

## ***TaxFlash***



### ***What employers, health insurance and pension management providers should know about the new social security scheme?***

Starting from 1 January 2014, the Government of Indonesia aims to have a comprehensive social security system in place to cover all Indonesian citizens and not only employees as in the current existing system. The transition from the current system will be done gradually. The changes start by reforming the current social security program through the issue of Law No.24/2011 (Law-24) regarding Social Security Agencies (*Badan Penyelenggara Jaminan Sosial/BPJS*) on 25 November 2011. Law-24 was issued in conjunction with Law No.40/2004 regarding National Social Security System.

The compulsory requirement to join the new social security scheme (both health and worker's social security) applies to all employees, including expatriates who have been working in Indonesia for more than six months. Previously, expatriates did not need to be enrolled in Indonesia's social security scheme if they could provide evidence that they were covered by a social security program of the same type in their home country.

Important points from the new social security scheme based on Law-24 are set out below.

## New structure of social security program

Insurance	Agent		Scope
	Old	New	
Health	<ul style="list-style-type: none"> <li>PT Jamsostek</li> <li>PT Askes</li> <li>Ministry of Health</li> <li>Ministry of Defence, National Army, Police Department</li> </ul>	BPJS for health insurance ( <i>BPJS Kesehatan</i> )	Basic health insurance
Worker's Social Security	<ul style="list-style-type: none"> <li>PT Jamsostek</li> <li>PT ASABRI</li> <li>PT TASPEN</li> </ul>	BPJS for worker's social security ( <i>BPJS Ketenagakerjaan</i> )	a. Accident insurance b. Old age savings c. Death insurance d. Pension (new)

## Transition timeline

BPJS	1 January 2014	1 July 2015	1 January 2019
Kesehatan	BPJS Kesehatan starts to manage health insurance <u>for existing participants</u>		BPJS Kesehatan fully operates health insurance <u>for all citizens</u> , including all employees who are currently covered under employer appointed health insurance
Ketenagakerjaan	PT Jamsostek is converted to BPJS Ketenagakerjaan. Subsequently, BPJS Ketenagakerjaan starts to manage accident insurance, old age savings, and death insurance <u>for existing participants</u>	BPJS Ketenagakerjaan fully manages accident insurance, old age savings, death insurance, <u>as well as pension for all citizens</u>	

By the time BPJS Ketenagakerjaan starts its operation, Law-24 will effectively revoke Law No.3/1992 regarding Worker's Social Security and Government Regulation No.36/1995 regarding Determination of Worker's Social Security Agent.

## Sanctions

Employers that do not register their employees for the social security program under BPJS will be subject to administrative sanctions in the form of: a) a warning; b) a penalty; and/or c) loss of certain public services, such as business license processing.

## Implementing regulations

The operations of BPJS Kesehatan and BPJS Ketenagakerjaan will be stipulated further in an implementing regulation.

The President issued Regulation No.12/2013 (PR-12) regarding Health Insurance on 23 January 2013. PR-12 is issued to govern the operation of BPJS Kesehatan. Detailed provisions regarding health care insurance, such as a contributions tariff, will be regulated further in a specific regulation.

To date, the implementing regulation of BPJS Ketenagakerjaan, including pension, has not been issued.

## Health insurance

Some of the key notes from PR-12 are set out below.

## *Participants*

Currently, a company which provides better company health insurance to its employees can choose not to join the health care program under PT Jamsostek. It is also not mandatory for companies to cover the health insurance of employees' family members.

Under this regulation, all employees and their families (spouses and children) must be covered under BPJS Kesehatan. The regulation does not make it clear whether the employer must bear the contribution for the employee's family members.

## *Health insurance benefits*

Health insurance provided by BPJS Kesehatan covers medical and non-medical benefits which may vary depending on the contribution amount. The details of health insurance benefits and type of health benefits excluded under BPJS Kesehatan's coverage are provided in PR-12.

Participants may join an additional health insurance program if it is considered necessary. BPJS Kesehatan will then coordinate with the appointed health insurance provider in relation to the health benefits received by the participants.

## *Administrative mechanism*

The detailed administrative mechanism for BPJS Kesehatan will be stipulated further in a specific regulation, but the registration process under BPJS Kesehatan is similar to PT Jamsostek in general.

## *Premium contributions*

Employees' health insurance contributions are borne together by the employer and employee. However, the detailed percentages are yet to be governed.

## *Implementing regulations*

The following areas of BPJS Kesehatan will be regulated further in a specific regulation:

- a) Participant registration procedure;
- b) Tariff of health insurance contributions;
- c) Contribution payment procedure;
- d) Administrative penalty procedure;
- e) List of health service providers; and
- f) Indonesians working overseas.

## **Key message**

The operation of BPJS may change the employee benefit cost structure for employers and the business plan or projection for health insurance and pension management providers, depending on how the corporate clients react to this new system. Earlier

communication with corporate clients may be beneficial in this regard. In this regard, we highlight several important points to be considered by employers as well as health insurance and pension management providers.

### 1. By employers:

- Deductibility of employees' social security cost borne by a company in its Corporate Income Tax calculation. In regard to old age savings and pension, Income Tax Law No.36/2008 stipulates that the contributions may be deductible for the company if paid to a pension fund the establishment of which has been legalized by the Minister of Finance. While the establishment of BPJS Ketenagakerjaan is through issuance of a Law, this is similar to the establishment of PT Jamsostek. Therefore, we believe that the compulsory contribution should be deductible as with the contribution to PT Jamsostek.
- Actual cost incurred for pension contributions may impact the provision requirement under our accounting standard (PSAK 24).
- Employers need to assess the scope of their existing employees' health insurance coverage as compared to BPJS Kesehatan in order to avoid overlapping health insurance costs. Please contact your health insurance provider to anticipate any potential top-up arrangement. If the current scheme does not cover health insurance for family members, there is a potential additional cost for employers.
- Anticipate communication with employees and/or labour union to inform them about additional health contributions which are potentially to be borne partly by employees starting in 2019 and potentially pension contributions (subject to implementing regulation on pension).

### 2. By health insurance and pension management providers:

- Health insurance providers should assess the possibility to be appointed and establish cooperation with BPJS Kesehatan. What kind of administrative works have to be done in regard to this matter?
- How to maintain the existing pension portfolio if clients must use BPJS Ketenagakerjaan as their pension management provider?

Please contact our Laksmi Djuwita and Djumanto if you need assistance on any aspects of your health insurance and social security arrangements.

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