

A Bright Future Managing Pension Funds Based on Sharia Principles

Eri Sisca Amalia^{1*}, Awathifur Rochimah², Triana Dani Maulana³, Rinda Asytuti⁴

¹⁻⁴Universitas Islam Negeri KH. Abdurrahman Wahid, Indonesia

*Correspondence Email: eri.siscall@gmail.com, [triana.danill@icloud.com](mailto: triana.danill@icloud.com)

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Abstract

Pensions play a pivotal role in retirement planning, ensuring financial security for elderly individuals. Amid growing awareness of Islamic law, Sharia-compliant pension funds have emerged as a viable solution, aligning financial needs with religious principles. These funds are designed to provide sustainable income during retirement while adhering to Sharia guidelines, employing permissible contracts such as *mudharabah* (profit-sharing) and *ijarah* (leasing). Oversight by a Sharia Supervisory Council ensures compliance with Islamic finance principles, reflecting an ethical and equitable approach within the global economy. This article offers a comprehensive analysis of Sharia pension funds, including their definition, classification, and management, highlighting their role in securing financial stability in accordance with Islamic tenets. The findings aim to serve as a reference for individuals and institutions committed to integrating Islamic economic principles into long-term financial planning.

Keywords: Pension Fund, Sharia Pension Fund, Sharia Principle

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Introduction

The history of Indonesian pension funds begins with the establishment of the Civil Servants Pension Fund Foundation (YDPPNS) in 1957 (McLeod, 1984). In 1963 it changed its name to Taspen. Its main purpose was to provide civil servants with financial security after they retired. Pension funds are increasingly widespread (Karyawan & Neal Jr, 2022). Asabri was established in 1977 to manage pension funds for members of the military and police. The Jaminan Hari Tua (JHT) program, which provides retirement benefits to registered workers in the private sector, started as part of the Jamsostek program in 1986. Since Law Number 11 of 1992, various types of pension funds have emerged, including Employer Pension Funds (DPPK), Financial Institution Pension Funds (DPLK), and Private Pension Funds (DPS) (Karyawan & Neal Jr, 2023). In Indonesia, Islamic pension funds are growing. The Jakarta Islamic Hospital Pension Fund (DAPERSI), which was established in 1990, has just been officially recognized by the Financial Services Authority (OJK) in 2018.

Islamic pension funds offer financial benefits in accordance with Islamic principles, providing security and blessings for investments (Mirakhor & Iqbal, 2012). Shariah Pension Funds have developed products that combine religious values with financial needs (Ahmed & Salleh, 2016). This concept not only aims to guarantee income in retirement but also to ensure that the entire fund management process is conducted in accordance with Sharia regulations, which prohibit *riba*, *gharar*,



and maysir. This program also encourages the growth of Islamic financial institutions with better results than conventional pension funds. Thus, participants can enjoy their old age more peacefully and financially securely.

Globally, the use of Shariah-compliant Pension Funds has been recognized by many as an ethical and fair alternative (Akhtar, 2015). Utilizing various Islamic contracts such as mudharabah and ijarah, and supervised by the Sharia Supervisory Board, this mechanism serves the interests of stakeholders while adhering to Islamic principles. Thus, the Sharia Pension Fund not only contributes to the academic world but also serves as an important element in economic development and the achievement of societal welfare. This article aims to examine the concept, types, and management of Shariah Pension Funds, as well as their benefits in ensuring religiously permissible financial security. With a deeper understanding, it is hoped that this concept can be referred to by individuals or even institutions committed to implementing Sharia principles in long-term financial planning.

Research Method

This research uses a descriptive qualitative approach to investigate various aspects of sharia pension fund management and how it impacts participants. Data were collected by reading academic journals, scientific articles, regulatory documents, and other relevant publications. This study will focus on the principles of sharia pension funds, how they differ from conventional pension funds, and the legal and regulatory framework governing their implementation, such as DSN MUI Fatwa No. 88/DSN-MUI/XI/2013 and related OJK regulations like OJK Regulation No. 33/POJK.05/2016.

