

Law & Policy Group

GRIST

Indonesia issues regulations to implement labor reforms

By Jovita Sadrach, Fiona Webster and Stephanie Rosseau
5 May 2021

Government Regulation No. 35 of 2021, effective 2 Feb 2021, implements certain measures included in Indonesia's Job Creation Law. The regulation includes changes to the calculation of pension and termination benefits for permanent employees, fixed-term contract (FTC) employees, outsourcing arrangements, and overtime provisions.

Other government regulations to implement the Job Creation law include the employment of foreign manpower (Government Regulation No. 34), wages (Government Regulation No. 36), and unemployment insurance benefits (Government Regulation No. 37).

Highlights

- **Pension and termination benefits.** The amount of severance paid to employees who are not enrolled in a pension program was reduced to 1.75 times the severance pay factor — down from two times. The compensation allowance is maintained in the new regulation, but the amount paid by employers is now discretionary — the 15% amount is no longer regulated, and is now excluded from the calculation of the pension benefits formula. Overall, the cap on the statutory pension benefits paid to employees is reduced from 32.2 times wages to 25.7 times wages.
- **Disability benefits.** The maximum amount of disability benefits is reduced to one times the gratuity pay, down from two times the gratuity pay. The 15% compensation allowance is no longer regulated, and is excluded from the calculation of the disability benefits formula. The maximum amount of disability benefit is 28 times wages, down from 43.70 times wages.
- **Death benefits.** The maximum amount of death benefits is reduced to 28 times wages, down from 32.2 times wages. The 15% compensation allowance is now excluded from the death benefits formula.
- **Fixed-term contracts.** The regulation sets out three types of FTCs: Contracts based on a time period, completion of work, and other nonpermanent work. FTC employees must be registered online within three days of their signature and the maximum duration of a fixed-term contract is five years, including extensions. Employers must now pay compensation to FTC employees with one or more months of service upon the expiration date of their contract. The amount paid will depend on the duration of the FTC, extensions, and if the contract is terminated early by either party.

- **Outsourcing.** The employment relationship between an outsourcing or staffing agency and the employee can be based on a permanent contract or a fixed-term contract, subject to meeting certain criteria.
- **Overtime.** The maximum amount of overtime hours has increased to four hours per day, and 18 hours per week. Employment contracts, company regulations or collective agreements must stipulate the job roles for which no overtime is paid. The regulation also specifies the roles for which no overtime is paid.

Related resources

Non-Mercer resource

- [Government Regulation No. 35 of 2021](#) (Indonesian) (Government of Indonesia, 2 Feb 2021)

Mercer Law & Policy resource

- [Indonesia reforms employment laws in wide-ranging areas](#) (9 Nov 2020)

Note: Mercer is not engaged in the practice of law, accounting or medicine. Any commentary in this article does not constitute and is not a substitute for legal, tax or medical advice. Readers of this article should consult a legal, tax or medical expert for advice on those matters.