



The large number of population provides a large source of human capital. In ASEAN region, 38% of productive



Increased incomes provides a great source of demand (including financial sector)



Large productive young population as source of economic growth



Increased of public income could increase the saving rate

WHAT NEXT: Indonesia Demographic Challenges



<https://pixabay.com/en/women-indonesian-parents-family-1921656/>



www.shutterstock.com - 262865381



<https://www.flickr.com/photos/celebrityabc/26594222830>



www.metrotv.com (FOTO: MI/Panca Syurkani)

1. AGING POPULATION

2. URBANIZATION

3. GROWING MIDDLE CLASS

**4. NEW SOURCE OF GROWTH →
new sector of economy**

INDONESIA IS UNDERGOING A DEMOGRAPHIC TRANSITION

with a gradual increase of aging population

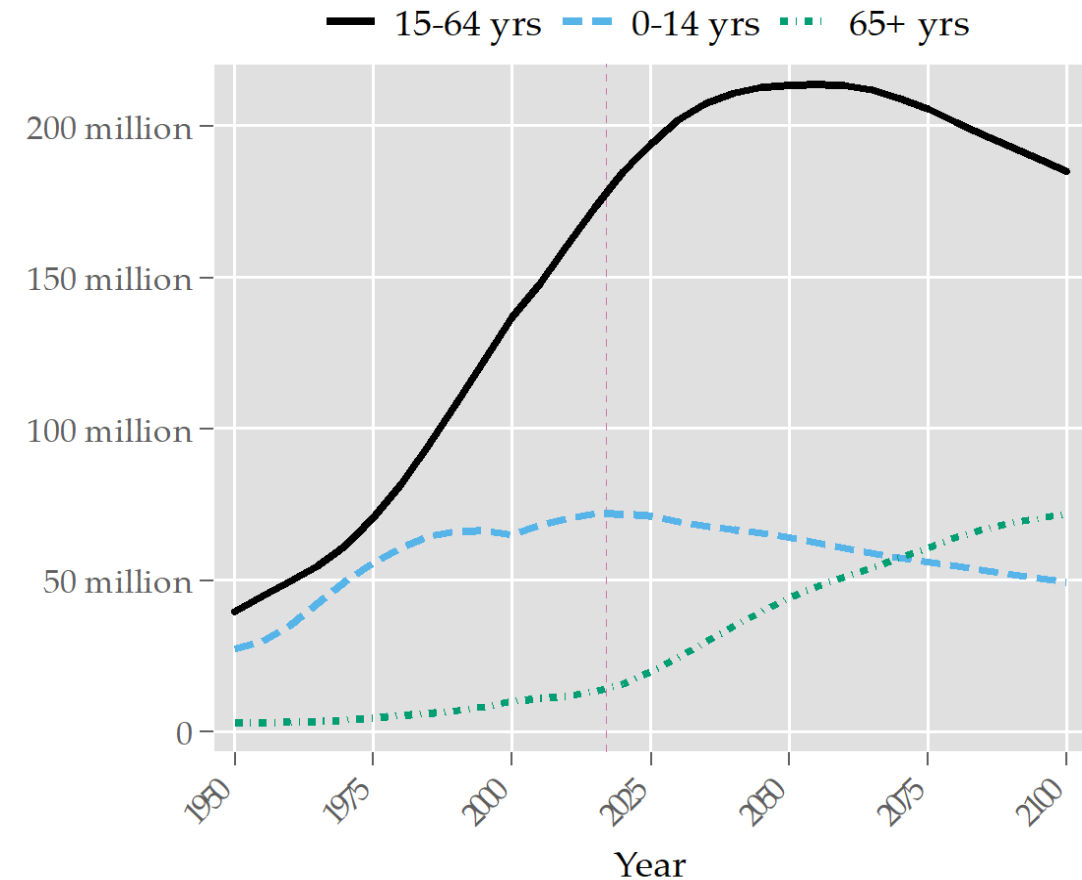
Population dynamics:

- The **child population** is peaking and starting to decline
- The **working-age population** will continue to grow un century
- The number of **older people** is rising and accelerating

Getting ahead of the curve:

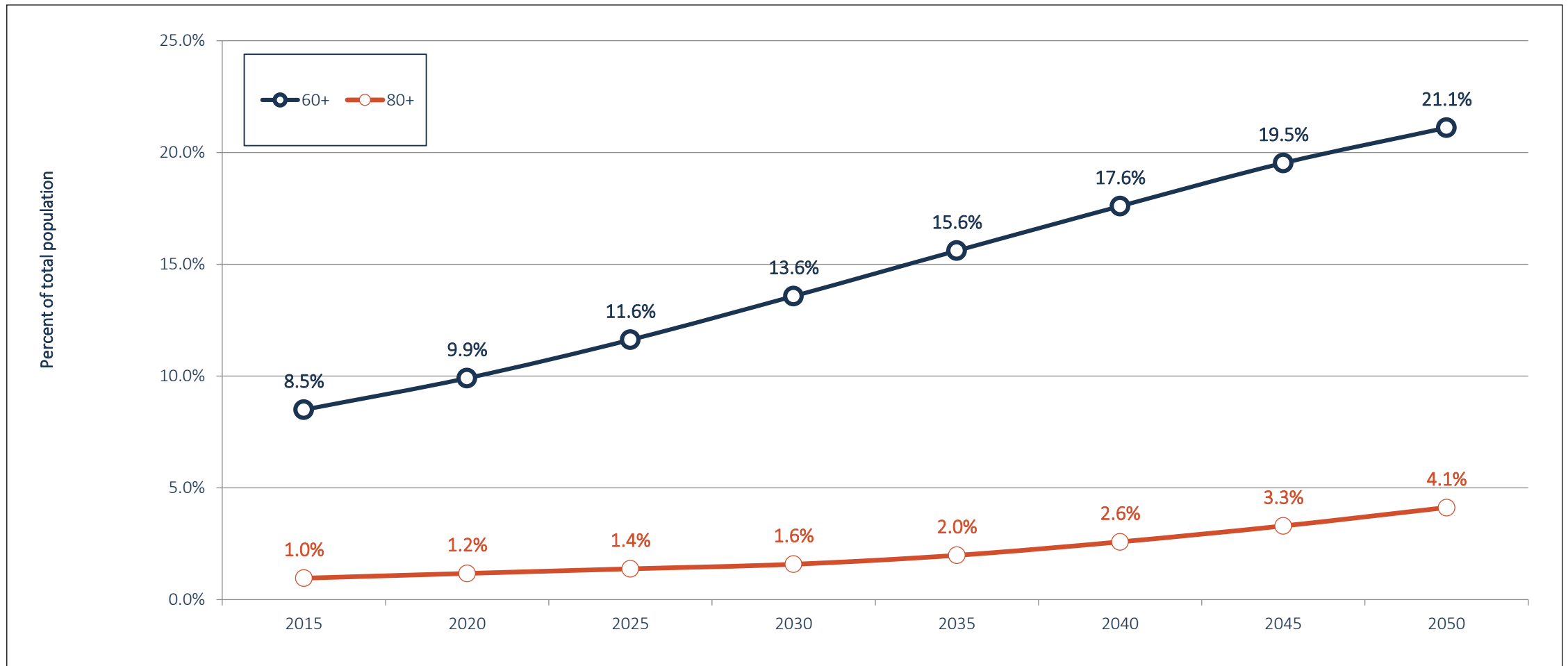
- **Old-age poverty** becoming a growing challenge
- Now is the time to put in place a comprehensive soci protection system for the elderly

