INDONESIA'S NEW EMPLOYMENT PROTECTION LAW: KEY LEGAL CHANGES AND COMPLIANCE FOR EMPLOYERS

Law No. 27 of 2026 on Employment Protection

Indonesia promulgated Law No. 27 of 2026 on Employment Protection ("**Law 27/2026**") on 28 October 2026 (State Gazette of 2026 No. 179). The new law, consisting of 23 chapters and 313 articles, introduces a comprehensive framework for employment protection, consolidating and replacing the previous employment provisions under Law No. 13 of 2003 on Manpower ("**Law 13/2003**") and the relevant employment provisions under Law No. 6 of 2023 on Job Creation (Article 311 of Law 27/2026).

Moreover, Law 27/2026 was enacted following Constitutional Court Decision No. 168/PUU-XXI/2023, which called for the restructuring of Indonesia's employment regulatory framework into a separate law.

The new legislation introduces significant changes to employment relationships, employee protection, wages, industrial relations, termination of employment, and employers' financial obligations. The following compares Law 27/2026 with the previous framework, namely Law 13/2003 as amended by Law No. 6 of 2023 and Law No. 1 of 2026, together with its implementing regulations, including Government Regulation No. 35 of 2021 ("**GR 35/2021**") and Government Regulation No. 36 of 2021 ("**GR 36/2021**"), and highlights the implications for employers.

Employment Relationships

- **Fixed-term Contracts (PKWT):** Under the previous framework, a PKWT could last up to 5 (five) years including extensions, with no specific requirement to give notice of an extension (Articles 56–59 and 61A of Law 13/2003 jo. GR 35/2021). Under Law 27/2026, the maximum term of a PKWT is 2 (two) years, and it may be extended twice, with each extension limited to 1 (one) year (Article 82(2) of Law 27/2026). Employers must provide written notice of an extension at least 7 days before the agreement expires (Article 82(3) of Law 27/2026). PKWTs must be registered within 3 working days. A PKWT that is not made in writing, or that does not meet the requirements on the type of work, is deemed by law to constitute an indefinite-term employment agreement (PKWTT) (Articles 85 and 87 of Law 27/2026). Compensation upon expiry will be further regulated by government regulation (Article 88 of Law 27/2026).
- **Probation Period:** Probation is permitted only for permanent employees under PKWTT agreements, for a maximum period of 3 (three) months. Previously, the only wage protection was that wages could not fall below the minimum wage (Article 60 of Law 13/2003). Under Law 27/2026, employees undergoing probation must receive at least 75% of the wage for the position and no less than the applicable minimum wage; social security coverage continues, and the probation period counts towards length of service (Article 92 of Law 27/2026).
- **Personal Documents:** Law 13/2003 did not expressly regulate this matter, which was addressed administratively through a Circular Letter of the Minister of Manpower. Employers are now prohibited from requiring or withholding employees' diplomas and other personal documents as security in connection with an employment relationship,

with a limited exception for employer-funded education or training under a written agreement (Article 78 of Law 27/2026).

- **Outsourcing:** Under the previous framework, outsourcing was not generally limited to supporting services, and its implementation was left to the Government (Articles 64 and 66 of Law 13/2003). Outsourcing is now subject to restrictions concerning the types of work that may be outsourced, particularly supporting services or activities that are not directly related to the production process (Article 95 of Law 27/2026). Specific requirements apply to outsourcing arrangements in the mining and oil sectors, as well as state-owned enterprises, including requirements concerning the use of subsidiary companies. For employees in activities directly related to the production process, the employment relationship transfers by operation of law, and employees' rights are protected when the outsourcing vendor changes (Articles 95–101 of Law 27/2026).
- **Platform-Based Partnerships:** Partnership-based work was not specifically regulated under Law 13/2003. The law now recognises platform-based partnership agreements and protects those workers through decent income, occupational safety and health, and social security, with further regulation to be provided under separate legislation (Articles 102–103 of Law 27/2026).

