International Journal of Economics, Business and Innovation Research
https://e-journal.citakonsultindo.or.id/index.php/IJEBIR
E-ISSN : 2964-0865
IJEBIR

Analysis Of Sharia Pension Fund Management To Achieve Financial Well-Being In Old Age

Rinda Asytuti [1], Najwa Kamila [2], Nia Septiani [3], Novi Ristiana [4]

[1,2,3,4]Department of Islamic Economics, Faculty of Islamic Economics and Business, UIN K.H. Abdurrahman Wahid Pekalongan, Indonesia

[1]rinda.asytuti@uingusdur.ac.id [2]najwa.kamila25057@mhs.uingusdur.ac.id
[3]nia.septiani25076@mhs.uingusdur.ac.id [4]novi.ristiana25082@mhs.uingusdur.ac.id

Abstract

Financial preparation for old age is essential to ensure that people can meet their living needs upon entering retirement. Islamic pension funds are one of the long-term financial planning instruments managed in accordance with Islamic principles. This study aims to analyze the management of Islamic pension funds, the implementation of Islamic contracts and investments, as well as their roles and challenges in achieving financial well-being in old age. This study employs a qualitative method using a literature review approach (library research). The data were obtained from books, scientific journal articles, regulations issued by the Financial Services Authority (Otoritas Jasa Keuangan/OJK), and relevant fatwas issued by the National Sharia Council of the Indonesian Ulema Council (Dewan Syariah Nasional Majelis Ulama Indonesia/DSN-MUI). The data were then analyzed qualitatively through information classification, presentation of the literature review findings, and conclusion drawing. The findings indicate that Islamic pension fund management involves contribution payments, fund management based on contracts that comply with Islamic principles, investment in Sharia-compliant instruments, and the distribution of pension benefits to participants. The implementation of Islamic principles, transparency, good governance, and investment risk management are essential aspects in supporting the sustainability of pension programs. However, Islamic pension fund management still faces several challenges, including low levels of public financial literacy, limited Sharia-compliant investment options, and the need to strengthen governance. Therefore, Islamic pension fund management that adheres to Sharia principles and is conducted transparently and sustainably has the potential to support people's financial well-being in old age. Nevertheless, the outcomes remain influenced by the amount of contributions, the duration of participation, and investment performance.

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Keywords: Islamic Pension Funds, Fund Management, Sharia Investment, Financial Well-being, Old Age.

INTRODUCTION

Preparing financially for old age is an important aspect that individuals should consider while they are still in their productive years. Upon entering retirement, individuals may experience a reduction in income because they are no longer actively employed, while their daily living needs must still be met. This situation makes long-term financial planning essential to maintaining economic stability and meeting living needs in old age. One way to prepare for retirement is by participating in a pension fund program. Pension funds play an important role in maintaining income continuity when individuals enter old age (Hasibuan, 2010).

Sharia pension funds are pension programs managed based on Islamic Sharia principles. Their implementation must comply with Sharia provisions, both in the use of contracts and in the selection of investment instruments. In Indonesia, the implementation of pension programs based on Sharia principles is regulated under Financial Services Authority Regulation (POJK) No. 33/POJK.05/2016 (OJK, 2016). This regulation serves as one of the legal foundations for implementing Sharia pension programs to ensure that their management complies with Islamic principles. Therefore, the management of Sharia pension funds is not only aimed at growing participants' funds but also at ensuring that the management process remains in accordance with Sharia provisions.

Sharia pension fund management needs to be carried out optimally so that the collected funds can provide benefits to participants when they enter retirement. One aspect that needs to be considered in its management is the financial condition of the institution administering the program. Financial performance, the investment-to-asset ratio, and liabilities are several aspects related to the inclusiveness of Sharia pension fund participants in Indonesia. This indicates that financial aspects need to be taken into account in the management and development of Sharia pension funds (Fithri & Arifin, 2024).