Population size, by major age groups, 1950-2100



Data source: UN DESA, World Population Prospects: The 2017 Revision

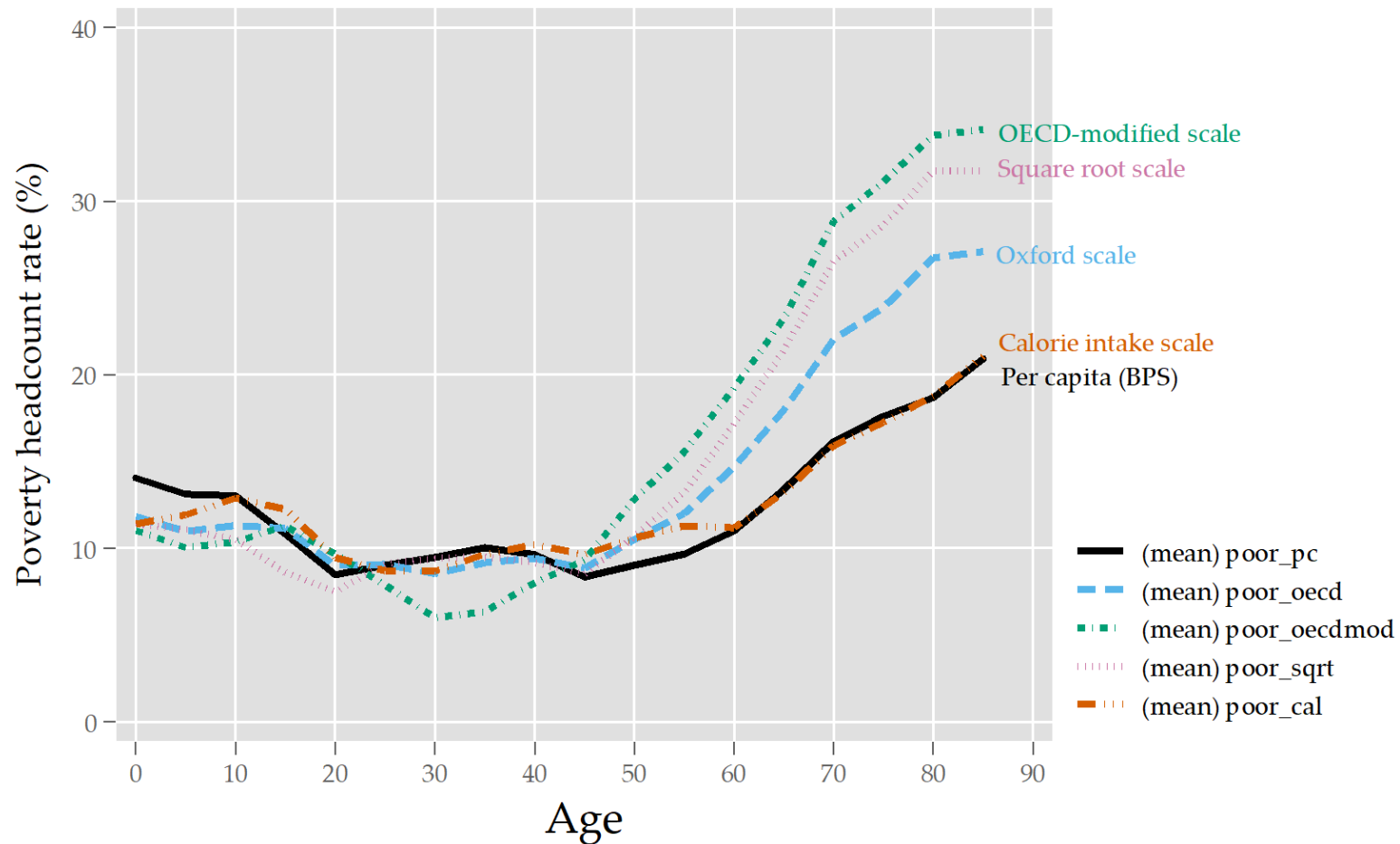
GROWTH PROJECTION OF INDONESIA ELDERLY POPULATION



Source: Susenas 2017, analyzed by TNP2K/MAHKOTA for the forthcoming of Social Protection Strategy

POVERTY INCREASES SHARPLY AS PEOPLE GROW OLDER

Percentage of people below the poverty line, by five-year age group



When using alternative methods for measuring economic well-being, old-age poverty is even higher

Source: Susenas 2016, analyzed by TNP2K/MAHKOTA for the forthcoming of Social Protection Strategy

THE CAPACITY TO WORK DIMINISHES IN OLD AGE

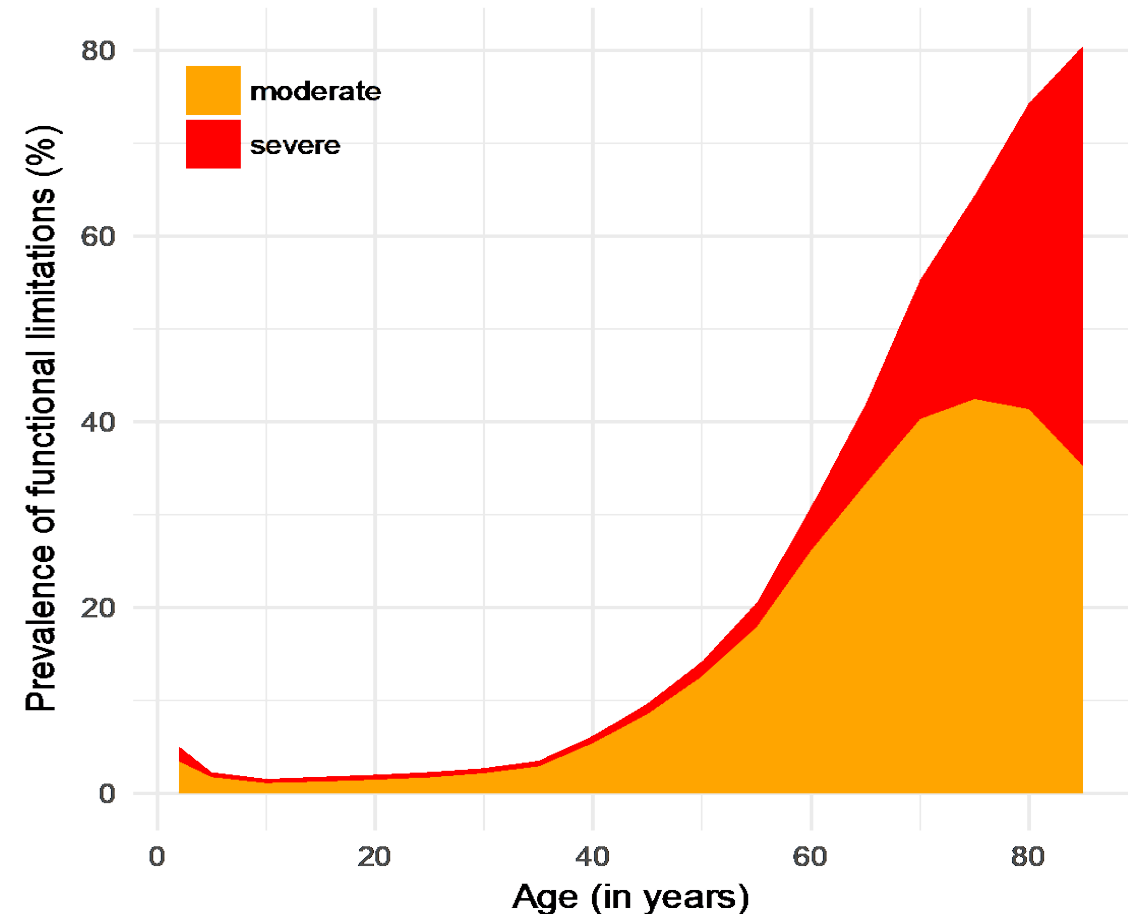
Capacity to work:

- More than 55% of people over 65 years experience moderate or severe **functional limitations**
- Disability and ill health are key reasons for **reducing or stopping work**