Protection of Specific Groups

- **Disability Quota:** Law 13/2003 required protection to be adjusted to the type and degree of disability, without a statutory quota (Article 67 of Law 13/2003). The Central Government, Regional Governments, state-owned enterprises (SOEs), and region-owned enterprises (ROEs) must now employ persons with disabilities at a minimum rate of 2%, while private companies are subject to a minimum quota of 1% (Articles 104–105 of Law 27/2026).
- **Child Labour:** Under Law 13/2003, children aged 13 to 15 could perform light work subject to conditions (Articles 68–75 of Law 13/2003). Children aged 15 to under 18 may now only perform light work subject to applicable protective requirements (Article 107 of Law 27/2026), and work to develop talents and interests is limited to 3 hours a day and 12 hours a week (Article 109 of Law 27/2026). Medium and large-scale companies are also subject to supply-chain audit obligations relating to the worst forms of child labour (Article 112 of Law 27/2026).
- **Women's Protection:** Law 13/2003 provided maternity leave of 1.5 months before and 1.5 months after childbirth (Articles 81–83 and 93 of Law 13/2003). Female employees are now entitled to maternity leave of at least 3 months on full pay. Under special circumstances supported by a medical certificate, maternity leave may be extended by up to three additional months. The applicable payment arrangement is full pay for the first four months and 75% of wages for the fifth and sixth months (Articles 121 and 123 of Law 27/2026). The law also provides 1.5 months of miscarriage leave and lactation facilities (Articles 121–122 of Law 27/2026). Male employees are entitled to 2 (two) days of paternity leave, which may be extended by up to 3 (three) days (Article 124 of Law 27/2026).
- **Long-Service Leave:** Under Law 13/2003, long-service leave was mandatory only for certain companies (Article 79 of Law 13/2003). Employees who have completed five

consecutive years of service are now entitled to 30 calendar days of long-service leave, without annual leave in the year concerned (Article 118 of Law 27/2026). Annual leave remains at least 12 working days.

Wages and Funding

- **Minimum Wage:** Under the previous framework, the Provincial Minimum Wage was mandatory, the Regency/Municipal Minimum Wage could be set subject to conditions, and the wage index ranged from 0.50 to 0.90 (Articles 88C–88F and 90B of Law 13/2003 jo. GR 36/2021). The law now recognises four categories of minimum wage: Provincial Minimum Wage (UMP), Regency/Municipal Minimum Wage (UMK), Provincial Sectoral Minimum Wage (UMSP), and Regency/Municipal Sectoral Minimum Wage (UMSK). The UMP and UMSP are mandatory, while the UMK and UMSK may be set (Article 137 of Law 27/2026). The higher of the formula or decent living needs applies, and the wage index used in determining minimum wages ranges from 0.5 to 1 (Article 139 of Law 27/2026).
- **Minimum Wage Exemptions:** Employers seeking an exemption from minimum wage requirements must comply with the applicable procedure, including obtaining a bipartite agreement, submitting an external audit, and securing approval from the Governor (Article 140 of Law 27/2026). A bipartite agreement alone does not automatically exempt an employer from minimum wage obligations. Micro and small enterprises are exempt, but their wages must be at least 50% of the minimum wage (Article 144 of Law 27/2026).
- **Job Loss Guarantee (JKP):** The JKP was not regulated in Law 13/2003. Employers are now required to enrol eligible employees in the Job Loss Guarantee programme, which provides cash benefits, labour market information, and job training (Articles 157–162 of Law 27/2026).
- **Severance Reserve Fund:** There was previously no general obligation to set aside a severance reserve fund. Employers, except micro and small enterprises, are now required to establish a severance reserve fund managed by a government institution (Article 253 of Law 27/2026). Further provisions concerning its implementation will be stipulated in government regulations.

Industrial Relations and Termination of Employment

- **Industrial Relations Institutions:** Under Law 13/2003, a Bipartite Cooperation Institution (LKS Bipartit) was mandatory only for companies with 50 or more employees (Articles 106 and 108 of Law 13/2003). Companies employing at least 10 employees are now required to establish an LKS Bipartit and prepare Company Regulations, subject to applicable statutory requirements and exceptions; Company Regulations are not required where a Collective Labour Agreement is already in place (Articles 171 and 175 of Law 27/2026).
- **Collective Labour Agreements:** Previously, a single union needed more than 50% membership to negotiate (Articles 119–123 of Law 13/2003). A single union may now negotiate a Collective Labour Agreement with more than 30% membership, and the law regulates the composition of the negotiating team where there are several unions. The

agreement remains valid for 2 (two) years and may be extended by 1 (one) year (Articles 190, 191 and 194 of Law 27/2026).

