

Dynamics of Employee Retirement Protection through Severance Pay Mechanisms

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Abstrak

Pesangon telah menjadi mekanisme penting dalam melindungi karyawan dari risiko ekonomi yang terkait dengan pemutusan hubungan kerja. Studi ini bertujuan untuk meneliti peran pesangon sebagai mekanisme perlindungan pensiun dan menganalisis faktor-faktor yang memengaruhi efektivitasnya. Studi ini menggunakan pendekatan deskriptif kualitatif dengan menggunakan data sekunder yang diperoleh dari jurnal akademik, laporan kebijakan, dan dokumen organisasi. Temuan menunjukkan bahwa pesangon tidak hanya berfungsi sebagai kompensasi finansial tetapi juga sebagai instrumen perlindungan ekonomi yang mendukung kesejahteraan finansial karyawan, stabilitas ekonomi keluarga, dan keamanan pensiun. Kebijakan pesangon memengaruhi persepsi tentang keamanan kerja, motivasi dan loyalitas karyawan, serta persepsi tentang keadilan organisasi.

Kata Kunci: *Pesangon; Perlindungan Pensiun Karyawan; Peraturan Ketenagakerjaan, Kesejahteraan Karyawan*

Abstract

Severance pay has become an important mechanism in protecting employees from the economic risks associated with termination of employment. This study aims to examine the role of severance pay as a retirement protection mechanism and analyze the factors that influence its effectiveness. This study uses a qualitative descriptive approach using secondary data obtained from academic journals, policy reports, and organizational documents. The findings indicate that severance pay serves not only as financial compensation but also as an economic protection instrument that supports employee financial well-being, family economic stability, and retirement security. Severance pay policies influence perceptions of job security, employee motivation and loyalty, and perceptions of organizational fairness.

Keywords: *Severance Pay; Employee Pension Protection; Employment Regulations, Employee Welfare*

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INTRODUCTION

The current labor market is no longer simply about providing jobs, but has transformed itself into a market for superior human resources through job offers and reciprocal incentives or income received by employees after employment. Selecting a new job is challenging for most workers, both experienced and inexperienced, or fresh graduates. Economic certainty has become a key factor in determining whether or not employees accept a job. This is also driven by the perception of high social status, with the expectation that successful work can bring pride to their families. Financial support provided by organizations to employees during the transition period after termination of employment is mandatory, with the goal of providing tangible protection through severance pay. In general, the concept of severance pay is defined as a guarantee for an employee after retirement in the form of a special income to support their financial stability before finding a new job. Providing security after retirement is an important tool that organizations must facilitate in empowering people, even those no longer working. In some countries, severance pay has become a metaphor for people just starting their job search, thus initiating considerations for new employees in accepting employment.

The root of the social inequality problem before employment is severance pay that falls short of expectations or is completely absent. Severance pay has diminished companies' confidence in considering new candidates. Experience is no longer the basis for organizations' decision-making in acquiring human resources, but merely a supporting formality. Furthermore, organizations no longer rely on human capital as a company asset, but rather on readily available, readily available capital. This indifference seems to treat human resources not as the foundation of the organizational structure but merely as mere agents, thus rendering the promised social security benefits, such as severance pay, no longer a benchmark. Analyzing the function of social security in several major cities in Indonesia, it is not evenly applied, adjusted to central government policies and companies' profit-making capacity. Investment in human capital is no longer a determining factor in organizational success; this view is considered to undermine the value of human resources themselves.

Severance pay is essentially a guarantee that employees must receive after termination of employment. Changing times and high purchasing power mean that most people prioritize economic well-being over responsibility, so severance pay is often an important source of financial protection for employees, especially when access to pension plans or retirement savings is still limited. In many cases, workers rely heavily on severance pay as a source of income during the transition to retirement or after losing a job Holzmann *et al.*, (2011). However, the effectiveness of severance pay mechanisms is heavily influenced by various factors such as the regulatory framework, the company's financial capacity, and the consistency of organizational policy implementation Betcherman, (2021). Differences in company policies and weak enforcement of labor laws can create uncertainty for workers who rely on severance pay for economic protection after termination of employment Vodopivec, (2020). Furthermore, low worker awareness of labor rights and social protection systems can also reduce the effectiveness of severance pay as a pension protection mechanism (OECD, 2023).

