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## MANAGEMENT OF THE CONVENTIONAL PENSION FUND AND SHARIA IN A REGULATORY AND PRINCIPLES PERSPECTIVE

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**ABSTRACT:** This article discusses the concept, regulation, and implementation of conventional and sharia pension funds in Indonesia. The aim is to provide a comprehensive understanding of the differences in principles, mechanisms, and challenges of the two systems. The method used is a literature study from primary and secondary sources. The results of the discussion show that sharia pension funds provide an alternative that is in accordance with Islamic sharia principles, although their implementation still faces regulatory challenges and public awareness. While conventional pension funds are more commonly adopted, they do not always pay attention to sharia values. Strengthening regulations, socialization, and sustainable investment are needed to support the sustainability of these two pension fund systems.

**Keywords:** Pension Fund, Sharia, Conventional, Investment, Financial Services Authority

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## INTRODUCTION

Since the past, even until now, many people want to become civil servants because they crave pension funds after they stop working. The general perception of the Indonesian people shows that only civil servants or the army receive pensions. However, since the presence of Law No. 11 of 1992, pensions are not only the rights of civil servants or the army alone, but are also open to all workers, both private companies and individual jobs or independent jobs. Through this law, the establishment of the Employment Pension Fund (DPPK) and the Financial Institution Pension Fund (DPLK) is emphasized, in essence, pension programs can create peace of mind for employees because their welfare in old age will be guaranteed, which in turn, they will be more loyal to their company and will be more productive. For employers, pension programs will prevent the emergence of termination of employment programs (PHK) as part of the company's productivity program. Therefore, if all parties are consistent and have a big role, in this case, productivity will increase. Pension programs are divided into two; namely, first, a defined benefit pension program (PPMT) where the program whose benefits are determined in pension fund regulations that are not defined contribution pension programs. Second, a defined contribution pension program, where the contributions are set out in the pension fund regulations and all contributions and their development results are recorded in each participant's account as pension benefits. When observing private companies, it turns out that only a few have complied with Law No. 11 of 1992, which requires them to provide pension funds to workers. There are still many companies that set aside part of their funds for pension programs so that there are still many workers who have not enjoyed their old age after not working. From the brief description above, it is clear how important pension funds are for everyone (Veithzal Rivai, 2007).

With a pension program, a person's welfare and income program in old age will be more secure. Meanwhile, for companies, a pension program can be a means to guarantee employee productivity, because by participating in a pension program, it can create peace of mind for employees who know that their welfare after their retirement has been guaranteed, in turn they will be loyal to the company and will work more productively. In the view of Islam, there is no prohibition on any activity that can produce, let alone increase welfare.

## LITERATURE REVIEW

### 1. Definition and Concept of Pension Funds

#### a. Conventional Pension Funds

Conventional pension funds are legal entities that manage and run programs that promise pension benefits as referred to in the laws and regulations that are implemented, which aims to maintain continuity of income when entering retirement.

#### b. Sharia Pension Funds

Sharia pension funds are legal entities that manage and run programs that promise pension benefits as referred to in laws and regulations that are organized based on sharia principles. Sharia pension funds are programs or services from a legal entity that aims to provide pension benefits based on sharia principles in accordance with applicable laws and regulations. This program is an alternative to guarantee employee welfare from several risks that may occur in the world of work. Such as the risk of losing a job, old age, accidents that result in physical disability and even death. According to Dahlan Silvanita, pension funds are specifically collecting funds that aim to provide benefits to participants when they enter retirement, become disabled, or die. Pension fund programs are funds allocated to pay employees after they no longer work because they enter retirement (Silvanita, 2011).

#### c. Pension Fund Concept

In general, Pension funds based on sharia and conventional principles have the same goal, which is to provide security in retirement, only differing in the application of sharia principles. Here are some differences between sharia and conventional pension funds

##### 1) Contribution

In the mechanism of Islamic pension funds, contributions are interpreted as grants made between leaders and workers. Meanwhile, in the principle of conventional pension funds, contributions are an obligation between leaders and workers through the provision of pension funds.

##### 2) Investment

The next difference is the way the investment is managed. In sharia principles, funds collected from pension programs are managed with sharia investments only, such as in the money market and sharia capital market. Meanwhile, in conventional pensions you are free to choose any investment, both sharia and non-sharia.

##### 3) Investment Results

In the sharia pension program, investment results are made by dividing profits in a mudharabah manner, namely profits are divided in two between the capital owner and the manager. Meanwhile, in the

conventional pension fund system, investment results are distributed in the form of interest.

#### 4) Retirement Benefits

In the principle of sharia pension, pension benefits are obtained according to the results of sharia investments. Meanwhile, in the conventional principle, pension benefits are given depending on the results of non-sharia investments (Redaksi OCBC NISP, 2021).

