EMPLOYMENT

Indonesia's New Manpower Protection Law (Law No. 27 of 2026): Part 1 – Termination of Employment



© ASSEGAF HAMZAH & PARTNERS

This alert is the first in a three-part series on the Manpower Protection Law. Part 1 covers termination of employment, including the procedure, permitted grounds, severance calculation, the severance reserve fund, criminal sanctions, and transitional rules. Part 2 will cover the structure of the employment relationship, including fixed-term employment, outsourcing and foreign employees. Part 3 will cover wages, leave, and other employee benefits and protections.

Key Takeaways

- The new Manpower Protection Law (Law No. 27 of 2026) took effect on 28 October 2026 and replaces Law No. 13 of 2003. Several key details are left to implementing regulations, due within one year.
- **Bipartite negotiation:** Termination must now be negotiated with the employee or labour union before it takes effect, even where the employee has not objected. Exemptions apply for terminations due to resignation, expiry of a fixed-term agreement, reaching retirement age, and death.
- **Void termination:** A termination made without a bipartite agreement or a final and binding decision is void. Failing to reinstate the employee is a criminal offence, and management may be liable.
- **Grounds for termination:** Efficiency is no longer a termination ground, and employers can no longer add grounds for termination through employment agreements, company regulations, or collective labour agreements.
- **Severance:** Severance multipliers are now set in the Law itself and are higher for several grounds, including closure due to losses, force majeure, and bankruptcy.
- **Severance reserve fund:** Employers, except micro and small enterprises, must provide a severance reserve fund (*dana cadangan pesangon*) managed by a government institution. The contribution rate and mechanics are left to a Government Regulation.
- **Transition:** Lawsuits already registered with the Industrial Relations Court and criminal cases already under investigation will continue to be processed under the previous Manpower Law (Law No. 13 of 2003, as amended). However, the Law does not say which rules will apply to terminations that are currently underway.

Approximate reading time: 9 mins

Law No. 27 of 2026 on Manpower Protection ("**Manpower Protection Law**") took effect on 28 October 2026. The House of Representatives passed the bill on 6 October 2026, and the President signed and promulgated it on 28 October 2026.

The Law replaces Law No. 13 of 2003 on Manpower, as last amended by Law No. 6 of 2023 on the Stipulation of Government Regulation in Lieu of Law No. 2 of 2022 on Job Creation into Law ("**Job Creation Law**") (together, the "**Previous Manpower Law**"). It revises the termination framework that applied under the Job Creation Law. This client update sets out those changes and the steps employers can take now.

Termination Requires Bipartite Negotiation

The Manpower Protection Law sets out the following process for terminating an employee:

- **Preventive measures:** Employers, employees, labour unions, and the government must make every effort to prevent termination. This duty existed under the Previous Manpower Law, and the Job Creation Law kept it.

  What the Manpower Protection Law adds is a list of measures to be taken first, which previously appeared only in a non-binding ministerial circular letter: (i) reducing overtime, shifts, working hours, or working days; (ii) not extending expired fixed-term agreements; (iii) not replacing employees who retire; (iv) adjusting managerial wages and facilities; (v) temporarily or alternately sending permanent employees home; (vi) offering voluntary early retirement; and (vii) offering a pension programme to employees who meet the requirements.

  The Manpower Protection Law makes these measures a precondition for termination. However, it does not require the employer to prove that it has taken them and does not expressly provide a sanction for failing to do so. Therefore, it is unclear how the precondition will be enforced in practice and whether sanctions will apply for non-compliance.

- **Bipartite negotiation:** If termination cannot be avoided after the preventive measures have been taken, the employer must negotiate it with the labour union, or directly with the employee if the employee is not a union member.

  The negotiation must be completed within 30 working days. If there is no agreement, the dispute goes through the industrial relations dispute settlement procedure, and the employer may terminate only after a final and binding decision. While the process is running, both parties must keep performing their obligations until the dispute is finally resolved.

  Resignation, expiry of a fixed-term agreement, reaching retirement age, and the death of the employee are exempted from this requirement.

  Under the Previous Manpower Law, bipartite negotiation was required only if the employee objected to the termination notice. Under the Manpower Protection Law, the intention to terminate must itself be negotiated, and the termination takes effect only once an agreement is reached or a final and binding decision is issued. This largely returns to the position before the Job Creation Law.