Severance compensation is calculated based on an employee's length of service and employment status, providing protection for workers after termination. The employment protection system focuses on maintaining workers' economic stability during the transition to a new job. However, severance pay policies often face inconsistencies due to the company's limited financial capacity and weak enforcement of labor laws.

Employee pension protection has become a crucial issue in human resource management and employment policies in many countries. Large companies often have more structured compensation policies and clearer severance schemes, while smaller or growing companies may struggle to meet severance obligations due to financial constraints or a lack of regulatory compliance mechanisms (World Bank, 2022). The impact of pension contributions is explained by Li et al., (2025) that the decline in work motivation and workforce productivity in organizations is caused by low pension protection factors. Total compensation in HR is not considered a top priority, resulting in negative perceptions felt directly by employees themselves. Motivation is not considered a driving force for people to work, but rather a tendency towards weak job security, resulting in the value of productivity being secondary. Employees' decisions to remain employed are built on economic incentives more Hernæs, E., Markussen et al., (2024). Social welfare for employees does not merely carry out the reciprocal function received by employees towards the organization or vice versa, but rather as a balance between social protection and labor market desires. In line with the view of long term well being felt by employees according to Holzmann et al., (2011) that one of the most discussed mechanisms is severance pay, which functions as a financial safeguard intended to support employees during the transition period after termination of employment and indirectly contributes to long-term well-being. According to the literature, severance policies can occur when the regulatory framework, organizational practices, and the employer's financial capacity to fulfill these obligations Betcherman, (2021).

In line with Cumming et al., (2024) that the impact of economic uncertainty affects organizational policies by investing in things that are considered risky so that pension funds do not become an obligation for the organization. Experts argue that the legal framework must ensure transparency, fairness, and accountability in the calculation and distribution of severance benefits (OECD, 2023). Weak enforcement of labor laws can lead to delayed payments, disputes between employees and employers, and uncertainty about employees' financial security after retirement or termination of employment. The effectiveness of severance policies often depends on in many labor markets, severance payments are considered part of a broader employment protection policy aimed at reducing income insecurity among workers approaching retirement age or who experience involuntary termination of employment. The impact of organizational policies due to economic uncertainty factors can be detrimental to employees, resulting in the emergence of (underfunded pension plans). On the employee side, according to Hu et al., (2025) pension funds as a guarantee for employees in future financial protection. Further explaining that economic uncertainty, and income after job loss are considered wasted. It is emphasized by Luan et al., (2025) that the hopes of an elderly person cannot be achieved in their twilight years. According to Chiang et al., (2025) it must be viewed in terms of accumulated social disadvantages, poor health, and economic instability in understanding the gap in old age security.

The lack of certainty of life is also explained by Kung et al., (2023) that the root of the problem of most people being afraid to terminate their employment with an organization is nothing other than great anxiety about what happens after they are no longer working, so that delays for retirement are the main alternative in preparing financially. pension coverage is still limited or uneven, severance pay can serve as an alternative source of financial security for workers after leaving work Vodopivec, (2020). Recent research also highlights the importance of integrating severance policies with broader employee well-being strategies. Human resource management practices that emphasize employee protection, financial planning, and retirement preparedness can strengthen the role of severance compensation in supporting workers' long-term well-being (Armstrong & Taylor, 2023). Furthermore, collaboration between governments, employers, and labor organizations is considered crucial to ensuring that severance mechanisms operate effectively and fairly in the modern labor market. Overall,

the literature indicates that the dynamics of employee pension protection through severance mechanisms involve multiple dimensions, including the regulatory framework, organizational policies, company financial capacity, and employee awareness. Understanding these dynamics is crucial for developing policies that balance organizational sustainability with adequate protection for employees during the transition from active employment to retirement.