In general, the basic concept of pension funds based on Islamic law that we need to understand Sharia pension funds use contracts to clarify rights and obligations the parties entering into the contract;

- a) Sharia pension funds are only allowed to invest in investment instruments that do not conflict with sharia principles. For example, when playing in the capital market, sharia pension funds are only allowed to own shares in the Sharia Securities List.
- b) Sharia pension funds are required to have at least a Sharia Supervisory Board to supervise operational activities to ensure they remain in accordance with sharia principles. The DPS will later provide a report on the results of its supervision to the OJK.

## 2. Pension Fund Regulations

Pension fund regulation in Indonesia is an important legal basis that regulates the management of long-term financial security for workers who have entered retirement. The main legal instrument that regulates this is Law Number 11 of 1992 concerning Pension Funds, which provides a definition and legal structure of pension funds as legal entities responsible for managing pension benefit programs in a sustainable and professional manner. This law was born as a form of social protection reform in the Indonesian employment system, with the aim of expanding the scope of protection not only for civil servants, but also for private sector employees and independent workers (Pemerintah Republik Indonesia, 1992).

According to the provisions of the law, there are two types of pension funds that are officially recognized, namely Employer Pension Funds (DPPK) and Financial Institution Pension Funds (DPLK). DPPK is a pension fund established by a company or legal entity that employs employees and aims to organize a pension program, either with a defined benefit or defined contribution, where the employer is obliged to provide funds periodically (Law No. 11 of 1992, Article 1 paragraph 2). Meanwhile, DPLK is a pension fund established by a financial institution such as a bank or life insurance company that provides pension services to individuals, both those who work formally and informally, with a defined contribution scheme.

This law also regulates in detail the legal status of pension funds. Based on Article 3, every pension fund must be a legal entity and must obtain approval from the Minister of Finance as a form of initial supervision of the legality of the institution's operations. Not only that, Article 4 states that every form of program that promises pension benefits and is linked to reaching a certain age

must first obtain approval and approval, unless the program is under the regulation of another special law (Law No. 11 of 1992, Article 4). This confirms that the implementation of the program

Pensions, whether private or public, should not operate without state oversight. One of the important components of pension fund regulation is the obligation for each organizer to prepare and implement Pension Fund Regulations (PDP). PDP contains all provisions governing the technical implementation of pension programs, starting from contribution payment mechanisms, investment management, distribution of pension benefits, to internal supervision. The preparation of PDP must be adjusted to statutory provisions and must be reported and approved by the relevant authorities before being implemented (Otoritas Jasa Keuangan, 2024).

Furthermore, regulations regarding the merger and separation of pension funds are regulated in Government Regulation of the Republic of Indonesia Number 76 of 1992, which provides an opportunity for two or more pension funds to consolidate or separate for the sake of efficiency and improving governance. In addition, this regulation also allows companies that do not yet have their own pension funds to join existing pension funds, as long as they meet the administrative requirements set. With this flexibility, the government provides broad room for business actors to form a pension protection system for employees (Pemerintah Republik Indonesia, 1992).

Sharia pension fund managers are also required to appoint a Sharia Supervisory Board (DPS), an internal body that ensures that all operational activities are carried out in accordance with the principles of fiqh muamalah. DPS is responsible for providing periodic reports to the Financial Services Authority (OJK) as the regulator of the financial services sector in Indonesia. OJK has the authority to regulate, foster, and supervise pension funds, both conventional and sharia, including in terms of determining investment provisions, risk limits, and fund health.

### **3. Types of Pension Fund Programs**

#### **a. Conventional Pension Fundss**

Conventional pension funds have several different types of programs, which can be tailored to an individual's needs. Here are some common types of conventional pension fund programs:

##### **1) Defined Benefit Plan (Defined Benefit Pension Program):**

This program provides definite benefits to pension recipients, with the amount of pension funds determined in advance. For example, employees are promised to receive pension funds of 80% of their salary while working with an additional value of 10% every 4 years.

##### **2) Defined Contribution Plan (Defined Benefit Pension Program):**

This program determines the amount of pension funds based on contributions paid during the working period. The amount of pension funds received depends on the investment results of these contributions.

### **b. Sharia Pension Fund**

Sharia pension funds are pension programs that are regulated based on sharia principles, both in management and benefits. Based on the rules of the Financial Services Authority (OJK), sharia pension funds must comply with sharia principles, such as not containing elements of usury, gharar, and maisir. In addition, every manager of a sharia pension fund is required to have a Sharia Supervisory Board whose task is to ensure that all activities of organizing pension fund programs do not violate sharia principles.