Labour market engagement:

- Levels of **employment** start dropping after age 50, but many (must) continue to work to meet basic needs

Percentage of people experiencing difficulties in undertaking basic activities, by age



Source: Supas 2015, analyzed by TNP2K/MAHKOTA for the forthcoming of Social Protection Strategy

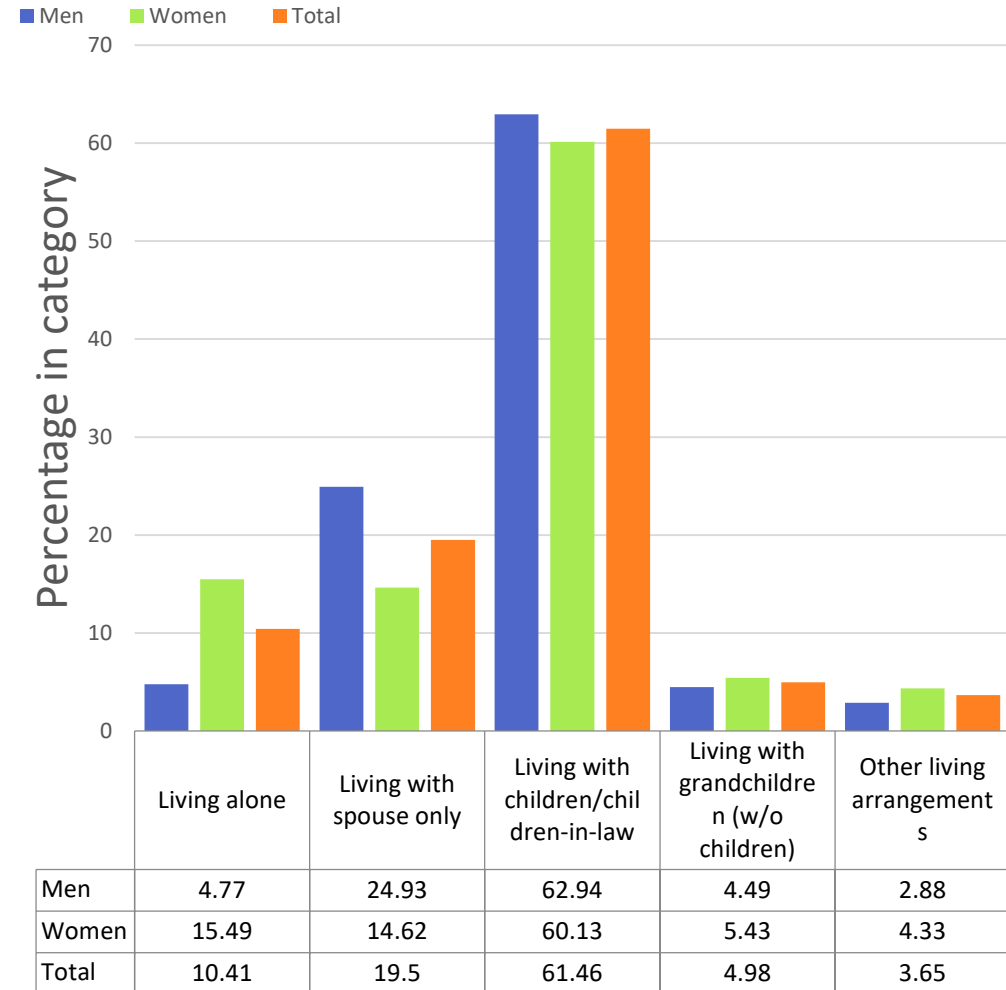
FAMILY SUPPORT HELPS, BUT IS OFTEN INSUFFICIENT

Intergenerational support:

- 6 in 10 elders live with their children
- 65% say they **rely on their children** for financial help, but most elderly do not want to become dependent on others

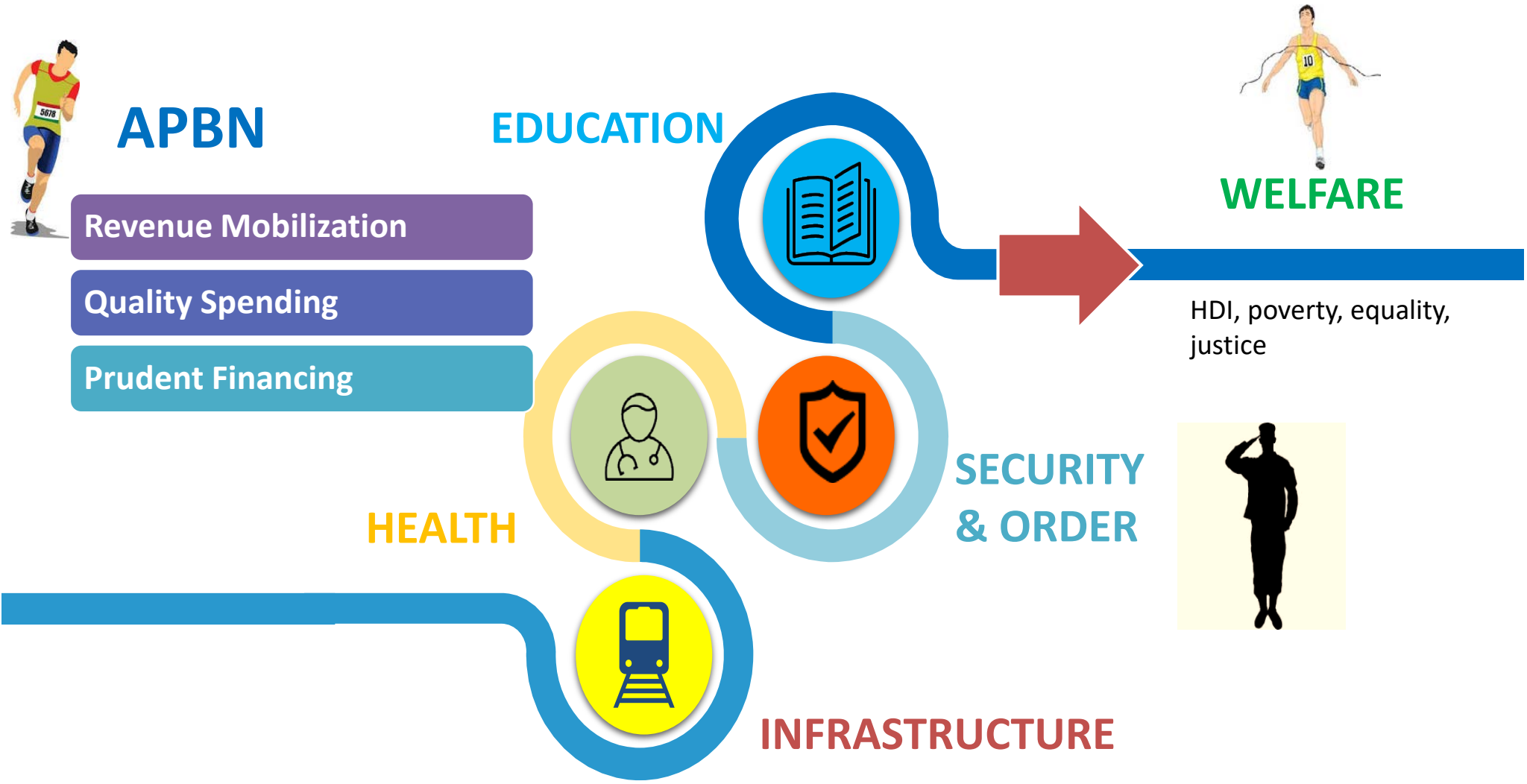
Greater vulnerability of women:

- Women comprise a rising share of older population (higher life expectancy)
- 56% of older women are widowed, compared to 16% of older men
- They have much lower participation in labor force than men.