OBJECTIVES OF THE RESEARCH

1. To examine the role of severance pay as an employee pension protection mechanism, particularly in situations where pension coverage or pension benefit systems are limited.
2. To analyze the factors that influence the effectiveness of pay policies based on job severity, including the regulatory framework, organizational practices, company financial capacity, and employee awareness of labor rights and pension protection.

RESEARCH METHODS

This study employed a qualitative descriptive method, utilizing secondary data as an effective method for understanding policy dynamics and phenomena in labor studies. Exploratory research also helps identify policy patterns and the social implications of various organizational policies on employee well-being (Creswell & Poth, 2018). Analyzing secondary data is useful for researchers as a source of policy reports, previous research, and organizational documents to gain a deeper understanding of an issue Johnston, (2017). This study used severance pay policies, labor regulations, and organizational practices that affect worker protection Betcherman, (2021). Therefore, the use of secondary data analysis in human resource management research can provide comprehensive insights into policy implementation and its impact on worker protection and well-being (Armstrong & Taylor, 2023).

DATA COLLECTION AND ANALYSIS

An important approach in qualitative research aimed at comprehensively understanding social phenomena and policies is finding secondary data sources. Secondary data-based research allows researchers to integrate various sources of information, such as academic journal articles, international organization reports, government policy documents, and organizational case studies, to gain a broader understanding of a research issue Johnston, (2017). In studies of employment and severance policies, analysis of policy documents and international agency reports is often used to evaluate the implementation of worker protections and organizational compensation practices Betcherman, (2021). Some human resource management research also utilizes industry reports and policy publications to understand the dynamics of employee welfare and employment protection systems (Armstrong & Taylor, 2023). Analysis of documents and secondary sources can provide in-depth understanding of the dynamics of organizational policies and practices within the employment system (Creswell & Poth, 2018).

DATA ANALYSIS AND INTERPRETATION

1. Financial Well-being After Layoffs

Job loss has worsened the economic situation such as the demand to survive with sufficient finances. Facing the risk of losing income is an unreasonable thing that should not be done without protection so that an employee's dependence ensures that the job obtained is able to fulfill his desires. One of the desires of someone who first enters the job market is sufficient finances such as getting severance pay. Severance pay is an important component in the employment protection system. Where this severance pay is one way to help workers face the risk of losing income. Boeri *et al.*, (2013). The role of severance pay is not just a guarantee of protection from job loss, but maintains the economic welfare of those affected. Parsons,

(2014) understands the role of severance pay as financial protection and the economic welfare of employees. Different views on the role of severance pay are expressed by Cardinale *et al.*, (2005) that severance pay is compensation in the form of money received by employees after termination of employment. From the employee perspective, according to Brown *et al.*, (2015), one factor influencing employee behavior when getting a job is how much severance pay they receive. This behavior demonstrates a sense of equal fairness in viewing two aspects of profit: the profits generated by the company and the employee themselves Mashdurohatun *et al.*, (2020). Therefore, it can be concluded that employee dependence on severance pay significantly determines financial well-being.

Pension Protection

Termination of employment is not just ending a contract issue unilaterally or ending employment because the employee's age does not allow him to work anymore in the Company, but termination of employment as economic protection that must be provided by the organization to employees. Termination of employment must be demanded justice in industrial relations Mashdurohatun *et al.*, (2020). Fairness of termination of employment after entering retirement age expressed by Novika *et al.*, (2023) that at the end of an employee's retirement period, the organization needs to form pension reserves and severance reserves as a guarantee of financial protection for workers. In line with the pension program obligations expressed by Djuwito, (2022) that employees reach retirement age, the company is obliged to provide severance pay as part of pension protection for workers. However, when the company experiences an acquisition or restructuring as stated by (Holzmann *et al.*, 2011; Ramadhan *et al.*, 2023) that the rights of workers entering retirement must still be guaranteed through severance pay or pension compensation, even when the company experiences an acquisition or restructuring. The severance pay calculation mechanism according to De Vos, (1997) must be based on the calculation of severance pay, showing the relationship between the pension system and layoff compensation, but the impact of severance pay after being explained by Parsons, (2013) as an income security mechanism that protects workers in the transition phase to new jobs or retirement. Another definition of severance benefits is emphasized by Boeri *et al.*, (2013) that complementing the pension security system is expected to provide employment protection systems. Not only protecting employees who retire but also need a severance policy that bridges financial protection between the active work period and the retirement of workers Fontes *et al.*, (2012), such as details of the mechanisms of pension protection policies and unemployment insurance Şen, (2021). That family economic instability results in income cuts or job loss can increase the risk of poverty, so that income protection mechanisms such as severance pay or social security are needed.