In addition to proper fund management, increasing public awareness of the importance of financial planning for old age is also necessary. The development and utilization of Sharia pension funds in Indonesia serve as an instrument for preparing for retirement. Therefore, examining the management of Sharia pension funds is important to understand how these programs can help people prepare their financial conditions for old age. Based on this background, this study aims to analyze the management of Sharia pension funds and their role in supporting the achievement of financial well-being in old age.

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OBJECTIVES

This study aims to understand how Islamic pension funds are managed and how they can help people prepare for their financial needs in old age. The study discusses the process of managing pension funds, starting from participant registration and contribution payments to fund management, investment activities, supervision, and pension benefit distribution. It also examines the use of Sharia contracts and investment instruments to ensure that pension fund management follows Islamic principles and applicable regulations.

Furthermore, this study aims to explain the role of Islamic pension funds in helping individuals maintain their financial stability after retirement. In addition, it discusses several challenges in managing and developing Islamic pension funds, such as low public awareness of retirement planning, limited Sharia-compliant investment options, and the need for better institutional management and supervision. Through this study, it is expected that readers will gain a clearer understanding of the importance of managing Islamic pension funds properly, transparently, and in accordance with Sharia principles to support financial well-being in old age.

DISCUSSION

Definition and Mechanism of Sharia Pension Fund Management

Sharia pension funds are financial institutions or programs designed to provide financial benefits to participants upon entering retirement, with their administration based on Islamic Sharia principles. These programs aim to help participants prepare for their economic needs after they are no longer actively earning income from employment. According to Hasibuan (2010), pension fund management from a Sharia perspective must consider the provisions of Islamic commercial jurisprudence (fiqh muamalah). Therefore, fund management activities should not only focus on economic profit but must also comply with Islamic legal principles.

In practice, Sharia pension funds have characteristics that distinguish them from conventional pension funds, particularly in terms of contribution collection, the use of contracts (akad), investment allocation, investment return management, and pension benefit payments. Ash-Shiddiqy (2023) explains that the main difference between the two systems lies in their management and investment mechanisms, which must avoid financial transactions based on riba (interest) that contradict Sharia principles. Thus, Sharia pension funds serve not only as a means of preparing for retirement needs but also as an alternative financial planning instrument that upholds Islamic values.

From a regulatory perspective, the implementation of pension programs based on Sharia principles has been supported by regulations issued by the Financial Services Authority (OJK). However, specific regulations concerning Sharia pension programs

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need to be considered alongside more recent pension fund regulations. OJK issued Regulation No. 35 of 2024 concerning Pension Fund Licensing and Institutional Frameworks, which includes provisions regarding the establishment of Sharia units and the offering of Sharia investment packages. Therefore, Sharia pension fund management must comply with Sharia principles as well as applicable institutional and governance requirements (OJK, 2024a).

In terms of financial well-being, Sharia pension funds play a role as a long-term financial planning instrument. Participants can accumulate funds during their productive years to be used upon entering retirement. Johari (2016) explains that a pension funding system enables the accumulation of funds needed to maintain income continuity in old age. This means that pension funds can help participants meet their living expenses when their employment income decreases or ceases. Nevertheless, the success of pension funds in improving financial well-being depends on the consistency of contributions, the quality of investment management, the amount of benefits received, and participants' ability to manage their finances.

The management mechanism of Sharia pension funds consists of a series of processes, including membership registration, contribution collection, investment allocation, supervision, and pension benefit payments. Each stage must be carried out systematically, transparently, and in accordance with Sharia principles. Yuliani (2017) explains that pension fund management based on Sharia principles must avoid riba, maysir (gambling), and gharar (excessive uncertainty), while prioritizing management practices that comply with Islamic provisions. In Indonesia, these mechanisms must also follow OJK regulations concerning pension fund business operations and governance.

a. Membership and Contribution Payments

The first stage involves registering participants in a Sharia pension program in accordance with the requirements of the selected program. Membership can be obtained through programs organized by employers or through Financial Institution Pension Funds (Dana Pensiun Lembaga Keuangan/DPLK) that provide programs based on Sharia principles. After registration, participants pay contributions according to the program's provisions, either periodically or through an agreed payment mechanism.