This study was examined various types of shariah-compliant pension funds (such as DPPK, DPLK, and profit-based pension funds), investment strategies that align with shariah principles, and governance and supervision conducted by the Shariah Supervisory Board. (DPS). The analytical methods used include document analysis to categorize elements of sharia pension fund management, thematic analysis to identify key themes, and comparison between sharia and conventional pension funds to highlight their differences and advantages. The research results are expected to enhance our understanding of the management of sharia pension funds, the effectiveness of the system, and the benefits provided to participants

Result and Discussion

Islamic Pension Fund

A Pension Fund is a pool of assets managed by an organization for the purpose of providing payments upon retirement. Periodic payments will be made to participants according to a predetermined schedule and method. In the provisions that form the basis for implementing the pension program. The payment of benefits is related to a specific age (Cahyono & Yazid, 2023). One type of pension fund that follows sharia principles is a sharia pension fund create a pension program

based on sharia principles (Fatwa DSN MUI No. 88/DSNMUI/XI/2013). This pension fund program aims to provide welfare to its participants. Employees in a company, especially those who have reached retirement age according to the agreement, have a pension fund managed by an institution or legal entity. Money comes from wages received by employees of a company and then channeled back into the fund will be received in the form of pension benefits after passing a predetermined period. Agreement. In this context, a new pension can be given when the employee has reached the retirement age or for other reasons that allow him to obtain the right to enjoy pension benefit (Iqbal, 2020). There are three types of sharia pension funds, namely (Nurlaila & Zahra, 2024):

Employer Pension Fund (DPPK)

DPPK is a pension fund program established by the company with the aim of providing pension benefits to its employees. DPPK is managed by experienced administrators who are committed to ensuring the program's sustainability and ensuring that employees are happy in retirement.

Profit-Based Pension Fund

Profit-based pension funds, also known as commercial pension funds, are a type of pension program where contributions or pension premiums are determined based on the profits generated by the company or employer. If a company wants to offer attractive pension benefits to its employees, this program is an appealing alternative.

Financial Institution Pension Fund (DPLK)

DPLK is a pension program established and managed by public financial institutions such as banks and insurance companies, aimed at providing safe and comfortable pension solutions for individuals, company employees, and entrepreneurs.

Management of Pension Funds that Follow Sharia Principles

Managed in accordance with the applicable legal provisions in that field pension funds that are based on sharia principles. In addition to the management and supervisory board, there is also a Sharia Supervisory Board (DPS). If the employer is late in paying the pension contribution, then the employer will be sanctioned with ta'zir which has been allocated to the social fund. The investment instruments chosen should be in accordance with sharia principles. Implementing the contrac Source of funding Sharia Pensions are developing in line with the times when Sharia financial institutions are growing rapidly (Azzrahra et al., 2023). Sharia pension funds differ from conventional pension funds. Sharia pension funds use a grant contract between the employer and the participant regarding contribution payments. Meanwhile, in conventional systems, contributions are obligations or commitments from the employer to the employee through pension fund financing, and these

contributions cannot be withdrawn. The development of fund results in Sharia uses profit-sharing (mudharabah) and in conventional finance uses interest and instruments that are not based on Sharia (Ash-Shiddiqy, 2023).

The grant contract in a sharia pension fund uses a sharia agreement to reach an agreement between both parties. In public institutions, customer approval is prioritized. However, in the Shariah system, especially in pension funds, everything depends on the ability, circumstances, and capability of the customer. When both parties reach the right agreement through negotiation, a contract or promise is made. In addition to agreeing to the contract, a signature must be given on the seal (Ash-Shiddiqy, 2023).