Generally, every company provides pension benefits to workers with independent management or through a pension fund institution. The following is an explanation of the 3 types of sharia pension funds:

#### **1) Employer Pension Fund**

Employer Pension Fund (DPPK) is formed by an agency or individual who employs employees. A leader is obliged to provide a pension program with fixed contributions, for the benefit of all employees.

#### **2) Profit Based Pension Fund**

A profit-based pension fund is a type of pension fund where contributions are only from employers. The total contribution in this pension program is calculated based on the profits earned by the company or employer.

#### **3) Financial Institution Pension Fund (DPLK)**

Financial Institution Pension Fund (DPLK) is formed by official institutions such as insurance or banks. The goal is to run a defined contribution pension program for individuals, both employees in a company and self-employed workers (Redaksi OCBC NISP, 2021).

## **METHODOLOGY**

This study uses a descriptive qualitative approach with a library research method. This approach was chosen because it is in accordance with the research topic. Data were obtained from various secondary sources such as scientific books, journals, laws and regulations, and official websites such as the Financial Services Authority (OJK). Data analysis was carried out using content analysis, namely by identifying the main themes and comparing information from various sources. This study also adopts a comparative- normative approach to compare the basic principles, laws, and governance of conventional and sharia pension funds. Validity is maintained by using only credible and official sources. With this method, it is hoped that the study will provide a comprehensive picture and become an academic and practical reference in the development of the pension fund system in Indonesia.

## RESEARCH RESULT

### 1. Conventional Pension Fund

The results of the study show that conventional pension funds are legal entities formed to manage and run pension benefit programs based on applicable laws and regulations. These pension funds are designed to provide income guarantees for employees who have reached retirement age, are permanently disabled, or have died. There are two main forms of conventional pension programs, namely the Defined Benefit Plan and the Defined Contribution Plan. In the Defined Benefit Plan, participants will receive pension benefits with a predetermined amount, usually calculated based on the length of service and the average last salary. While in the Defined Contribution Plan, the amount of pension benefits depends on the accumulation of contributions and investment results during the period of service (Veithzal Rivai, 2007). Conventional pension fund management is carried out by two types of institutions, namely the Employer Pension Fund (DPPK) and the Financial Institution Pension Fund (DPLK). DPPK is formed by the company as an employer to guarantee the welfare of its employees, while DPLK is formed by banks or insurance companies to provide pension programs for individuals, including independent workers. Investments in the conventional system are flexible and not limited to sharia instruments, so that the investment results are usually in the form of interest.

### 2. Sharia Pension Fund

The sharia pension fund system is present as an alternative that is in accordance with Islamic economic principles. In this system, all mechanisms for managing funds and providing benefits are carried out based on sharia principles that are free from usury, maisir, and gharar. Sharia pension funds operate using muamalah contracts such as hibah, mudharabah, wakalah, and ijarah. Contributions in this system are generally considered as grants from employers to workers, which are then managed according to sharia and the results are distributed fairly based on the profit-sharing principle. Sharia pension fund investments are only permitted in instruments that comply with the Sharia Securities List and other halal financial products, such as sukuk and sharia mutual funds. In addition, sharia pension fund management institutions are required to have a Sharia Supervisory Board (DPS) which functions to supervise and ensure that all operational activities run according to the fatwa of the Indonesian Ulema Council (DSN-MUI, 2013). Forms of sharia institutions include Sharia DPPK, Profit-Based Pension Funds, and Sharia DPLK.

### 3. Comparison of Conventional and Sharia System

Although both conventional and sharia pension funds have the same main objective, which is to provide financial security in retirement, there are significant differences in the principles, mechanisms, and management of the two systems. The conventional system is contractual and transactional, where the relationship between workers and employers is administrative and based on legal obligations. Meanwhile, in the sharia system, this relationship is spiritual and moral, because it is based on sharia contracts that prioritize justice and balance (maslahah). Another difference lies in the source and form of investment

returns. Conventional pension funds tend to invest in interest-based instruments that are not in accordance with Islamic principles. In contrast, Islamic pension funds only invest in halal instruments with investment returns distributed based on the mudharabah principle, where profits are shared between participants and managers according to the agreed portion. This provides peace of mind for participants who want to maintain the halalness of all aspects of their lives, including old age finances (Silvanita, 2011).

