

## Sharia Pension Fund Asset Management to Increase Optimal Returns

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### Abstract

*This research aims to examine the role of pension programs and the management of Islamic pension funds in ensuring a person's financial well-being during retirement. The journal provides an in-depth overview of various aspects related to pension funds, including their definition, objectives, problems, and management strategies. The review employs qualitative methodology to strengthen the understanding of the optimization of pension fund asset management. The journal focuses on investment decisions, pension fund management systems, and asset management in Islamic pension funds. It highlights optimal portfolio selection and investment strategies to maintain the balance between risk and return. The role of financial activity control and Shariah principles in pension fund management, as well as challenges in developing optimal portfolios, are discussed objectively. This journal provides insight into the importance of pension fund management in ensuring the financial well-being of participants in retirement.*

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## INTRODUCTION

Retirement by KBBI is defined as "no longer working because the service period has ended". While the Pension Fund is an institution or organization in charge of managing a pension plan. The purpose of this program is to help the company's workers, especially those who have reached retirement age, to get welfare. In its agreement, the pension fund supervised by an organization or legal entity, takes money from the salaries of employees and returns it to them as pension benefits. A new pension can be provided if the worker has reached retirement age, is eligible for retirement benefits, or for other reasons. Meanwhile, a pension fund is a legal organization that supervises and manages programs that offer welfare benefits to retirees of a company, in accordance with Law No. 11 of 1992 (Nurhasanah and Sidik 2023).

In order to feel comfortable when not working and not receiving income, everyone wants to receive benefits in his old age. One type of collective savings that appears in society and is increasingly accepted by workers is pension funds. Pension funds offer the right solution to this problem. A pension fund is a financial organization that oversees and manages schemes that guarantee our pension benefits (Raida 2020).

Before the existence of the Pension Fund Law in Indonesia, a community-based savings program known as Old Age Savings (ENT) was established for people who did not work at all or who worked in the private sector or public sector. Long-term savings that will be enjoyed after retirement define the form of Old Age Savings (ENT). The system of fertilizing funds is used in the process of its implementation to pursue pension benefits for the participants. The Old Age Savings Program (ENT) was created to protect workers from possible job losses (Adisaputra 2023).

According to Pension Fund Law No. 11 of 1992, the purpose of the Pension Fund is to guarantee employees' income after they retire (i.e. when they reach retirement age). Pension Fund is very vulnerable to risk because it is a legal entity that manages wealth and organizes pension plans that ensure the continuity of income of participants in retirement. The possibility of material and immaterial losses that can directly or indirectly affect the company's financial condition in the present and future is referred to as general risk. The risk associated with pension fund management is the problem of inadequate funding, which can hinder the ability of pension funds to fulfill their obligations in paying participants' rights to pension benefits (Miftakul Rohmah 2023).

The objectives of the Islamic pension fund are the development of public relations, labor market competition, moral obligation, loyalty, and rewarding employees who have made an impact on the company. Better compensation gives participants more money, although they can only take advantage of it when they reach retirement age. In particular, executors feel

secure for their future because they will continue to receive income once they reach retirement age. In particular, to manage pension funds to make money, fund government initiatives, and delegate social services to implementers; In addition, for the executors of pension funds. Participants who pass away or register before reaching retirement age can receive insurance funds from the fund to cover joint expenses as part of the insurance function of the Sharia Pension Fund. The contributions of employers and participants are combined to create a second type of savings. Employee contributions can be considered as monthly savings for participants, since these savings are for and in the names of participants themselves. Lastly, participants will receive retirement benefits during their lifetime, starting in the month when they reach retirement age. This benefit consists of the contributions of employers and participants, as well as the results of their management(Ash-Shiddiqy 2023).