Based on the Financial Services Authority Regulation Number 33/POJK.05/2016 concerning the Implementation of Pension Programs Based on Sharia Principles, there are several contracts used in sharia pension funds, including hibah bi syarth and hibah muqayyadah, contracts which are used by employers with participants involved in the payment of contributions. Wakalah and Wakalah bil Ujrah, contracts used by employers or participants with sharia pension funds. Mudharabah, contracts used by sharia funds in collaboration with investment managers. Ijarah, contracts used by sharia pension funds in cooperation with custodian banks, investment advisors, actuaries, and consultants.

Benefits of Islamic Pension funds

Personal pension fund is a financial institution in charge of managing and running a program that aims to provide benefits when we have entered retirement. Of course, this program can provide a sense of security against continuity. The quality of life of an employee when his working period has ended is very important, because of his welfare in old age. Of course, the existence of a pension fund is guaranteed, and this can provide motivation to live life. Provide enthusiasm so that someone is more enthusiastic about working The Pension Fund Law No. 11 of 1992 explains its definition. The purpose of the Pension Fund is to ensure that workers' income remains after they reach retirement age (Cahyono & Yazid, 2023).

Pension funds provide guaranteed benefits to employees through contributions that they collect during their employment. These contributions will give back to them when they reach retirement age in accordance with the agreed agreement. "A legal entity that manages and runs a program that promises retirement benefits" is the definition of a pension fund according to Article 1 paragraph (1) of the Law on Pension Funds (UUDP). It functions as an organized organization, is led by its board, has different assets, and aims to provide retirement benefits. Not all employees had access to company pension plans in the 1970s. However, in the 1990s, the company started a pension fund program, which was later formalized with the issuance of Law No. 11 of 1992 on "Pension Funds".

Sharia pension funds are pension funds that are run and regulated in accordance with sharia

principles. General guidelines for running a pension program based on sharia principles are regulated in Fatwa DSN MUI number 08/DSN-MUI/XI/2013. By being a religion of rahmatan lil'alamin, Islam regulates human life to achieve welfare and benefit both in this world and the hereafter. Conversely, the laws of muamalah established by Islam are intended to create good social relations and behavior. Therefore, pension funds are very important to encourage people's lives to always care and empathize by fostering a sense of tabarru towards the community so that they can be well served (Oktiani et al., 2024).

Based on Lubis (2021) in (Ash-Shiddiqy, 2023), pension funds have three functions. The first is as insurance, where if a pension fund participant dies or becomes disabled before their retirement period, the insurance payout can become a shared burden of the pension fund. The second is as savings, where the collection of contributions from participants and employers functions as savings in the name and interest of the participants themselves. Lastly, as a pension, which includes all contributions from participants, employers, and the management results paid out in the form of pension benefits (old age) starting from the first month after reaching retirement age for the participant's lifetime.

The application of sharia in Pension Fund institutions is possible by using schemes that do not contain elements prohibited in Islam, namely. Maysir, gharar, riba, ryswah, and bathil. Therefore, the funds collected from participants' contributions need to be allocated for investment. Investment instruments that are in accordance with sharia principles, for example, can be allocated to investments with sharia principles of selected companies listed in the Jakarta Islamic Index (JII). There are several types of Sharia investment instrument portfolios that are already available (Anggianti et al., 2023):

Mudharabah Deposits

Mudharabah deposits are Sharia investments conducted by Islamic banks through a mudharabah contract. In this transaction, the bank or fund manager acts as the mudharib and the customer or fund owner acts as the shahibul maal. The bank, as the mudharib, has the authority to take various actions in accordance with Sharia principles and enhance them, including engaging in mudharabah with other parties. The capital must be stated in cash form, not as receivables. The profit-sharing is recorded in the form of a ratio at the time of the account opening contract.

Sharia Stocks

Sharia stocks are proof of ownership in a corporation that complies with Sharia rules; this excludes equities with special privileges. The Jakarta Islamic Index (JII) group is an index board for thirty (30) equities that are deemed to fulfill Sharia standards.