- **Termination Procedure:** Under the previous framework, termination had to go through bipartite negotiation and the industrial relations dispute settlement (PPHI) mechanism, with notice deadlines set in GR 35/2021 (Articles 151, 151A and 157A of Law 13/2003 jo. GR 35/2021). Before terminating employment, employers must now first take the prevention steps listed in Article 228(2) of Law 27/2026, including reducing overtime and working hours, not renewing expiring PKWTs, and offering voluntary early retirement. Employers must subsequently conduct bipartite negotiations for a maximum period of 30 working days.
- **Legal Consequences of Termination:** Without agreement or a final and binding court decision, a termination is void by law and the employee must be reinstated (Article 228(7) of Law 27/2026).
- **Exceptions:** No bipartite negotiation is needed for resignation, expiry of a PKWT, retirement, and the employee's death (Article 229 of Law 27/2026).
- **Absenteeism:** An employee who is absent for five consecutive working days without a valid written explanation, following two proper written summonses, may be terminated as being deemed to have resigned (Article 243 of Law 27/2026). The employee is entitled to compensation for rights and separation pay. Where the company has not set the amount of separation pay, at least 1 (one) month's wages may be set, and more favourable company terms continue to apply (Article 233 of Law 27/2026). Previously, there was no statutory minimum for separation pay (Article 154A of Law 13/2003 jo. GR 35/2021).

Severance Pay and Termination Benefits

Law 27/2026 re-regulates the severance pay and long-service pay (UPMK) multipliers for each ground for termination (Articles 236–249 of Law 27/2026). Compared with GR 35/2021, it increases the multipliers for most grounds, although not all return to the original Law 13/2003 levels. It also changes the classification of certain grounds for termination, including the previous treatment of efficiency-related termination, which is no longer listed as a ground for termination (Article 231 of Law 27/2026).

The table below compares the multipliers under the original text of Law 13/2003, GR 35/2021, and Law 27/2026, shown as severance pay / UPMK.

Termination ground	Law 13/2003 (original)	GR 35/2021	Law 27/2026
Merger, consolidation, acquisition, or spin-off; employee unwilling to continue	1× / 1× (Art. 163(1) of Law 13/2003)	1× / 1× (Arts. 41 and 42(1) of GR 35/2021)	1× / 1× (Art. 236(1) of Law 27/2026)
Same; employer unwilling to retain the employee	2× / 1× (Art. 163(2) of Law 13/2003)	1× / 1× (Art. 41 of GR 35/2021)	2× / 1× (Art. 236(2) of Law 27/2026)
Efficiency without closure	2× / 1× (Art. 164(3) of Law 13/2003)	0.5× (losses) or 1× (to prevent losses) / 1× (Art. 43 of GR 35/2021)	Not a ground for termination