- **Consequence of non-compliance:** A termination made without a bipartite agreement or a final and binding decision is void by operation of law (*batal demi hukum*). The employer must reinstate the employee, and failing to do so is a criminal offence under the Manpower Protection Law.

The same reasoning applies to termination by mutual agreement. The Manpower Protection Law recognises agreement between the parties to end the employment relationship, recorded in a joint agreement (*perjanjian bersama*), as a ground for the employment relationship to end. However, mutual agreement is not among the four exemptions for bipartite negotiation listed above. In our view, a negotiated exit should therefore be preceded by documented bipartite negotiation and recorded in a joint agreement. The joint agreement must be registered with the Industrial Relations Court under Law No. 2 of 2004 on Industrial Relations Dispute Settlement, and the registration deed makes the joint agreement enforceable.

Narrower Termination Grounds

The Previous Manpower Law detailed the permissible termination grounds and allowed additional grounds to be agreed in the employment agreement, company regulation, or collective labour agreement. This is no longer the case. The Manpower Protection Law limits termination to the grounds detailed in the Law itself, and the list appears to be closed. The Law also delegates further provisions on termination to a Government Regulation, so the detail may still be regulated later. The main points are as follows:

- **Permitted grounds:** The Law lists 15 termination grounds. Most of them mirror the grounds under the Previous Manpower Law, and the changes are set out below.

- **Efficiency is no longer a ground:** Under the Previous Manpower Law, an employer could terminate for efficiency, with or without closure, either because the company was suffering losses or to prevent a loss. The Manpower Protection Law has no direct equivalent. As a result, restructuring or downsizing for efficiency appears to have no clear legal basis unless it fits within another listed ground.

- **Force majeure:** Under the Previous Manpower Law and Government Regulation No. 35 of 2021 ("**GR 35/2021**"), force majeure was a termination ground, and the severance multiplier depended on whether or not it caused the company to close. Now, the Manpower Protection Law lists force majeure (*keadaan memaksa*) without that distinction and does not define the term. So, its scope, including whether a temporary or partial disruption is enough, may be clarified in implementing regulations.

- **No first and final warning or urgent violation:** For misconduct, the Manpower Protection Law allows termination for a breach of the employment agreement, company regulation, or collective labour agreement after a first, second, and third warning letter have been issued in succession. GR 35/2021 went further by: (i) allowing a first and final warning letter; and (ii) allowing termination for an urgent violation (*pelanggaran bersifat mendesak*) where the employment documents provided for it. However, the Manpower Protection Law mentions neither grounds. Therefore, until implementing regulations provide otherwise, the full three-warning sequence appears to apply, even for serious misconduct.

Higher Severance Multipliers

The Manpower Protection Law increases the severance entitlements for several grounds of termination. The calculation tables for severance pay (*uang pesangon*), long-service pay (*uang penghargaan masa kerja*), and compensation for rights (*uang penggantian hak*) are unchanged. However, the multiplier applied to those tables for each termination ground is now set in the Law itself rather than in GR 35/2021, and for a number of grounds it is higher. In particular, severance pay previously calculated at 0.5x or 0.75x increases to 1x. For certain other grounds, it increases from 1x to 2x, and for retirement, from 1.75x to 2x. Long-service pay increases on two grounds: closure by decision of the owner, from 1x to 1.5x, and prolonged illness or disability due to a work accident, from 1x to 2x.

Separation pay (*uang pisah*) continues to be set by the employment agreement, company regulation, or collective labour agreement. Where none of them sets an amount, the Manpower Protection Law provides that separation pay "may be determined" (*dapat ditetapkan*) at not less than one month's wages. The use of "may" leaves some doubt as to whether this amount is mandatory. However, the Law also provides that a more beneficial existing entitlement continues to apply, which in our view indicates that one month's wages is intended as a minimum.

The table below sets out the multipliers for each ground. "Previously" refers to GR 35/2021.