Sharia Mutual Funds

This mutual fund operates in accordance with Sharia principles and is formed as an agreement between the investment manager and the investment user as the representative of the wealth owner. Currently, there are many Sharia mutual funds available, categorized as income or mixed. Income funds are mutual funds that mostly consist of relatively stable income, such as SWBI, mudharabah deposit certificates, interbank mudharabah investment certificates, and sharia bonds. Mixed funds are mutual funds that mostly consist of equity securities combined with a number of non-equity investment instruments that offer higher returns, such as sharia stocks (JII).

Sharia bonds

Are long-term securities based on sharia principles issued by companies to sharia bondholders. At maturity, the company is required to pay the returns, margins, or fees to the sharia bondholders and to repay the bond funds. The sharia bonds currently developing in Indonesia are mudharabah and ijarah bonds.

If managed with Islamic principles, pension fund management will provide various benefits that bring many advantages to the community, especially for people who are loyal to sharia. The Quran encourages its people not to leave behind weak descendants and to prepare for a better tomorrow. The message of this teaching is that it is necessary to preserve a portion of wealth for the benefit of the future. It is important to remember that people still have basic needs to fulfill when they retire. This is because the reserve fund remains available when a person enters a less productive period. Retirement fund income is basically allowed if it is managed wisely by following sharia rules. Workers who retire can enjoy the benefits they have earned. With retirement comes (Cahyono & Yazid, 2023).

A guarantee of future income after this the time to retire has provides a sense of security that can encourage motivation at work as described in Articles 10-13 of Law No.11 of 1991 on Pension Funds, together with Articles 15-27 of Law No.76 of 1992 on Employers' Pension Funds, and Articles 9-16 of Law No.77 of 1992 on Pension Funds for Financial Institutions, the organs of a pension fund consist of founders, a supervisory board, and administrators. There are several benefits offered by pension funds. Normal retirement benefits, which are given to participants who start providing after reaching the normal age, which is 56 years old, with a mandatory retirement age of 60 years old. Accelerated retirement benefits, which are given to participants who stop working at the age of approximately 46 years. Disability retirement benefits, which are given to participants who stop working after being declared disabled by a doctor.

Benefit entitlement to a deferred pension is a pension benefit payable on or after retirement. Pension benefits for widows, widowers, or children have been considered before the Pension Fund Law was implemented in the community the development of savings is increasingly sophisticated with the existence of Pension Funds and old age saving formed by various companies, both private

and government (Cahyono & Yazid, 2023).

Before the law on pension funds, people were already familiar with the concept the type of savings in question is old age savings, which is a type of long-term savings intended for the period after a person retires this savings account was established by several companies, whether managed by the government or the private sector the system used is a system of providing funds that are sought to provide great benefits for participants the purpose of this program is to protect employees from the possibility of losing their jobs due to layoffs at an advanced age the impact of accidents can be in the form of disability, casualties, and so on. This program is realized in the form of a Foundation. Islamic pension funds that have been established before the enactment of Law No. on 11 of 1992. However, the Foundation. This move is based on routine, as a social activity carried out without any of the advantages possessed by operating organizers is the absence of permanent members, although this also has its drawbacks. Therefore, it is wiser to use the pension funds for more appropriate future investments (Azzrahra et al., 2023).

Steps to Manage an Islamic Pension Fund

In general, the mechanism for managing funds for pension participants Sharia pension is divided into two systems, namely the system on saving products (savings) (Ubaidillah et al., 2020). The sharia pension fund guarantee institution requires each participant to make recurring payments of a specific amount of money. The participant's financial situation determines the premium amount. However, the sharia pension fund guarantee. The minimum amount of premium that must be paid is determined by the institution. Each participant's premium will be divided into two distinct accounts (Ibrahim, 2017), namely: participant savings account, which is a fund belonging to the participant that is paid if: The participant dies, resigns, or the agreement expires. A accumulation of charitable funds intended by the participants as charitable contributions for the purpose of mutual aid is known as the Tabarru' Account. participants as a benevolent fund contribution for the purpose of mutual help, which is paid if: the participant dies, the agreement has ended (Fitri & Suseno, 2023).