Termination ground	Law 13/2003 (original)	GR 35/2021	Law 27/2026
Closure due to losses over 2 years	1× / 1× (Art. 164(1) of Law 13/2003)	0.5× / 1× (Art. 44(1) of GR 35/2021)	1× / 1× (Art. 237 of Law 27/2026)
Closure not due to losses / owner's decision to close permanently	2× / 1× (Art. 164(3) of Law 13/2003)	1× / 1× (Art. 44(2) of GR 35/2021)	1× / 1.5× (Art. 238 of Law 27/2026)
Force majeure	1× / 1× (Art. 164(1) of Law 13/2003)	0.5× (closure) or 0.75× (no closure) / 1× (Art. 45 of GR 35/2021)	1× / 1× (Art. 239 of Law 27/2026)
Suspension of debt payment obligations (PKPU)	Not regulated	0.5× (losses) or 1× (no losses) / 1× (Art. 46 of GR 35/2021)	1× / 1× (Art. 240 of Law 27/2026)
Bankruptcy	1× / 1× (Art. 165 of Law 13/2003)	0.5× / 1× (Art. 47 of GR 35/2021)	1× / 1× (Art. 240 of Law 27/2026)
Employee's request due to employer misconduct	2× / 1× (Art. 169(2) of Law 13/2003)	1× / 1× (Art. 48 of GR 35/2021)	2× / 1× (Art. 241 of Law 27/2026)
PPHI finds the employer did not commit the alleged acts	No severance pay or UPMK (Art. 169(3) of Law 13/2003)	UPH + separation pay (Art. 49 of GR 35/2021)	UPH + separation pay (Art. 241(2) of Law 27/2026)
Violation after warning letters	1× / 1× (Art. 161(3) of Law 13/2003)	0.5× / 1× (Art. 52(1) of GR 35/2021)	1× / 1× (Art. 244 of Law 27/2026)
Employee detained for 6 months	— / 1× (Art. 160(7) of Law 13/2003)	Loss to company: UPH + separation pay; no loss: — / 1× (Art. 54 of GR 35/2021)	Loss to company: UPH + separation pay; no loss: — / 1× (Art. 245(3)–(4) of Law 27/2026)
Prolonged illness over 12 months	2× / 2× (Art. 172 of Law 13/2003)	2× / 1× (Art. 55 of GR 35/2021)	2× / 2× (Art. 246 of Law 27/2026)
Retirement	2× / 1× if not enrolled in a pension programme (Art. 167(5) of Law 13/2003)	1.75× / 1× (Art. 56 of GR 35/2021)	2× / 1× (Art. 247 of Law 27/2026)
Death	2× / 1× (Art. 166 of Law 13/2003)	2× / 1× (Art. 57 of GR 35/2021)	2× / 1× (Art. 249 of Law 27/2026)
Resignation or absenteeism	UPH + separation pay (Arts. 162 and 168(3) of Law 13/2003)	UPH + separation pay (Arts. 50–51 of GR 35/2021)	UPH + separation pay (Arts. 242–243 of Law 27/2026)

Several points should be noted when reading the table:

- **Compensation for Rights (UPH):** Every ground for termination also entitles the employee to UPH. Under the original Law 13/2003, UPH included housing and medical compensation of 15% of severance pay and/or UPMK (Article 156(4)(c) of Law 13/2003). This component does not appear in GR 35/2021 or in Article 232(4) of Law 27/2026.
- **Acquisitions Changing Working Conditions:** GR 35/2021 provides 0.5× / 1× where the employee is unwilling to continue (Article 42(2) of GR 35/2021). Law 27/2026 does not distinguish this situation, so Article 236(1) of Law 27/2026 applies (1× / 1×).
- **Efficiency:** Law 27/2026 does not use the term efficiency. Permanent closure by the owner's decision falls under Article 238 of Law 27/2026, while termination for efficiency without closure is not listed in Article 231 of Law 27/2026.
- **Retirement:** Pension contributions paid by the employer may be counted towards severance, and any shortfall must still be paid (Article 248 of Law 27/2026).

The service-based scales are unchanged: severance pay is capped at 9 months' wages and UPMK at 10 months' wages (Article 232 of Law 27/2026; previously Article 156(2)–(3) of Law 13/2003 and Article 40 of GR 35/2021). Severance pay is 1 month's wages for less than 1 year of service, rising by 1 month for each additional year, up to 9 months' wages for 8 or more years. UPMK is 2 months' wages for 3 to less than 6 years of service, rising by 1 month for every additional 3 years, up to 10 months' wages for 24 or more years.

The calculation basis remains basic wage plus fixed allowances. Daily wages are multiplied by 30, and output-based wages are averaged over the last 12 months, with the minimum wage applicable in the company's domicile as a floor for output-based wages (Article 234 of Law 27/2026; previously Article 157 of Law 13/2003).

Example: an employee with 10 years of service and a monthly wage of IDR 10 million loses their job because the employer closes permanently, not due to losses. The applicable scales are 9 months' wages for severance pay and 4 months' wages for UPMK.

Basis	Severance pay (9 months)	UPMK (4 months)	Total
Law 13/2003 (original), Art. 164(3) of Law 13/2003	2× = IDR 180 million	1× = IDR 40 million	IDR 220 million, plus 15% housing and medical compensation (IDR 33 million)
GR 35/2021, Art. 44(2) of GR 35/2021	1× = IDR 90 million	1× = IDR 40 million	IDR 130 million
Law 27/2026, Art. 238 of Law 27/2026	1× = IDR 90 million	1.5× = IDR 60 million	IDR 150 million

These amounts exclude other compensation for rights, such as untaken annual leave and return travel costs.