These contributions serve as the source of funds for accumulating participants' pension benefits. The contribution amounts and benefit provisions must be clearly understood from the beginning so that participants can adjust them to their financial capabilities and retirement planning objectives. In practice, the rights and obligations of participants and fund managers must be clearly established to minimize potential misunderstandings. Pension program management must also consider

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applicable provisions concerning contributions, benefits, funding, and governance (OJK, 2023).

b. Fund Management Based on Sharia Contracts

The collected funds are subsequently managed according to the program's provisions and contracts (akad) that comply with Sharia principles. The contract serves to establish the legal relationship between participants and fund managers, including the authority to manage funds, service fees, and the respective rights and obligations of each party.

One contract that can be applied in Sharia pension fund management is wakalah bil ujrah, which refers to the granting of authority to a fund manager to carry out certain activities in exchange for an agreed service fee. In its implementation, the manager exercises the authority granted under the contract and program provisions, while management fees must be disclosed transparently to participants. The use of this contract must be adjusted to the product structure and applicable Sharia provisions rather than being considered an automatically applicable contract in all Sharia pension programs (OJK, 2016).

c. Allocation of Funds into Sharia Investment Instruments

The next stage involves investing the collected funds in instruments that comply with Sharia principles. Investment aims to increase the value of the funds so that the accumulated pension benefits can grow over the long term. Instruments that may be considered include sukuk (Islamic bonds), Sharia-compliant stocks, and Sharia mutual funds, provided that they meet the investment requirements applicable to the respective pension fund program.

Investment management must consider risk levels, investment periods, liquidity requirements, and pension benefit payment obligations. Pension funds should not focus solely on achieving high returns but must also consider the security and sustainability of funds to fulfill participants' rights. OJK Circular Letter No. 4/SEOJK.05/2024 establishes the basis for pension fund investment valuation, which also applies to investment types that use Sharia principles. This regulation reinforces the importance of asset valuation and measurable investment management (OJK, 2024b).

Thus, the success of Sharia pension fund investments must be assessed based on the balance between potential fund growth, risk levels, Sharia compliance, and the ability to fulfill obligations to participants. Investment returns cannot always be guaranteed to be positive because investment values may fluctuate depending on market conditions.

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d. Supervision and Transparency in Fund Management

Supervision is an essential component in maintaining participants' trust in Sharia pension fund management institutions. Supervision is carried out through the implementation of governance, risk control, fund recording, information disclosure to participants, and Sharia compliance monitoring in accordance with the institutional structure and applicable regulations.

Transparency is necessary to ensure that participants can obtain information regarding fund performance, fees charged, investment policies, and their entitlements to pension benefits. Fund managers must also ensure that funds are managed according to their intended purposes and are not invested in activities that contradict Sharia principles. OJK Regulation No. 35 of 2024 updates the institutional requirements for pension funds, including aspects of governance and investment governance. This demonstrates that pension fund management requires adequate institutional supervision to protect participants' interests.

In addition to institutional supervision, participants' financial literacy also needs to be improved. Participants who understand how pension funds operate, investment risks, and benefit provisions will be better equipped to make decisions that suit their long-term needs. Therefore, fund managers should provide information in easily understandable language and regularly deliver reports on fund developments.

e. Payment of Pension Benefits

The final stage involves paying pension benefits to participants in accordance with program provisions and the rights that have been accumulated. Payments are made when participants fulfill the requirements established by the program, such as reaching retirement age or meeting other permitted conditions. The form and procedures of payment follow the type of program, pension fund regulations, and applicable provisions.

These pension benefits are expected to help participants meet their daily needs, healthcare expenses, housing costs, and other necessities when entering old age. Therefore, the success of pension fund management is measured not only by the amount of funds accumulated but also by the manager's ability to fulfill participants' rights accurately, transparently, and in accordance with the agreement. Benefit payments must be based on accurate calculations and must not contradict Sharia principles or applicable laws and regulations (OJK, 2023).