Family Economic Stability

Most men working in urban areas are legally married. One of a man's responsibilities is to provide for the family's needs and have a job as a source of income to increase the family's economic growth. Family finances are considered the foundation for family well-being through the income earned. Termination of employment in several companies is one example of organizational failure to address family economic problems. According to Morrissey *et al.*, (2020), family economic instability causes an increase in income or job loss to increase the risk of poverty. Family economic uncertainty due to anxiety about income is further explained by Barceló *et al.*, (2016) through severance pay policies that can improve family economic stability after layoffs, such as increasing savings and financial assets. Furthermore, according to Gerard *et al.*, (2021), severance pay serves as job transfer insurance during crucial times such as job loss and impacting family consumption levels. Kekre, (2023) shares the same view that severance pay programs can provide income protection, similar to unemployment insurance, and severance pay helps maintain household consumption during times of poverty. However,

Ozkan, (2019) defines severance pay as a social policy that directly impacts family consumption.

Perception Of Job Security

The emergence of perceptions in the organizational environment is a common occurrence, this is caused by uncertainty about guarantees of social protection provided by the organization to employees after working for a long time in the organization. The function of severance pay can be interpreted as a protection mechanism against the risk of job loss (job displacement risk) and helps workers face job uncertainty Cozzi *et al.*, (2016). The amount of severance pay influences workers' perceptions of job security and their job mobility decisions Garcia *et al.*, (2022). Furthermore, Lazear, (1990) Job security regulations such as severance pay or severance compensation are a form of worker protection against the risk of job loss. In line with the perception of job security according to Abildgaard *et al.*, (2018) that the perception of job insecurity can be reduced through organizational policies including compensation guarantees and worker protection when termination of employment occurs. The perception of job insecurity is emphasized by Sverke *et al.*, (2002) that the perception of job insecurity has a major influence on worker welfare so that organizations and countries develop employment protection policies such as severance pay. And Siggel, (2010) that job insecurity can reduce worker welfare so that employment protection measures such as severance compensation are needed to reduce its impact.

Employee Motivation and Loyalty

Work motivation is the most important part that an employee must have. Through motivation and work enthusiasm, simultaneously producing great loyalty given by employees to their performance within the organization. So the luck of the organization considers that employees or workers are assets that must be given rewards in the form of compensation that functions as a supporting factor in retaining employees Retnowati *et al.*, (2025). The relationship between motivation and loyalty is explained by Garcia *et al.*, (2022) that the amount of severance pay influences worker behavior in staying or changing jobs. Larger severance pay increases motivation to stay working and reduces voluntary work mobility. Garcia *et al.*, (2022) further examines the influence of financial and non-financial compensation on work motivation as stated by Armanu *et al.*, (2017) that financial and non-financial compensation have a significant influence on work motivation and employee loyalty, which then increases commitment to the organization. According to Brefo *et al.*, (2016) that motivation can be seen in terms of incentives, benefits, and financial benefits to increase employee loyalty and retention in the organization. In line with the concept of motivation and organizational reward relationships Alwi *et al.*, (2017) that intrinsic and extrinsic motivation and organizational reward systems play an important role in increasing employee loyalty to the organization. Definition of compensation and reward relationships to motivation Lestari *et al.*, (2021) that Compensation and career development increase employee loyalty through job satisfaction as a mediator.