Supervision and Sanctions

Under the previous framework, labour inspection was carried out by units of the central, provincial, and regency/municipal governments (Articles 178–179 of Law 13/2003). Law 27/2026 strengthens the employment supervision framework through a dedicated labour inspection unit within the ministry responsible for manpower affairs, supported by a Labour Inspection Committee (Articles 258 and 265–266 of Law 27/2026). Provincial labour inspectors will be transferred to the ministry within 2 (two) years (Articles 302–303 of Law 27/2026).

- **Child Labour:** Employing children in violation of the applicable provisions may result in imprisonment of up to 10 years and/or a fine of up to category VI (Article 276 of Law 27/2026), compared with up to 4 years and/or category IV previously (Article 185 of Law 13/2003).
- **Worst Forms of Child Labour:** Violations involving the worst forms of child labour may result in imprisonment of up to 15 years and/or a fine of up to category VII (Article 279 of Law 27/2026), compared with up to 5 years and/or category IV previously (Article 183 of Law 13/2003).

- **Minimum Wage Violations:** Paying employees below the applicable minimum wage remains subject to imprisonment of up to four years and/or a fine of up to category IV (Article 288 of Law 27/2026).
- **Corporate Liability:** Corporations are subject to a fine of at least category IV for these offences.

These provisions underscore the importance of strengthening employment compliance systems and internal controls, particularly in relation to workforce management, payroll, and supply-chain practices.

Transitional Provisions

Law 27/2026 provides transitional arrangements to facilitate the implementation of the new employment framework:

Matter	Timeline
Implementing regulations	Within 1 year; existing regulations remain in force insofar as they do not conflict with Law 27/2026 (Articles 310 and 312 of Law 27/2026)
Outsourcing adjustment	Within 1 year; existing agreements run until they expire (Article 306 of Law 27/2026)
Outsourcing subsidiaries (mining/oil and state-owned enterprises)	Companies without a subsidiary may use their current outsourcing provider for up to 1 year, within which they must establish or own an outsourcing subsidiary (Articles 308–309 of Law 27/2026)
Provincial labour inspectors	Up to 2 years (Articles 302–303 of Law 27/2026)
Disputes and criminal cases already underway	Industrial relations claims already registered and criminal cases already under investigation are resolved under Law 13/2003 as last amended by Law No. 6 of 2023; inspections without an inspection note must conform to Law 27/2026 (Articles 300 and 304 of Law 27/2026)

The transitional provisions should not be interpreted as a general suspension of the new law. Employers should begin reviewing their existing arrangements and implementing the provisions that are already effective, while monitoring the issuance of implementing regulations.

What Employers Should Do

1. **Audit PKWTs and outsourcing arrangements.** Inventory all PKWTs, including start and end dates, extensions, type of work, registration, and notices of extension, and map outsourced work against the permitted supporting services.
2. **Update employment documents.** Revise employment agreements, Company Regulations, and Collective Labour Agreements, particularly on probation, personal documents, leave, long-service leave, and the protection of women, children, and employees with disabilities.

3. **Review wage structures.** Assess the impact of the new minimum wage rules and, where an exemption is considered, prepare the bipartite agreement and external audit required by Article 140 of Law 27/2026.
4. **Plan severance funding.** Recalculate severance liabilities under the new multipliers, confirm JKP participation, and plan for the severance reserve fund.
5. **Tighten termination procedures.** Document prevention steps, bipartite negotiations, and notices to avoid terminations being void.
6. **Prepare industrial relations bodies.** Establish an LKS Bipartit and Company Regulations at the 10-employee threshold, and prepare for Collective Labour Agreement negotiations under the new union thresholds.
7. **Map criminal exposure.** Focus on the minimum wage, child labour, overtime pay, rest periods, and leave, and strengthen internal audits, training, and supply-chain monitoring.

Conclusion

Law 27/2026 represents a significant development in Indonesia's employment regulatory framework. While certain provisions require further implementing regulations, employers should proactively assess the impact of the new law on their employment practices, contractual arrangements, financial obligations, and corporate compliance framework.

Early preparation and a comprehensive review of existing employment arrangements will be essential to mitigating legal risks and ensuring compliance with the new regulatory requirements.

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