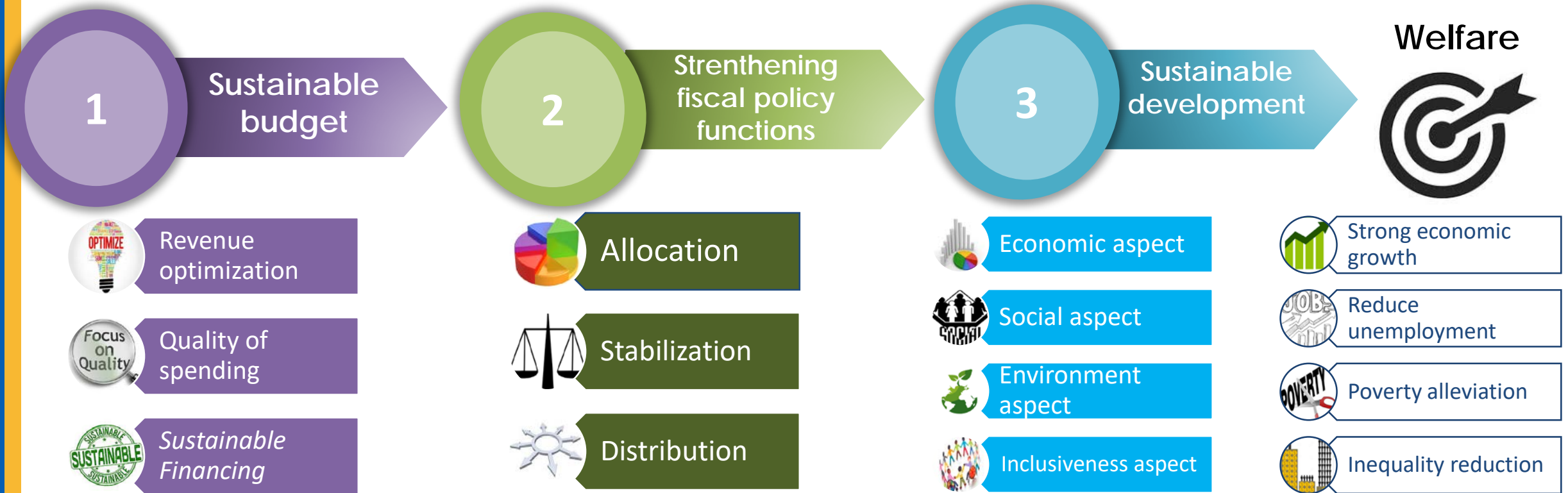


Source: Supas 2015, analyzed by TNP2K/MAHKOTA for the forthcoming of Social Protection Strategy

APBN SERVES A FISCAL INSTRUMENT IN ACHIEVING WELFARE



FISCAL STRATEGY TO IMPROVE WELFARE



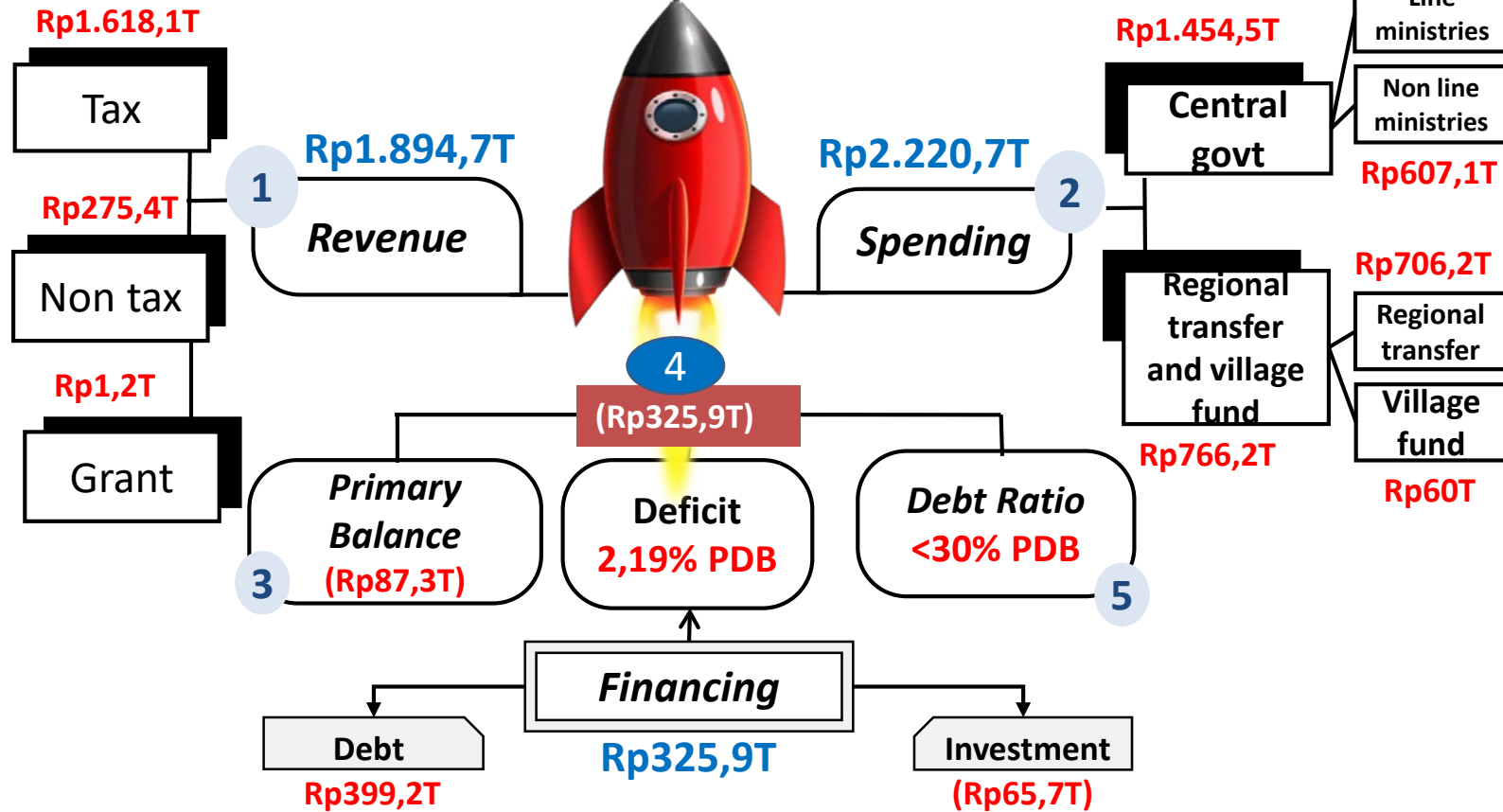
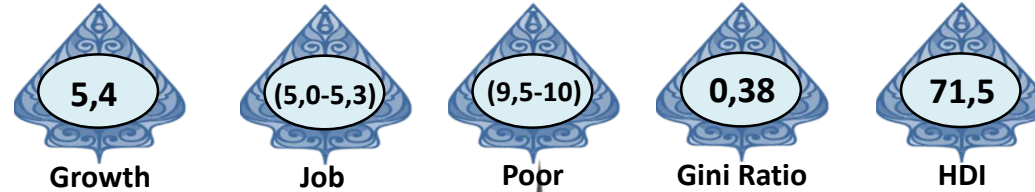
- **A sound budget serves as a basic foundation to achieve welfare**
- By having a sound budget, key fiscal policy functions would work optimally to boost sustainable development
- **Sustainable development will promote welfare**

BUDGET IN 2018 → FOR A BETTER DEVELOPMENT OF INDONESIA

Economic Stimulus and improving welfare

Revenue optimization

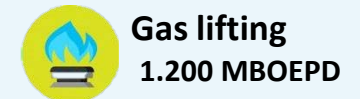
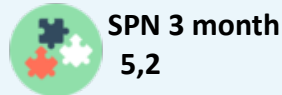
- 1 Tax based improvement
- 2 Reward and punishment
- 3 Improving IT and data accuracy (i.e: AEol)
- 4 Fiscal incentives for strategic industries
- 5 Asset and resource management



Quality of spending

- 1 Material spending efficiency
- 2 Productive spending
- 3 Budget refocusing (infrastructure and education)
- 4 Fiscal decentralization
- 5 Social protection program (sinergy between subsidy and social assistance)

MACROECONOMIC ASSUMPTION



STRATEGIC POLICY IN 2018

Fiscal risk mitigation

- SAL (fiscal buffer):
- Fiscal reserve fund:
- Regulation (crisis clause);
- BSF.