Termination ground	Severance pay, previously	Severance pay, now	Long-service pay, previously	Long-service pay, now	Change
Corporate actions					
Merger, consolidation or spin-off: employee unwilling to continue	1x	1x	1x	1x	Unchanged
Merger, consolidation or spin-off: employer unwilling to retain the employee	1x	2x	1x	1x	Severance pay increased
Acquisition: employee unwilling to continue	1x, or 0.5x if the terms of work changed	1x	1x	1x	Increased where the terms of work changed
Acquisition: employer unwilling to retain the employee	1x	2x	1x	1x	Severance pay increased
Force majeure					
Force majeure	0.5x with closure, or 0.75x without	1x, regardless of whether there is company closure or not	1x	1x	Severance pay increased
Closure and financial distress					
Closure after sustained losses	0.5x	1x	1x	1x	Severance pay increased
Closure by decision of the owner	1x	1x	1x	1.5x	Long-service pay increased
Suspension of debt payments (PKPU) due to losses	0.5x	1x	1x	1x	Severance pay increased
Suspension of debt payments (PKPU) not due to losses	1x	1x	1x	1x	Unchanged

Termination ground	Severance pay, previously	Severance pay, now	Long-service pay, previously	Long-service pay, now	Change
Bankruptcy	0.5x	1x	1x	1x	Severance pay increased
Employee-initiated termination					
Employee petition due to employer misconduct	1x	2x	1x	1x	Severance pay increased
Dispute settlement institution rules the employer did not commit the misconduct	None	None	None	None	Unchanged (separation pay only)
Resignation	None	None	None	None	Unchanged (separation pay only)
Employee conduct					
Unauthorised absence (treated as resignation)	None	None	None	None	Unchanged (separation pay only)
Breach after warning letters	0.5x	1x	1x	1x	Severance pay increased
Detention for six months (for an alleged criminal offence that caused loss to the company)	None	None	None	None	Unchanged (separation pay only)
Detention for six months (for an alleged criminal offence that did not cause loss to the company)	None	None	1x	1x	Unchanged
Personal Circumstances					
Inability to work due to prolonged illness or disability due to work accident	2x	2x	1x	2x	Long-service pay increased
Retirement	1.75x	2x	1x	1x	Severance pay increased

Termination ground	Severance pay, previously	Severance pay, now	Long-service pay, previously	Long-service pay, now	Change
Death of the employee	2x	2x	1x	1x	Unchanged
Grounds removed					
Efficiency	0.5x (due to loss) or 1x (to prevent a loss)	Not a ground	1x	Not a ground	Removed
Urgent violation	None	Not a ground	None	Not a ground	Removed

For termination due to retirement, if the employer has enrolled the employee in a pension programme, employer-paid contributions may be offset against the applicable entitlement, i.e., severance payment, long-service payment, and compensation of rights payment, and the employer is liable to pay any shortfall. Micro and small enterprises may agree the amounts with the employee.

Severance Reserve Fund

The Manpower Protection Law introduces a new obligation for employers to provide a severance reserve fund (*dana cadangan pesangon*) as a source of payment of employees' entitlements on termination. The design differs from the draft Manpower Law discussed in our earlier alert (click here to read), which proposed severance security as a social security programme funded by employer contributions collected by the State.

The fund is intended to secure the entitlements of employees whose employment ends for a reason other than reaching retirement age and who are not enrolled in a pension programme. It is to be managed by a government institution, and micro and small enterprises are exempt. The detail is to be set out in a Government Regulation. An employer that fails to provide the fund is subject to administrative sanctions, ranging from a written warning and restriction of business activities to temporary suspension of business activities and revocation of its business licence.

The Law leaves several key points open, including:

- the contribution rate or amount to be reserved;
- which government institution will manage the fund;
- whether the funds will be held in separate accounts for each employer or pooled; and
- whether the fund will be used to pay severance when it falls due, or will be paid in addition to severance.

Criminal Provisions

The Manpower Protection Law imposes criminal sanctions on employers in two situations. Fines are set by reference to the fine categories under Law No. 1 of 2023 on the Criminal Code ("**Criminal Code**"). Where the

offender is a corporation, liability may extend to its management, the person who gave the orders, the persons in control, and the beneficial owners.

Offence	Employer (individual)	Corporation
Failure to reinstate a employee whose termination is void, either because it was made without a bipartite agreement or final and binding decision, or because it was made on a prohibited ground	Imprisonment of up to 2 years and/or a fine of up to IDR50 million	A fine of IDR200 million to IDR2 billion
Intentional failure to pay severance pay, long-service pay or compensation for rights	Imprisonment of up to 4 years or a fine of up to IDR200 million	A fine of IDR200 million to IDR2 billion

A criminal sanction does not discharge the employer's obligation to pay the entitlements. Unpaid entitlements that have been agreed in a joint agreement or confirmed by a final decision are secured by all of the employer's assets and must be paid in priority. For corporations, the court may also impose additional penalties under the Criminal Code, including licence revocation and closure of the business.