The benefits that will be received later also depend on the type of old age insurance product chosen. Maintaining a lifestyle is one of them. Of course, letting go of the youthful lifestyle is a difficult thing. A lifestyle that doesn't match your means can be expensive. Unfortunately, some people find it difficult to let go of something or change their lifestyle. Therefore, one of them is to get funds so that, even if their income is reduced, they can maintain the same lifestyle. Having retirement insurance is one of the things that can be done. It is still a strong argument to work in youth for a happier old age. Young people's income from work can be invested or used to pay for old-age insurance policies. You have to pay an insurance premium to buy insurance. In the future, the premium funds can be used (Miftakul Rohmah 2023).

From the problems above, it is clear how important pension funds are for everyone. A person's welfare and income in old age will be more guaranteed with a pension program. On the other hand, pension plans can be used by companies to guarantee worker productivity because pension plans provide peace of mind for workers by guaranteeing their welfare after retirement. This makes workers more dedicated to the company and increases productivity.

## **METHODS**

This review/observation uses qualitative methodology, where a set of variables and analysis products are proven through the concept of cause and effect speculation in qualitative research, which is an approach that utilizes ideas and conclusion speculation (Sari and Nasution 2022). The literature study method is a research strategy used in this study, as for all data collected sourced from books, journals, and other sources. This method approach can provide knowledge to readers, especially business people or

employees about optimizing pension fund asset management to provide optimal returns when managing assets in the early days (Rumetna1 2018).

## **RESULT AND DISCUSSION**

### **Pension Fund Management System**

Planning, analyzing, and controlling financial activities—tasks typically performed by financial managers—is part of the process of controlling financial activities or activities in an organization. The three main decisions that must be taken by a business when carrying out its financial management function are investment, funding, and dividend decisions. The dividend decision, which determines whether a company's earnings will be retained in the form of retained earnings to finance future investments or distributed to shareholders as dividends, is the final process in financial management, after funding and investment decisions (Arifin et al,2022). The amount of profit to be retained and internal funding sources will decrease if the company decides to distribute dividends. Instead, there will be more room for internal funding if the business decides to withhold its profits (Raida, 2020).

Wealth will accumulate as a result of funding pension plans, either for compliance or for financial management reasons. This wealth will then be used to cover administrative expenses and retirement benefits. The direct costs of defined benefit pension plans can be reduced and the amount of pension benefits payable to defined contribution pension plans can be increased through the efficient use of the wealth of pension funds (Marifah Yuliani 2017).

Pension funds typically create documented investment policies to keep tabs on their assets. Although formal investment policies are generally quite simple and many are outsourced to investment companies or insurance companies, not all pension funds have them. In theory, pension funds can make a wide variety of investments. In general, stocks, money market instruments, medium-term bonds, group annuity contracts, and other types of investments make up the bulk of a pension fund's investment portfolio. Real estate, foreign securities, and new investment instruments that have a greater than average potential return have a relatively smaller portion. Pension funds in Indonesia are still prohibited from buying securities from overseas issuers. Pension funds invest primarily in the form of time deposits, bank deposits, certificates of deposit, bonds listed on the stock exchange, land, buildings, land and buildings, mutual funds, Bank Indonesia Certificates, government securities, shares, debt recognition letters of Indonesian legal entities, and direct placement or participation in Indonesian legal entities. The investment policy must be in accordance with sharia principles for pension funds that use it. Only instruments permitted

by the Fatwa DSN-MUI may be invested. The fund must be managed and invested in a portfolio of Islamic instruments by an Islamic pension fund. Almost all investments listed in the Minister of Finance Regulation above are already available in sharia form (Lestari 2015).

Pension Fund institutions must apply sharia principles by using programs that are free from elements prohibited by Islam, such as maysir, gharar, usury, riswah, and bathil. Therefore, funds received from participant contributions must be placed in investment vehicles that comply with Islamic Shari'a. For example, it invests in securities that comply with sharia law, especially in stocks included in the Jakarta Islamic Index (JII). Currently, there are several types of sharia investment instrument portfolios to choose from, including sharia bonds, sharia stocks, sharia mutual funds, and mudharabah deposits (Marifah Yuliani 2017).