Public service improvement

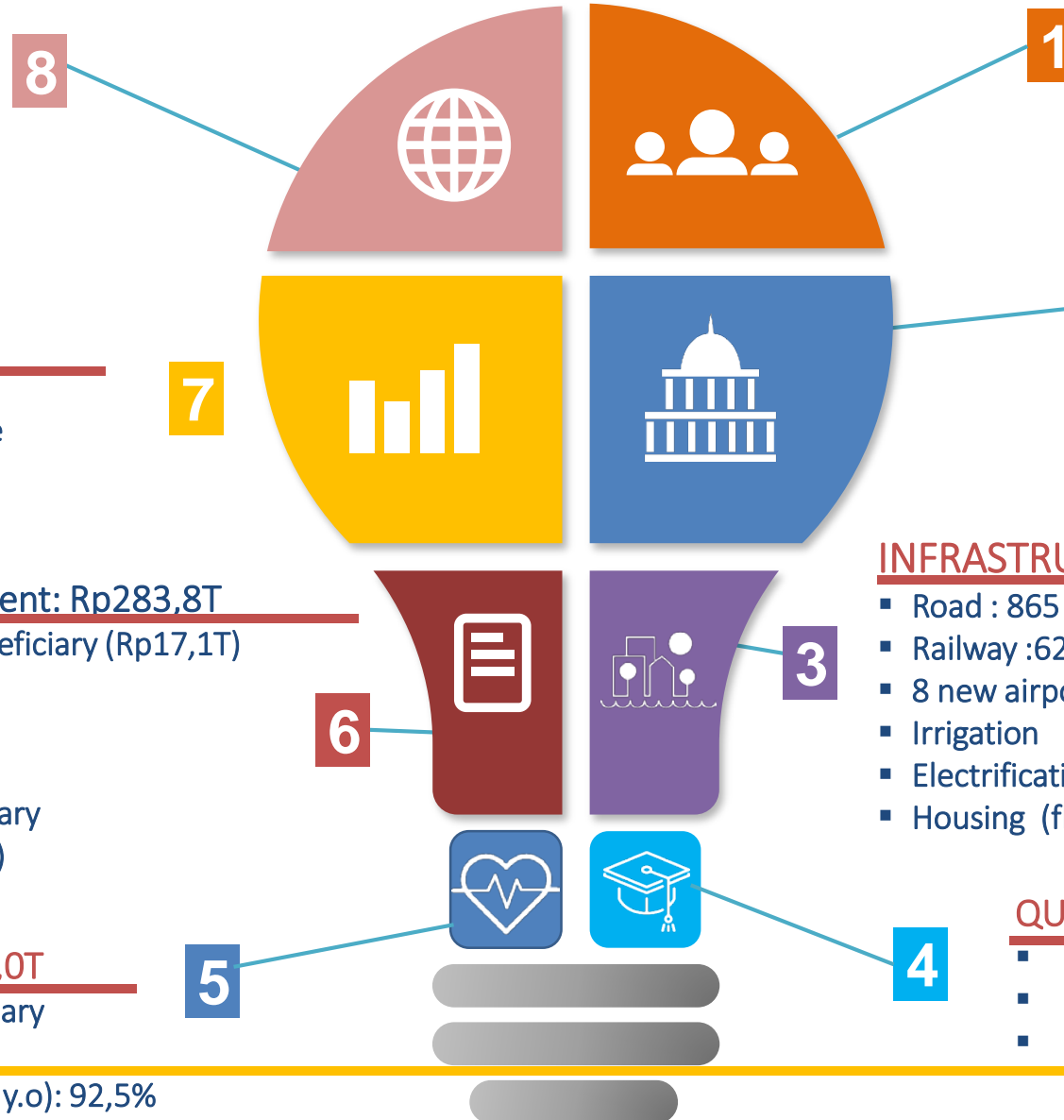
- Bureaucracy reform
- Government employee incentive

Poverty and inequality improvement: Rp283,8T

- Family hope program: 10 mil beneficiary (Rp17,1T)
- BidikMisi: 401,5 student
- JKN :92,4 mil target (Rp25,5T)
- PIP:19,6 mil student (Rp10,5T)
- Food assistance :15,6 mil beneficiary
- Village fund:74.958 village(Rp60T)

HEALTH QUALITY: RP111,0T

- PBI(JKN):92,4 mil beneficiary
- Health facility
- Child immunisation (0-11 y.o): 92,5%



1 Revenue optimization

- Improving *tax ratio* (tax base, new sources, compliance);
- Improving State asset management;

2 Expansive strategy

- Manageable deficit(2,19% GDP)
- Debt ratio below 30% GDP
- Productive use of debt