Transition

The Manpower Protection Law provides that industrial relations lawsuits registered with the Industrial Relations Court before the Law took effect continue to be resolved under the Previous Manpower Law, and that the same applies to criminal cases already under investigation. The Law contains no comparable rule for terminations that are under way, meaning terminations that have been notified, or are in bipartite negotiation or mediation, but have not yet taken effect or been brought to court, and it is therefore unclear whether the previous or the new procedure and multipliers apply to them. This position may, however, be clarified by implementing regulations or court practice.

What Employers Can Do Now

As the Manpower Protection Law is already in force, employers should review their termination practices now:

- **Restructuring:** Recalculate termination entitlements using the new multipliers before starting any new termination process, and do not rely on efficiency as a termination ground.

- **Termination procedure:** Update internal termination procedures to:
  - document the preventive measures taken, as the Law does not say how they must be shown;
  - complete bipartite negotiation within 30 working days;
  - continue to perform obligations, including paying wages, while the process is running;
  - ensure that no termination takes effect before an agreement or a final and binding decision; and
  - follow the full three-warning sequence in misconduct cases.

- **Negotiated exits:** Record any agreed exit in a joint agreement and register it with the Industrial Relations Court.

- **Employment documents:** Review employment agreements, company regulations and collective labour agreements for additional termination grounds and for first-and-final warning or urgent violation clauses, to ensure they align with the Law.

- **Terminations in progress:** For terminations that have been notified or are in negotiation or mediation but not yet before the Industrial Relations Court, employers are suggested to take a cautious approach pending more clarification. The employers may also assess the transitional exposure and calculate entitlements using the new multipliers.

- **Severance reserve fund:** Monitor the implementing government regulation and allow in budgets for a possible contribution.

What To Expect Next

Implementing regulations are due within one year, and the practical impact of the new termination regime will depend on them as much as on the law itself. Parts 2 and 3 of this series will follow.

If you have any queries on the above, please reach out to our team set out on this page.

For regional Employment matters, please see Rajah & Tann Asia's Employment Practice for more information.

Contacts

EMPLOYMENT



Ahmad Maulana

PARTNER

D +62 21 2555 7816
ahmad.maulana@ahp.id



Muhamad Kamal Fikri

PARTNER

D +62 21 2555 7824
kamal.fikri@ahp.id

Contribution Note

This Legal Update is contributed by the listed Contact Partners, with the assistance of Associate **Valerie Irene Patricia Lumanauw** and **Denis Tahar**.

Please feel free to also contact Knowledge Management at RTApublications@rajahtann.com.

Regional Contacts

Cambodia
Rajah & Tann Sok & Heng Law Office

T +855 23 963 112 | +855 23 963 113
kh.rajahtannasia.com

China
Rajah & Tann Singapore LLP
Representative Offices

Shanghai Representative Office
T +86 21 6120 8818
F +86 21 6120 8820

Shenzhen Representative Office
T +86 755 8898 0230
cn.rajahtannasia.com

Indonesia
Assegaf Hamzah & Partners

Jakarta Office
T +62 21 2555 7800
F +62 21 2555 7899

Surabaya Office
T +62 31 5116 4550
F +62 31 5116 4560
www.ahp.co.id

Lao PDR
Rajah & Tann (Laos) Co., Ltd.

T +856 21 454 239
la.rajahtannasia.com

Malaysia
Christopher & Lee Ong

T +603 2273 1919
F +603 2273 8310
www.christopherleeong.com

Myanmar
Rajah & Tann Myanmar Company Limited

T +951 9253750
mm.rajahtannasia.com

Philippines
Gatmaytan Yap Patacsil Gutierrez & Protacio (C&G Law)