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Implementation of Sharia Contracts and Investments

The implementation of Sharia contracts and investments is an important aspect of Sharia pension fund management. Contracts regulate the relationship between participants and fund managers, including their rights, obligations, and the fees received according to the agreed terms. Meanwhile, investments aim to develop the accumulated funds so that they can provide benefits to participants upon entering retirement. Their implementation must comply with Sharia principles, including avoiding riba, excessive gharar, and maysir. In Indonesia, the implementation of Sharia pension programs is guided by DSN-MUI Fatwa No. 88/DSN-MUI/XI/2013 and Financial Services Authority Regulation No. 33/POJK.05/2016 (DSN-MUI, 2013; OJK, 2016).

One of the contracts used in Sharia pension programs is wakalah bil ujrah, which refers to an agreement in which one party authorizes another party to perform certain tasks in exchange for an agreed service fee. In its implementation, the fund manager carries out responsibilities according to the authority granted and the provisions of the pension program. This contract helps clarify the relationship between participants and fund managers, particularly regarding responsibilities and service fees. A study of Sharia compliance in a pension program using the wakalah bil ujrah contract at Bank Muamalat Magelang indicates that the implementation of the program examined was in accordance with Sharia principles and referred to DSN-MUI Fatwa No. 88/DSN-MUI/XI/2013. These findings demonstrate the importance of applying appropriate contracts and complying with Sharia provisions in pension fund management (Jamal et al., 2022; OJK, 2016).

In addition to wakalah bil ujrah, the mudharabah contract is also recognized in Islamic financial activities. This contract refers to a partnership between a capital owner and a fund manager, in which profits are distributed according to a previously agreed profit-sharing ratio (nisbah). However, the application of contracts in pension programs must be adjusted to the applicable provisions and mechanisms of each program. Therefore, not all Sharia pension programs use the same contracts. Each contract must contain clear provisions so that the rights and obligations of the parties involved can be properly understood and fulfilled (OJK, 2016).

Sharia investment is also an important component of pension fund management because it aims to develop participants' funds for long-term needs. These funds can be allocated to investment instruments that comply with Sharia principles while considering potential returns, risk levels, and liquidity requirements. Fund managers must ensure that investment activities follow applicable regulations and do not contradict Sharia principles. Regulations concerning the implementation of Sharia pension programs provide a foundation for fund managers to carry out these activities responsibly.

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In practice, the development of Sharia pension funds can be supported through portfolio diversification, risk management, and periodic investment evaluation. Diversification involves distributing funds across several investment instruments so that risks do not depend solely on one type of instrument. Meanwhile, periodic evaluation is necessary to assess whether investments remain aligned with program objectives, market conditions, and participants' needs. These strategies must be implemented carefully because investment returns may fluctuate depending on market conditions. Therefore, fund managers must consider the balance between potential returns, risks, and the security of participants' funds.

Ultimately, the implementation of Sharia contracts and investments is expected to help participants prepare for financial well-being in old age. Clear contracts provide certainty regarding the rights and obligations of the parties involved, while proper investment management has the potential to support fund growth to meet participants' needs upon retirement. Nevertheless, Sharia pension funds do not automatically guarantee financial well-being because the outcomes are also influenced by contribution amounts, membership periods, and investment returns. Thus, Sharia compliance, transparency, and risk management are important aspects of supporting responsible pension fund management (OJK, 2016).

The Role and Challenges of Sharia Pension Funds in Achieving Financial Well-Being in Old Age

Sharia pension funds play an important role in helping people prepare their financial conditions for old age. After individuals stop working or no longer receive a regular income, their daily living needs must still be fulfilled, including food, housing, healthcare, and family expenses. Therefore, Sharia pension funds can serve as a form of long-term financial planning to help participants maintain economic stability after reaching retirement age. Well-planned fund management in accordance with Sharia principles is expected to provide benefits to participants while increasing their sense of security in facing old age (OJK, 2016).