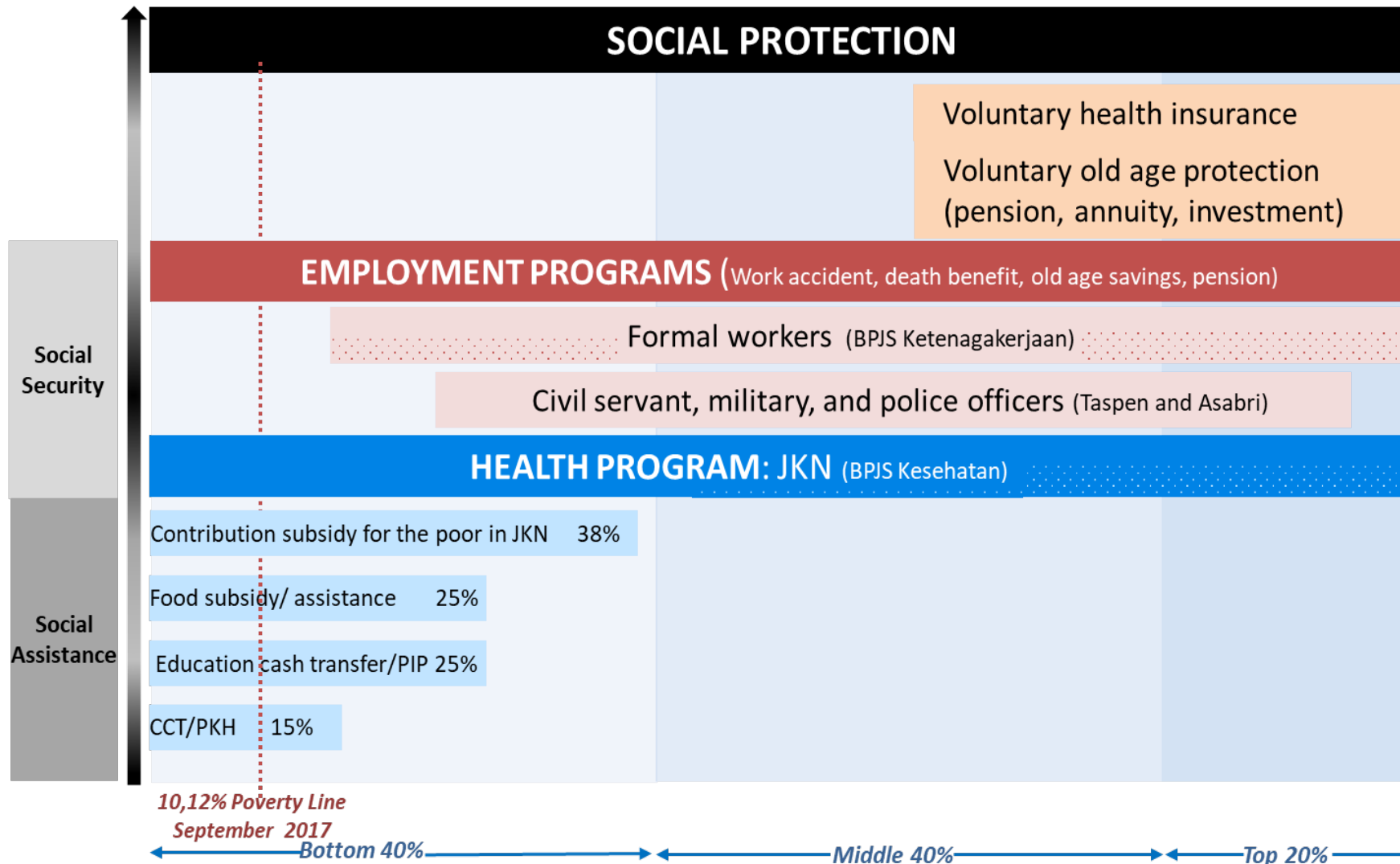
INFRASTRUCTURE ALLOCATION: RP410,4T

- Road : 865 km
- Railway :620 km'sp
- 8 new airport
- Irrigation
- Electrification ratio 95,15%;
- Housing (flat) 13.405 unit

QUALITY EDUCATION: RP444,1T

- PIP:19,6 mil student
- School operational aistance (BOS)
- Rennovation : 61,2 thousand building

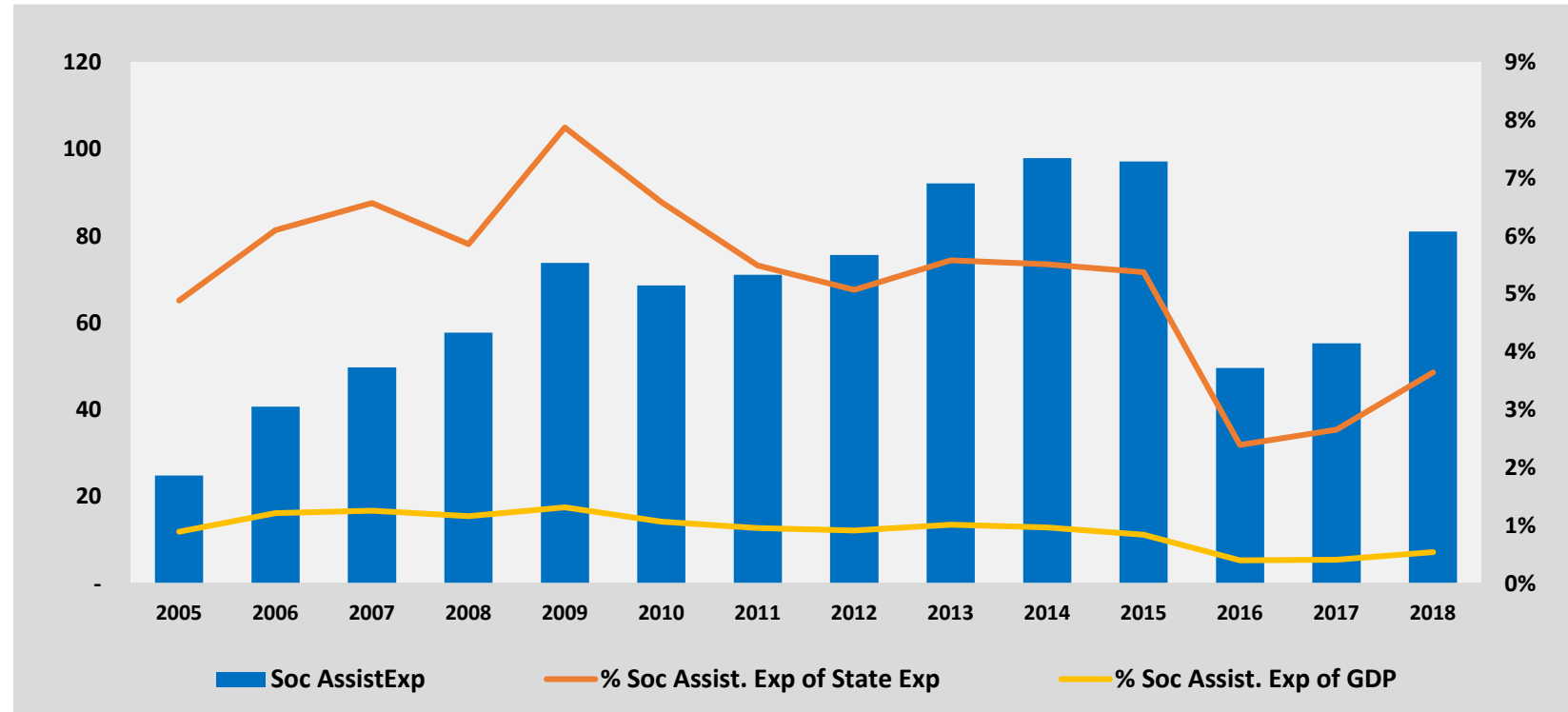
SOCIAL PROTECTION SCHEME IN INDONESIA: *missing piece on the scheme for elderly*