Perception Of Organizational Justice

Fairness in the manufacturing or service industry greatly influences employee acceptance based on severance pay policies, meaning that the first recruitment of employees is adjusted to the costs provided by the organization Mashdurohatun *et al.*, (2020). This perception of organizational justice requires organizations to be fair in implementing severance pay Mengstie, (2020), so that the fairness of this severance pay can determine the motivation to increase the intention to leave work. According to Lee *et al.*, (2023) that organizational justice towards severance pay is said to be one way to increase employee satisfaction and positive attitudes through social exchange mechanisms, so that employees can respond positively to rewards that are considered fair. In line with the distribution of

compensation justice put forward by Lambert *et al.*, (2020) that Distributive justice and procedural justice have a significant influence on employee satisfaction and commitment in the organization. This means that satisfaction and commitment can be achieved when the organization fulfills employee desires.

CONCEPTUAL FRAMEWORK

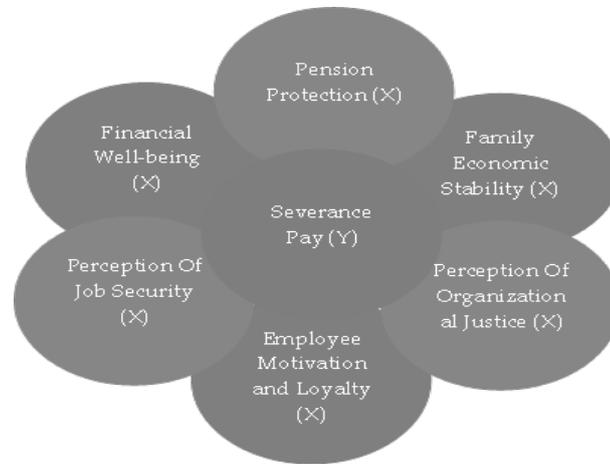


Figure 1. Conceptual Variables

FINDINGS

A literature review shows that severance pay plays a crucial role in protecting employees' financial well-being after termination. Several studies confirm that severance pay serves not only as compensation but also as an economic protection mechanism that helps employees maintain financial stability after job loss. Research by Boeri et al. (2013) and Parsons (2014) indicates that severance pay provides income security and helps workers navigate the transition period after termination. Furthermore, the literature indicates that severance pay is closely linked to retirement protection. Studies highlight that organizations are responsible for ensuring financial security for employees entering retirement through severance benefits or pension reserves. These mechanisms ensure continued income protection even during organizational changes such as restructuring or acquisitions.

Several studies also reveal that severance pay contributes to family economic stability. The literature indicates that severance benefits can help households maintain consumption levels and prevent financial instability after job loss. Other findings indicate that severance pay also influences employees' perceptions of job security. When workers perceive that the organization provides fair financial protection in the event of a layoff, their perceptions of job insecurity tend to decrease. This consistency suggests that severance policies influence employee motivation, loyalty, and perceptions of organizational fairness. Fair and transparent severance compensation can increase employee satisfaction, strengthen organizational commitment, and create a perception of fairness in the workplace.

LIMITATIONS AND SCOPE FOR FURTHER RESEARCH

This study has several limitations that need to be considered.

1. This study is based on a literature review, meaning that the findings rely on previously published studies without direct empirical data collection. As a result, the conclusions may not fully reflect the specific conditions of a particular industry or regional labor market.
2. The discussion primarily focuses on severance pay as a financial protection mechanism, while other employment protection instruments such as unemployment insurance or social security systems are only briefly discussed.

Future research is recommended to conduct empirical studies using quantitative or mixed methods to examine the direct impact of severance pay on employee well-being, family economic stability, and organizational outcomes across different sectors and countries.

CONCLUSION

Severance pay plays a crucial role in protecting employees from the economic consequences of termination of employment. Severance pay serves not only as financial compensation but also as a social and economic protection mechanism that supports employee well-being after termination. Findings indicate that several factors are closely related to severance pay, including financial well-being after termination, pension protection, family economic stability, perceived job security, employee motivation and loyalty, and perceived organizational fairness. These factors suggest that severance pay policies impact both individual well-being and organizational relationships. Therefore, a fair and well-structured severance pay system is crucial to ensure financial security, enhance employee perceptions, and support sustainable employment protection.

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