The role of Sharia pension funds is not limited to accumulating funds for retirement but also involves managing those funds responsibly. Contributions collected from participants or employers are managed and developed through investment instruments that comply with Sharia principles. With proper management, these funds are expected to provide benefits when participants enter retirement. The principles of transparency, prudence, and Sharia supervision are also necessary to ensure professional fund management and maintain participants' trust. In this regard, Sharia pension funds serve as a long-term financial instrument that can support people's financial well-being during their non-productive years (Nurfuadah et al., 2025).

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Nevertheless, Sharia pension funds still face various challenges in achieving financial well-being in old age. One of the main challenges is the low level of public financial literacy regarding the importance of preparing retirement funds from an early age. Some people remain more focused on meeting their daily needs and have not yet made pension funds a priority in their financial planning. Furthermore, understanding of membership mechanisms, program benefits, and Sharia investment options also needs to be improved. The development of Sharia pension funds in Indonesia faces several obstacles, including limited public knowledge, a shortage of qualified human resources, limited investment instruments, and competition with conventional pension programs (Kasri et al., 2020).

Another challenge is the limited availability of investment instruments that comply with Sharia principles, as well as the need to maintain a balance between investment returns and the security of participants' funds. Sharia pension funds must manage funds over the long term while considering investment risks, pension benefit payment requirements, and applicable Sharia provisions. The development of Sharia pension funds in Indonesia continues to face issues related to regulatory harmonization, limited Sharia investment options, low public participation, and limited institutional capacity and human resources (Hidayah et al., 2026). Therefore, strengthening governance, developing Sharia investment instruments, and improving the quality of supervision are necessary to ensure sustainable pension fund management.

To overcome these challenges, cooperation is required among the government, the Financial Services Authority (OJK), pension fund management institutions, employers, and the public. Financial planning education should be provided from individuals' productive years so that people understand that retirement preparation should begin early and be carried out consistently. In addition, Sharia pension fund institutions need to improve information transparency regarding contributions, fund management, investment risks, and the benefits participants will receive. Supervision of Sharia implementation must also be strengthened to maintain public trust. Through these measures, Sharia pension funds have the potential to become financial protection instruments that are increasingly recognized and utilized by the public (OJK, 2024a).

Based on the discussion above, it can be understood that Sharia pension funds play a strategic role in supporting financial well-being in old age. However, their benefits depend on the quality of management, participants' understanding, and investment returns. Sharia pension funds do not automatically guarantee the fulfillment of all living needs after retirement, but they can help reduce the risk of financial difficulties if prepared from an early age and managed properly. Therefore, the development of Sharia pension funds should focus on improving financial literacy, expanding Sharia-compliant investment options, strengthening governance, and increasing public trust.

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Consequently, Sharia pension funds are expected to provide long-term benefits while supporting a more secure, independent, and prosperous life in old age.

CONCLUSION

Based on the discussion, Sharia pension funds are one of the long-term financial planning instruments that can help people prepare for their financial needs when entering old age. Their management involves several stages, starting from membership registration and contribution payments, fund management based on Sharia contracts, fund allocation into investment instruments that comply with Islamic principles, to supervision and pension benefit payments. In their implementation, the application of clear contracts, compliance with Sharia principles, transparency, and investment risk management are important aspects in maintaining participants' trust and supporting responsible fund management.

Despite their potential to support financial well-being in old age, Sharia pension funds still face several challenges, such as low public financial literacy, limited Sharia investment options, and the need to strengthen governance and human resource quality. Therefore, joint efforts are required from the government, the Financial Services Authority (OJK), pension fund management institutions, and the public to improve financial education, broaden understanding of Sharia pension programs, and strengthen investment supervision and management. With early preparation during productive years and proper management, Sharia pension funds have the potential to help people face old age with more stable and independent financial conditions. However, these benefits cannot be fully guaranteed, as they remain influenced by contribution amounts, membership periods, and investment returns.

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