

Client Alert

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TERMINATION OF EMPLOYMENT UNDER THE NEW MANPOWER PROTECTION LAW

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In this follow-up to our previous Client Alert, we discuss several provisions under the Law of the Republic of Indonesia No. 27 of 2026 regarding the Manpower Protection ("**Law 27/2026**").

This Client Alert addresses the new provisions on termination of employment (*Pemutusan Hubungan Kerja* - "**PHK**") under the Law 27/2026.

Some of these new provisions are outlined below:

1. **Specific Measures to Prevent PHK**

   Previous manpower regulations already required employers, employees, labour unions, and the government to make efforts to prevent PHK. The Law 27/2026 further elaborates on this principle by specifying measures that may be considered before employment is terminated, including the following:
   a. reducing working hours or the number of working days;
   b. placing employees on furlough temporarily or on a rotating basis;
   c. offering a voluntary early retirement program; and
   d. offering a retirement program to employees who meet the eligibility requirements.

   The Law 27/2026 further provides that, if PHK remains unavoidable after such measures have been considered, the proposed termination must first be discussed through bipartite negotiations between the employer and the employee.

2. **Removal of Efficiency Measures as a Ground for PHK**

   Both the Law 27/2026 and the previous regulations set out the permissible grounds for PHK. Under the previous regulations, one permissible ground was the company's adoption of efficiency measures in response to losses, with or without a subsequent closure of the company.

   The Law 27/2026 no longer recognizes efficiency measures as an independent ground for termination. Instead, where termination is related to company losses, the Law 27/2026 limits the relevant ground to the closure of a company that has sustained losses for 2 (two) consecutive years.

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3. Changes to Compensation Amounts

As under the previous regulations, employees whose employment is terminated may be entitled to severance pay (*Uang Pesangon* - "**UP**"), long-service pay (*Uang Penghargaan Masa Kerja* - "**UPMK**"), and/or compensation for entitlements pay (*Uang Penggantian Hak* - "**UPH**"). The Law 27/2026 revises the applicable compensation in several termination scenarios, including those set out below:

Ground for PHK	Previous Regulations	Law 27/2026
Merger, consolidation, acquisition, or demerger of the company, where the employer is unwilling to retain the employee	1x UP + 1x UPMK + UPH	2x UP + 1x UPMK + UPH
Company closure due to losses for 2 (two) consecutive years	0.5x UP + 1x UPMK + UPH	1x UP + 1x UPMK + UPH
Company bankruptcy	0.5x UP + 1x UPMK + UPH	1x UP + 1x UPMK + UPH
Breach of an employment agreement, company regulations, or a collective labour agreement following the issuance of successive written warnings	0.5x UP + 1x UPMK + UPH	1x UP + 1x UPMK + UPH

The Law 27/2026 also adjusts compensation amounts for other grounds for termination, such as permanent company closure, prolonged illness of the employee, force majeure, and a company being subject to a suspension of debt payment obligations.

4. Separation Pay (*Uang Pisah*)

The Law 27/2026 continues to recognize the Separation Pay (*Uang Pisah*) as a form of compensation that may be payable in certain termination scenarios. The previous regulations left the amount of the Separation Pay to be determined in the employment agreement, company regulations, or collective labour agreement.

The Law 27/2026 provides that if the amount of Separation Pay is not specified in the relevant employment agreement, company regulations, or collective labour agreement, it may be set at no less than 1 (one) month's wages.

The Law 27/2026 provides for Separation Pay on certain grounds for termination, such as when an employee is absent from work-

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for 5 (five) or more consecutive working days without a written explanation supported by valid evidence and has been duly summoned by the employer in writing on 2 (two) occasions.

5. **Severance Pay Reserve Fund**

The Law 27/2026 requires business operators to set aside funds to be managed by a government agency. The fund is intended to serve as a source of payment for the entitlements of employees whose employment is terminated for reasons other than retirement and who have not been enrolled in a pension program. Micro and small enterprises are exempt from the reserve requirement and must still pay termination entitlements in amounts determined by agreement.

Failure to comply with the reserve requirement may result in administrative sanctions, including the revocation of a business license.

As of 17 November 2026, the Minister of Manpower indicated that the implementing regulations for the severance pay reserve fund were still being prepared.

6. **Sanctions**

An employer who intentionally fails to pay the termination benefits required under Law 27/2026, specifically UP, UPMK, and UPH, may face imprisonment or a fine.

This Client Alert is provided for general information purposes only and does not constitute legal advice. Please contact us should you require further information or assistance regarding PHK under the Law 27/2026 or related matters.

For further information regarding the above Client Alert and future updates, please contact our counselors at:

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