An effective internal control and risk management system is also important for Islamic pension funds. This system enables Islamic pension funds to identify and prevent fraud, poor management, and breakdowns in policies and procedures within their institutions. To ensure the security and sustainability of Islamic pension funds, an efficient internal control system is essential. Such a system can increase the long-term profitability of the institution and guarantee the achievement of its goals. To ensure management oversight and foster a positive corporate culture within the organization, internal control is also very important. It is very important to identify and evaluate risks, find problems in the organization, and correct deficiencies. In addition, effective risk management will go a long way in identifying, measuring, monitoring, and controlling all risks accurately before managing them (Hasibuan 2010).

### **Sharia Pension Fund Asset Management**

The Financial Services Authority (OJK) issued regulations on the implementation of sharia-based pension programs, aiming to achieve welfare by fulfilling basic human needs. Sharia pension funds safeguard religion and the soul through adherence to Islamic principles and contracts that promote respect and trust (Iqbal, 2020). To advance Islamic financial institutions in Indonesia, the government should take strategic steps, such as synergizing with the BPJS Ketenagakerjaan pension guarantee program and providing tax-free incentives for the development of Islamic pension funds. Better regulations are also necessary (Ash-Shiddiqy, 2023).

Shariah pension funds are managed according to laws and Islamic principles, with a Sharia Management Board and penalties for late contributions. Conventional pension funds operate differently, with no Sharia principles and penalties in the form of interest. Sharia funds use contracts, while conventional funds do not (Sari & Nasution, 2022). The code of ethics established by the pension fund serves as a guide for good

pension fund governance, which includes principles such as transparency, accountability, responsibility, independence, and equality. According to regulations, pension funds implementing sharia principles must have a Sharia Supervisory Board (DPS) responsible for ensuring that all pension fund transactions adhere to sharia principles. The DPS, appointed by the founder, provides advice and suggestions to the management to ensure compliance with sharia principles. They also report their supervision results to the regulatory authority. The implementation of sharia pension funds is based on guidelines provided by the National Sharia Council. Various key players, including regulators and supervisors, play a role in developing and enforcing sharia concepts in Islamic pension funds. Sharia-compliant investment options are utilized, and late payment of contributions by employers leads to fines. The success of pension fund entities in implementing good governance relies on socialization, internalization, and periodic evaluation of pension fund management activities. Finally, pension funds are required to have ethical behavior guidelines for all members (Marwa, 2020).

The operations and services division collaborates with companies to find pension fund participants, targeting a wide range of individuals. The investment and empowerment divisions are responsible for managing and developing the funds, using contracts like mudharabah and ijarah. This system aims to create independent and empowered retirees (Sabirinth, 2019). Pension funds for civil servants and workers in Malaysia and Indonesia have different contribution percentages and rules. These funds are designed to provide financial support during retirement and should adhere to Sharia principles and benefit the individuals (Nurmayantri & Suseno, 2023).

In managing a pension plan, it is important to minimize moral hazard and fulfill obligations. The Capital Market and Financial Institutions Supervisory Agency requires pension funds to follow governance guidelines. Sharia perspectives criticize conventional pension funds for using ribawi system and usury, suggesting the use of Sharia programs. Smith views interest as the compensation paid by debtors to creditors for borrowed money. Keynes argues that income, not interest rates, equalizes savings and investment rates. Islamic pension funds prioritize justice and fairness, and shareholders and participants' interests must be protected. Islamic pension funds face obstacles in limited investment options but various Sharia investment instruments are available, including mudharabah time deposits and Sharia shares on the Jakarta Islamic Index. To be categorized as Sharia-compliant, a company must have a line of business and management that aligns with Islamic law. Sharia-compliant shares ensure equal rights for all shareholders. Sharia Mutual Funds

operate according to Sharia principles, and there is a need for state Sharia bonds to support the Islamic finance industry (Hasibuan, 2010).