## DISCUSSION

### 1. Characteristics and Management of Conventional and Sharia Pension

Funds Conventional pension funds in the research results show structured management based on defined benefit schemes and defined contributions. The defined benefit scheme promises a fixed amount of pension funds, calculated from salary and length of service, while the defined contribution scheme depends on the accumulation of contributions and investment results. The advantage of this system lies in the flexibility of investment, because funds can be invested in various instruments, both sharia and non-sharia (Veithzal Rivai, 2007). However, the risk of dependence on interest-based instruments is still a challenge, especially for participants who prioritize aspects of compliance with Islamic values. Fund management is carried out by Employer Pension Funds (DPPK) and Financial Institution Pension Funds (DPLK). DPPK is usually formed by companies and is more internal, while DPLK is formed by financial institutions and is open to the public. Both are subject to the supervision of the Financial Services Authority (OJK), which guarantees the accountability and sustainability of funds

Unlike conventional, Islamic pension funds are developed with an Islamic value approach that emphasizes justice, blessings, and transparency. In the research results, Islamic pension funds implement contracts such as grants, wakalah, and mudharabah as the basis for the relationship between participants and managers (DSN-MUI, 2013). Contributions are not considered as mere contractual obligations, but as a form of solidarity and social responsibility. Investments are only made in halal instruments, such as sukuk and Islamic shares. This strengthens the principle of maslahah (benefit) in protecting old age. Every Islamic pension fund institution is also required to have a Sharia Supervisory Board (DPS) which ensures that all activities do not deviate from the provisions of muamalah fiqh. The research results confirm that this system not only guarantees financial aspects, but also provides spiritual peace for participants who want to maintain halal principles in managing their assets (Silvanita, 2011).

### 2. Comparison of Conventional and Sharia Implementation

A comparison between conventional and sharia pension funds shows that although their goals are the same ensuring financial well-being in retirement the approaches used are fundamentally different. The conventional system focuses more on efficiency and investment returns, while the sharia system places more emphasis on aspects of halalness and blessings. In this case, investment returns in conventional pension funds are distributed in the form of interest, while sharia pension funds use a profit-sharing system (mudharabah) (OCBC NISP Editorial, 2021). In addition, the relationship between employers and employees in conventional pension funds is formal and contract-based. While in the sharia system, the relationship is bound by the principles of ethics and justice. Differences This creates different experiences and values for participants, depending on their individual financial orientation.

### **3. Challenges and Policy Development**

One of the main challenges in developing conventional pension funds is the lack of public awareness about the importance of preparing pension funds early. On the other hand, sharia pension funds face regulatory challenges, namely the absence of a legal framework that specifically regulates the operation of sharia pension funds as in the sharia banking system (Yuliani, 2017). Although there has been a fatwa from the DSN-MUI and support from the OJK, implementation in the field is still limited and requires strengthening in terms of regulation and socialization. In the context of policy, a revision of Law No. 11 of 1992 is needed to accommodate the needs of sharia pension funds comprehensively. The OJK is also expected to accelerate technical regulations related to sharia DPPK and DPLK and provide incentives for companies that provide sharia-based pension alternatives (Hasibuan, 2005). With adequate regulatory support, sharia pension funds have the potential to grow as competitive and sustainable financial instruments in Indonesia.

## **CONCLUSION AND RECOMMENDATIONS**

Based on the results of the research and discussion that has been conducted, it can be concluded that pension funds, both in conventional and sharia systems, have the same main objective, namely to ensure the financial well-being of participants in retirement. However, both have fundamental differences in terms of principles, management mechanisms, and value approaches. Conventional pension funds are managed based on formal contracts between employers and employees, with investment flexibility including in interest-based instruments. Meanwhile, sharia pension funds are organized based on Islamic principles, with fund management that is free from usury, gharar, and maisir, and using muamalah contracts such as hibah, wakalah, and mudharabah. In addition to guaranteeing participant finances, sharia pension funds also provide spiritual and moral values that are in accordance with participant beliefs. A comparison between the two shows that sharia pension funds are a promising alternative in the Indonesian financial system, especially for Muslims who want to maintain the blessings of their wealth until old age. However, the development of sharia pension funds still faces challenges in terms of regulation, public literacy, and the readiness of sharia financial institutions in providing competitive and professional pension services. Therefore, systemic and strategic support is

needed from various parties to strengthen its existence amidst the dominance of conventional systems.

As a form of follow-up, some suggestions that can be given include: First, the government and OJK need to immediately draft more specific and in-depth regulations regarding sharia pension funds, so that they can become a strong legal umbrella and support the healthy growth of this sector. Second, it is necessary to conduct education and socialization widely to the community and companies about the importance of pension funds and advantages of a sharia-based pension system. Third, financial institutions and employers can start considering the establishment of sharia pension fund units or integrating sharia principles into existing pension fund schemes.

Finally, collaboration between academics, regulators, and sharia financial practitioners is essential to produce innovations in pension fund policies and products that are adaptive to the social, economic, and Islamic values of the Indonesian people.

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