EXISTING & CURRENT POLICIES

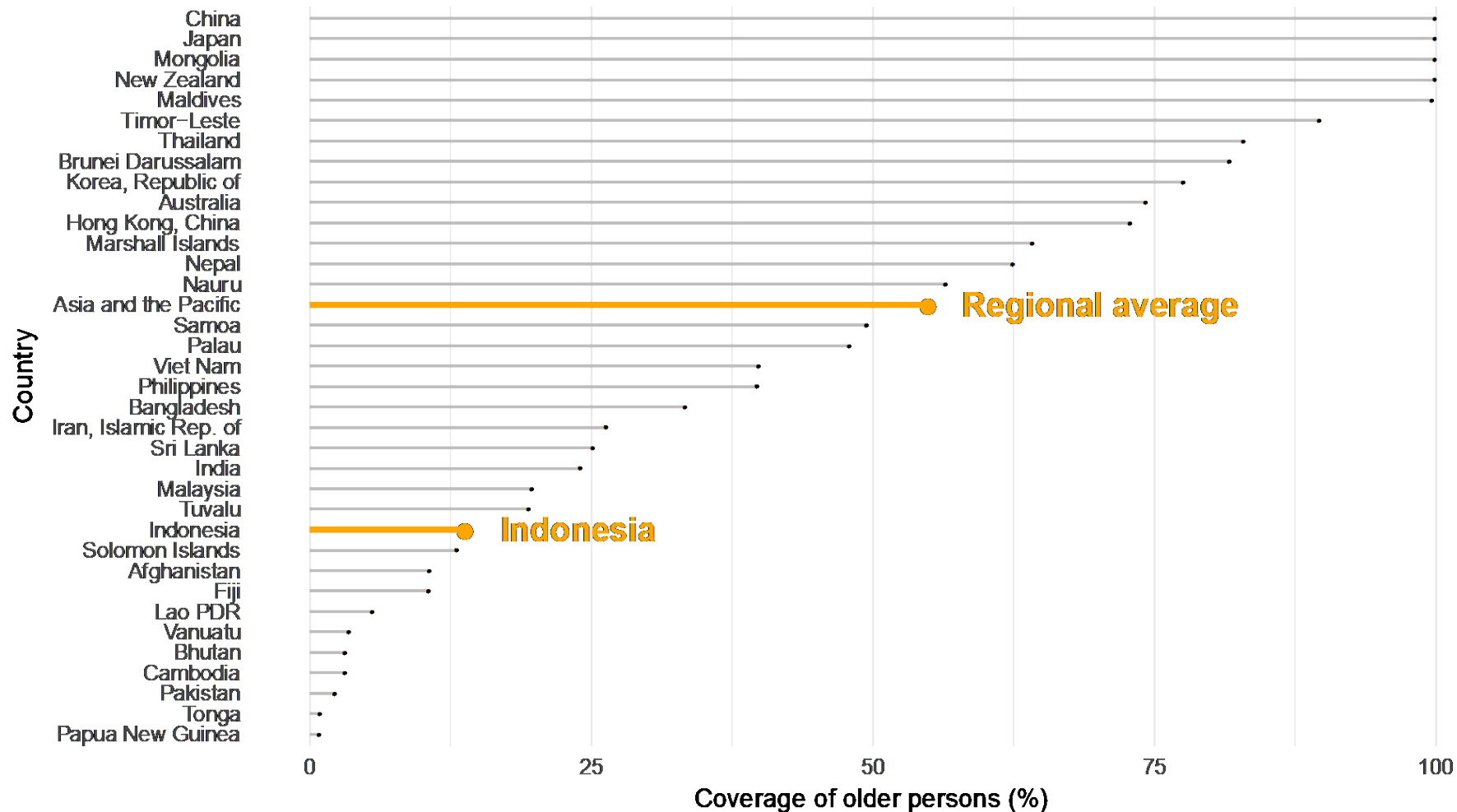
- Focus on the bottom 40%
- Improving targeting accuracy using unified single database system
- Simplifying distribution mechanism using non cash
- Improving access to basic services (health and education)
- Empowerment: improving access to capital
- Synergy between social protection programs and subsidy
- Social protection for elderly is just small part of PKH (shifted from ASLUT)

SOCIAL ASSISTANCE EXPENDITURE 2005-2018



- **Indonesia explicitly had social assistance expenditure since 2005.** Prior to 2005, social expenditures mostly allocated through subsidy and provide supply side for basic services such as health and education.
- During period of 2005-2015, social assistance expenditures were about 0.84-1.31% of GDP then decreased to about 0.40-0.55% in 2016-2018 due to reclassification and better targeted social assistance.
- Significant increase in 2018 due to reclassification of rice subsidy into food assistance (BPNT)

INDONESIA LAGS BEHIND MOST ASIA-PACIFIC COUNTRIES IN SUPPORTING ITS ELDERLY POPULATION



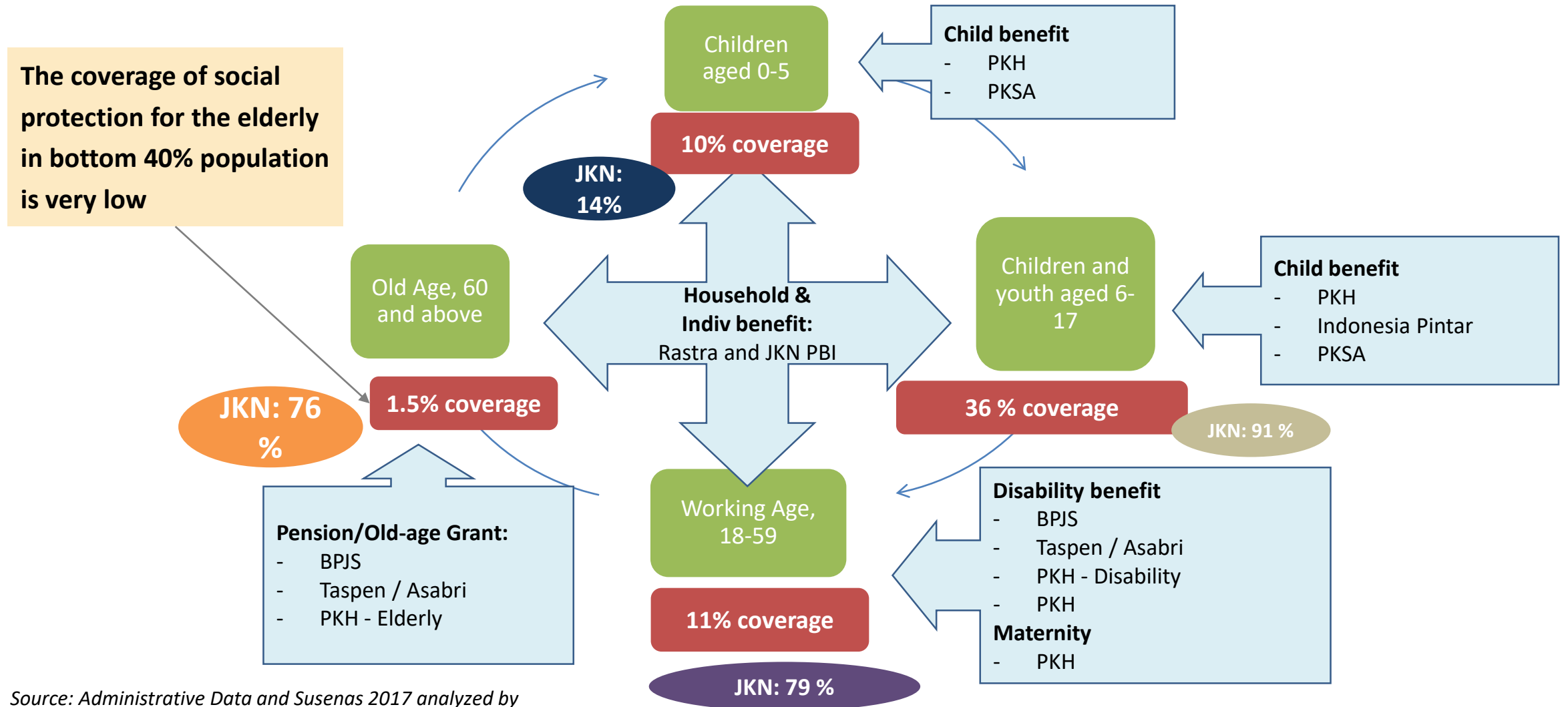
Data source: ILO (2017)