### **Optimal Portfolio Calculation**

When building a portfolio, investors generally aim to balance acceptable risk with maximization of expected returns. We can call this goal an efficient portfolio. Certain assumptions about investor behavior can be used to inform investment decisions in efficient portfolio creation. Investors usually assume that a risk should be avoided (risk averse). Those who tend to be risk-averse will choose the less risky option when given a choice between two options with equivalent returns and varying levels of risk. The best portfolio will be chosen for investors who make effective portfolio selection.

Certain changes in risk are caused by passive changes in yields, even though pension funds are actively rebalancing their portfolios in response to yields. Pension fund portfolios undergo gradual adjustments to their strategic asset allocation, with equities playing an important role in rebalancing. High-yield pension funds typically rebalance more to stocks. Bonds are the most flexible when it comes to strategic asset allocation adjustments, while alternative asset classes rebalance more slowly than stocks (MASRUROH 2023).

Currently, there are many obstacles that hinder the development and expansion of the Islamic financial market, represented by Islamic financial institutions. The Islamic financial market is still much smaller than it should be, both in terms of asset class and overall size. Islamic financial institutions face shortages or restrictions regarding available instruments. As a result, the development of Islamic financial instruments must continue. In addition, one of the obstacles for the Sharia Pension Fund is the limited choice of Islamic investment, as well as the Islamic financial market. In reality, Sharia Pension Funds are required to manage and invest their funds in a portfolio of Islamic instruments, just like Islamic banking and insurance. There are already several types of sharia investment instrument portfolios to choose from, such as sharia bonds, sharia mutual funds, sharia stocks, and mudharabah deposits (Marifah Yuliani 2017).

This allows the investment portfolio of Sharia Pension Funds to be optimal, as evidenced by the performance of assets that moved up significantly in 2021 with investments increasing significantly in 2021. The best investment instrument to boost returns and reduce risk in sharia pension fund investment must be known by sharia pension fund institutions as investors (Miftakul Rohmah 2023).

To determine the optimal portfolio, either one that offers a higher return on investment or one that has a lower risk of loss with the following long-term investments: determine the portfolio with the lowest possible risk (global

minimum variance). Creating efficient boundaries will allow you to get the most efficient alternative portfolio possible while maintaining the expected rate of return in line with your company's goals. Create an ideal portfolio by placing risk-free assets into risky assets, looking for portfolios that intersect with portfolios that are on the efficient frontier and following the Capital Allocation Line (CAL) (Rolanda 2015).

## CONCLUSION

In pension fund management, the process of controlling financial activities is an important part of planning, analyzing, and controlling the financial activities of an organization. Investment decisions, funding, and dividends are the main focus in financial management. The dividend decision, which determines the company's profit allocation between future investments and dividends, is the final step after investment and funding decisions. Pension fund investment policies are also documented and oversee assets, covering instruments such as stocks, bonds, mutual funds, and property, with investment restrictions to ensure compliance with sharia principles for pension funds that use them.

Sharia pension funds operate in accordance with Islamic laws and principles, using Sharia-compliant investment instruments such as Islamic stocks, Islamic bonds, Islamic mutual funds, and mudharabah deposits. Sharia pension fund management requires an effective internal control system, emphasizes transparency, accountability, and independence, and involves the Sharia Supervisory Board (DPS) to ensure compliance with sharia principles. Collaboration with financial institutions such as BPJS Ketenagakerjaan, providing tax incentives, and better regulations are strategic steps in increasing sharia pension funds.

In developing an optimal portfolio, pension funds seek a balance between risk and expected return. Pension funds use strategic asset allocation, paying attention to stocks, bonds, and other asset classes to optimize portfolios. Sharia investment constraints are still a challenge, but Islamic investment instruments such as Islamic bonds, Islamic mutual funds, and Islamic stocks are more diverse choices for Islamic pension fund portfolios. An efficient and minimally risky portfolio creation strategy is the focus in building an optimal portfolio to achieve long-term investment goals.

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