Sharia pension fund management procedures are a way of managing and organizing funds that will be paid back to pension participants when participants stop working whose management is in accordance with sharia principles (Najuwa et al., 2023). Pension Fund Management is just one part of the enormous global investment management industry, which represents portfolio management investments managed by professional investment managers professionals. Because it involves very substantial sums of money that employees have contributed and from which they will receive benefits when they retire, pension fund management demands careful supervision. As a result, it is crucial to establish excellent governance, maintain relationships with participants, and so forth (excellent Pension Fund Governance) (Saefuloh et al., 2015).

According to its structure, the Islamic pension fund's four main stakeholders are the employer (wahib), investee, participants (mauhub lah), and retirees/heirs. The primary distinction is

that each transaction in the pension fund is unique, but otherwise, there is nothing different from the plan with traditional pension funds. The primary distinction is that a sharia contract is used for each transaction in an Islamic pension fund. Employers utilize the hibah bi sharh and hibah muqayyadah contracts, for instance, to obligate participants to pay pension contributions. A wakalah bil ujrah contract is used when power of attorney activities involve paying a fee to a third party. If the pension fund chooses to work with a third party, it does so via a mudharabah or wakalah bil ujrah contract. An ijarah contract may be used by the pension fund if it engages a third party (Fitri & Suseno, 2023).

The community, especially the devoted community, will gain a lot by handling pension funds in line with Islamic principles. Provide numerous advantages to society, particularly to sharia-loyal individuals. The Quran itself instructs its adherents to prepare for a better future and to avoid leaving behind weak progeny. One interpretation of this lesson is that it's critical to accumulate some wealth for the future. This is important since after retirement, people still have fundamental needs that must be met. The reserve reserves provide a source of income even when an individual enters a less productive phase. Source of income, in theory, pension funds are acceptable as long as they are handled without interest and in accordance with sharia. In a manner that avoids interest and conforms to sharia. Regulation and MUI fatwa rules are necessary for the sharia pension funds to continue developing in order to potentially get a more competitive market share (Cahyono & Yazid, 2022).

Conclusion

Sharia Pension Fund is a pension fund managed based on Sharia principles, such as the prohibition of riba, gharar, and maysir. This fund aims to provide welfare for its participants after retirement. The types include Employer Pension Funds (DPPK), Profit-Sharing Pension Funds, and Financial Institution Pension Funds (DPLK). The management of Sharia Pension Funds is supervised by the Sharia Supervisory Board (DPS) to ensure compliance with Sharia rules. The investment instruments include mudharabah deposits, shariah-compliant stocks, shariah mutual funds, and sukuk, using contracts such as hibah, wakalah, mudharabah, and ijarah. In addition, sanctions (ta'zir) are imposed on employers who are late in paying contributions.

The contracts used in Shariah-compliant pension funds are hibah, wakalah, mudharabah, and ijarah. Shariah pension funds also provide benefits such as income guarantees in retirement, protection from the risk of income loss, as well as blessings and solidarity through tabarru' in accordance with shariah principles. With a profit-sharing system (mudharabah) that replaces interest, Shariah-compliant pension funds emphasize justice and welfare in accordance with Islamic teachings. This makes it a strategic solution for financial security in old age while adhering to Sharia values.

Overall, the Shariah Pension Fund not only provides economic benefits but also upholds Shariah values. Transparent and professional management makes this pension fund a strategic

solution to provide financial security in old age. With future-oriented principles and in accordance with Islamic guidance, Sharia-compliant pension funds help prepare a better tomorrow for both participants and their families.

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