T +632 8248 5250
www.cagatlaw.com

Singapore
Rajah & Tann Singapore LLP

T +65 6535 3600
sg.rajahtannasia.com

Thailand
Rajah & Tann (Thailand) Limited

T +66 2656 1991
th.rajahtannasia.com

Vietnam
Rajah & Tann LCT Lawyers

Ho Chi Minh City Office
T +84 28 3821 2673 | +84 28 3521 2832

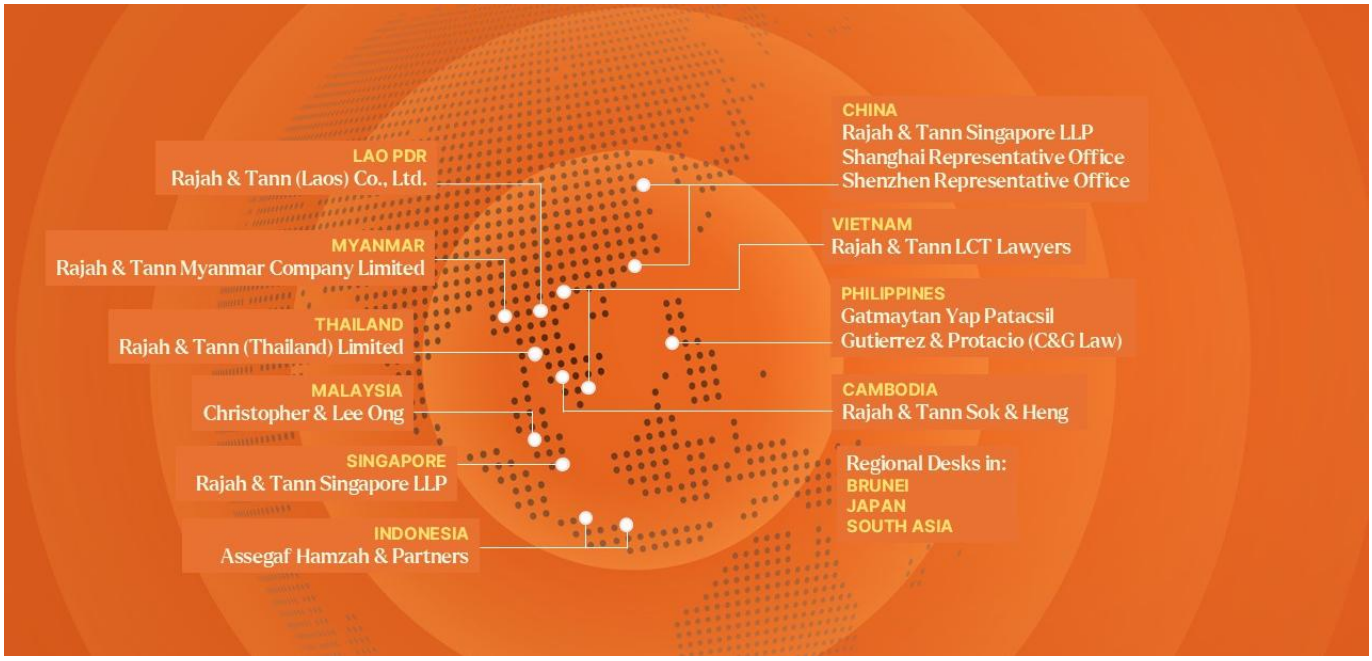
Hanoi Office
T +84 24 3267 6127 | +84 24 3267 6128
vn.rajahtannasia.com

Rajah & Tann Asia is a network of legal practices based in Asia.

Member firms are independently constituted and regulated in accordance with relevant local legal requirements. Services provided by a member firm are governed by the terms of engagement between the member firm and the client.

This update is solely intended to provide general information and does not provide any advice or create any relationship, whether legally binding or otherwise. Rajah & Tann Asia and its member firms do not accept, and fully disclaim, responsibility for any loss or damage which may result from accessing or relying on this update.

Our Regional Presence



Based in Indonesia, and consistently gaining recognition from independent observers, Assegaf Hamzah & Partners has established itself as a major force locally and regionally, and is ranked as a top-tier firm in many practice areas. Founded in 2001, it has a reputation for providing advice of the highest quality to a wide variety of blue-chip corporate clients, high net worth individuals, and government institutions.

Assegaf Hamzah & Partners is part of Rajah & Tann Asia, a network of local law firms in Cambodia, China, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam. Our Asian network also includes regional desks focused on Brunei, Japan and South Asia.

The contents of this Update are owned by Assegaf Hamzah & Partners and subject to copyright protection under the laws of Indonesia and, through international treaties, other countries. No part of this Update may be reproduced, licensed, sold, published, transmitted, modified, adapted, publicly displayed, broadcast (including storage in any medium by electronic means whether or not transiently for any purpose save as permitted herein) without the prior written permission of Assegaf Hamzah & Partners.

Please note also that whilst the information in this Update is correct to the best of our knowledge and belief at the time of writing, it is only intended to provide a general guide to the subject matter and should not be treated as a substitute for specific professional advice for any particular course of action as such information may not suit your specific business and operational requirements. It is to your advantage to seek legal advice for your specific situation. In this regard, you may contact the lawyer you normally deal with in Assegaf Hamzah & Partners.