INDONESIA'S SOCIAL PROTECTION PROGRAMS ACROSS THE LIFE CYCLE



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Bottom 40% population

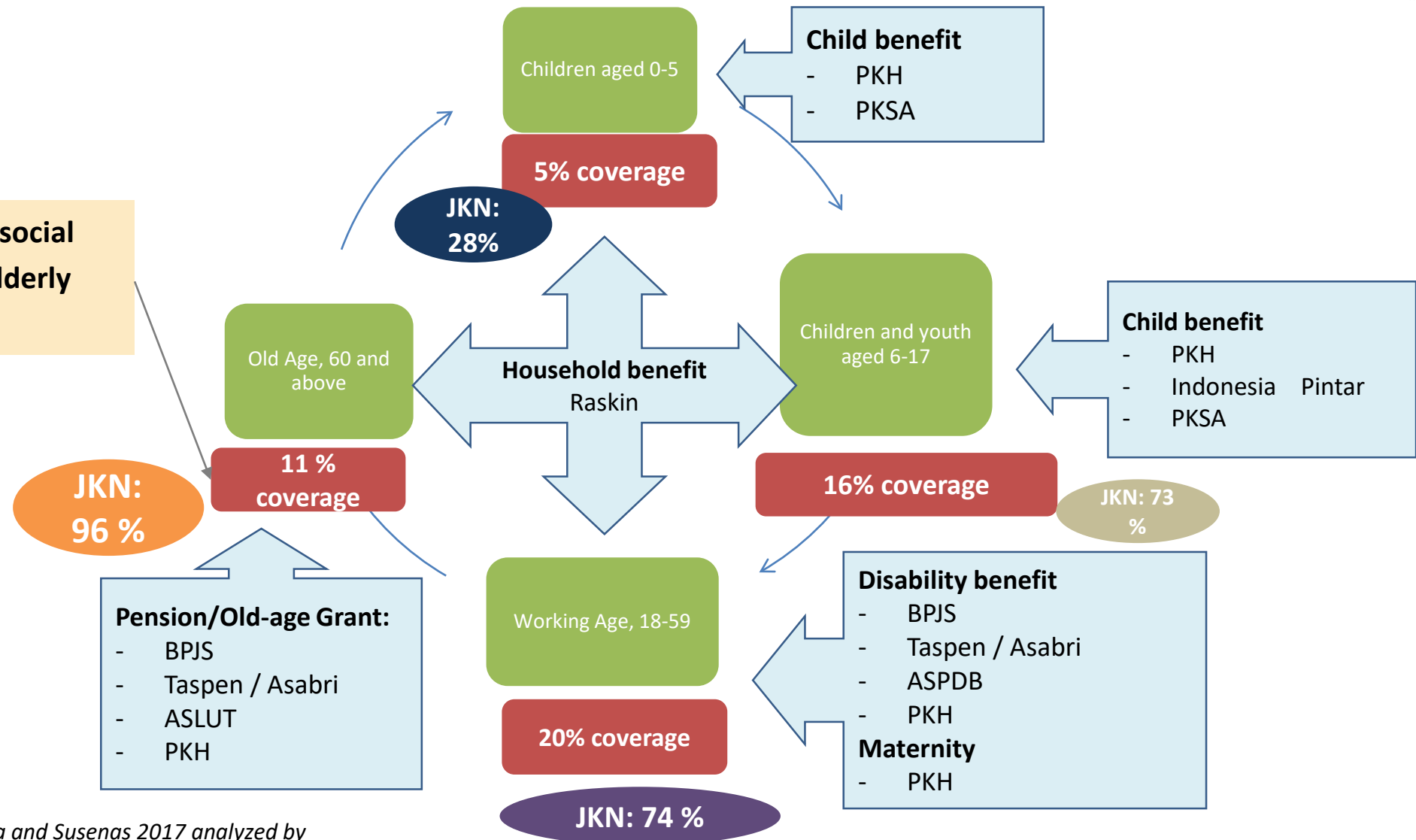


Source: Administrative Data and Susenas 2017 analyzed by TNP2K/MAHKOTA for the forthcoming of Social Protection Strategy

INDONESIA'S SOCIAL PROTECTION PROGRAMS ACROSS THE LIFE CYCLE

All population

In total population, social protection for the elderly covers about 11%.

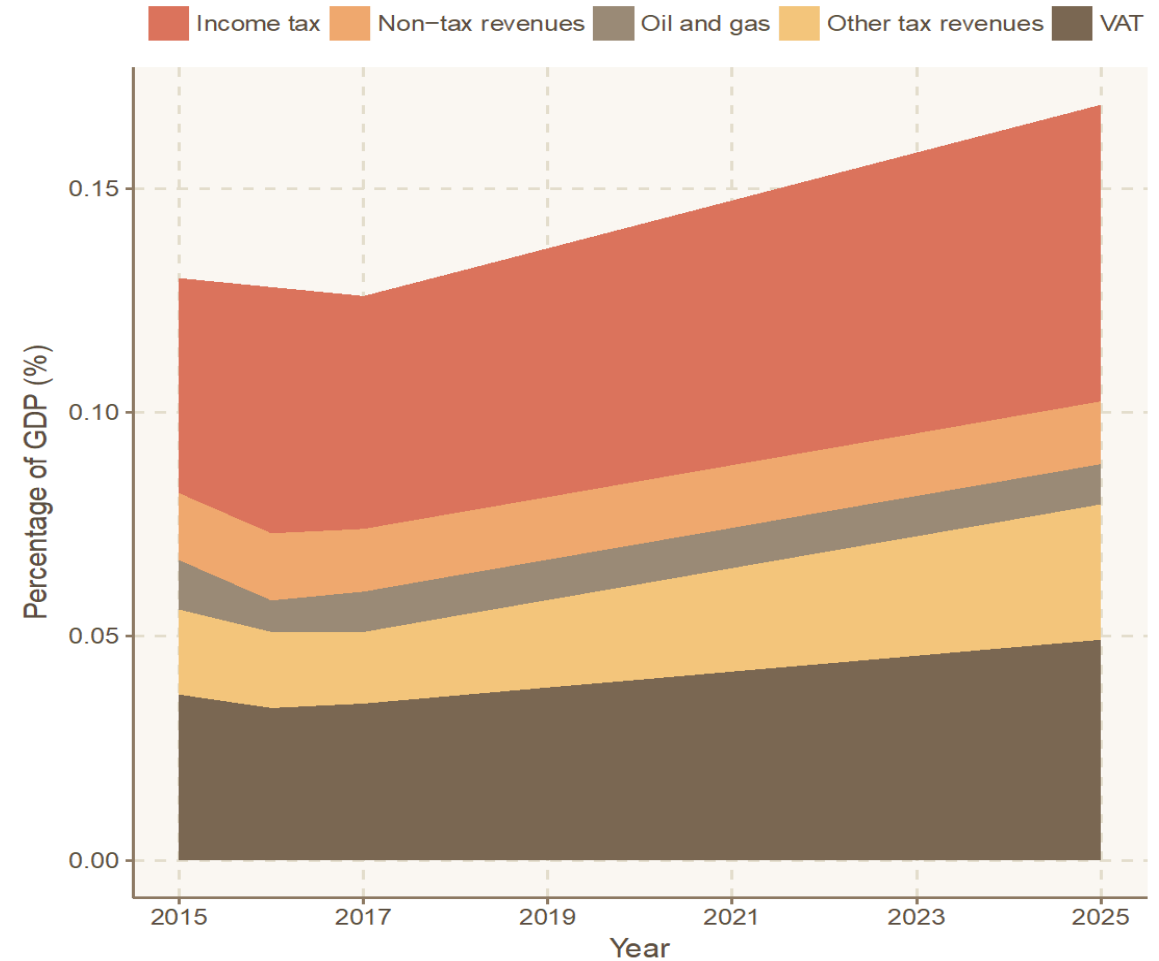


Source: Administrative Data and Susenas 2017 analyzed by TNP2K/MAHKOTA for the forthcoming of Social Protection Strategy

FISCAL SPACE FOR FUNDING SOCIAL PROTECTION PROGRAMS

Modelling future revenues:

- Economic **growth** as forecasted by IMF until 2022, and 5.5% in 2023-2025
- Government **tax revenue** as share of GDP grows from 10.6% in 2017 to about 14.9% in 2025
- Budget **deficit** about 2.4% of GDP (below 3% of GDP)
- Revenue would grow from IDR 1.618 trillion to 3.620 trillion in 2025, creating **sufficient fiscal space to invest in social protection while other critical sectors can continue to grow**
- Sensitivity analysis using range of alternative parameters



Source: TNP2K/MAHKOTA Analysis for the forthcoming of Social Protection Strategy

CONCLUSION

Aging population is a risk to mitigate.

- The highest rates of extreme poverty are found among the elderly
- There would be significant increase of health cost for the elderly
- Increase the burden for the family that could lead to decreasing productivity

Fiscal reform focuses on revenue mobilization to create a larger fiscal space for development, simultaneously mitigate for aging population

Indonesia is currently developing social protection system using life cycle approach, including social protection schemes for the elderly