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Need of Social Security in India

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Abstract

The concept of Social Security is related to the high ideals of human dignity and social justice. It is the security provided by the society to its members, particularly the weaker ones, so that they can lead a normal and decent life even under adverse circumstances. This paper aims to study and critically analyze the various social security schemes running in India. Social Security protects not just the subscriber but also his/her entire family by giving benefit packages in financial security and health care. Social Security schemes are designed to guarantee at least long-term sustenance to families when the earning member retires, dies or suffers a disability. Thus the main strength of the Social Security system is that it acts as a facilitator - it helps people to plan their own future through insurance and assistance. The success of Social Security schemes however requires the active support and involvement of employees and employers.

Introduction

Any of the measures established by legislation to maintain individual or family income or to provide income when some or all sources of income are disrupted or terminated or when exceptionally heavy expenditures have to be incurred (e.g., in bringing up children or paying for health care). Social security may provide cash benefits to persons faced with sickness and disability, unemployment, crop failure, loss of the marital partner, maternity, responsibility for the care of young children, or retirement from work. Social security benefits may be provided in cash or kind for medical need, rehabilitation, domestic help during illness at home, legal aid, or funeral expenses. It acts as a facilitator, it helps people to plan their own future through insurance and assistance.

History of Social security

- Germany was the first country to introduce Social security scheme (1883)
- Each member of a particular trade (blacksmiths, painters, weavers etc) was required to contribute at regular intervals;
- Money from this fund was used for food,lodging, hospital and funeral expenses of aged and disabled members.
- In USA, Social Security Act came into existence in 1935. (years not important, this is only fodder material for Essay.)

Social Security in India

India has always had a Joint Family system that took care of the social security needs. However with rise of migration, urbanization, nuclear families and demographic changes, Joint family system has declined. Hence we need a formal system of social security.

India's social security system is composed of a number of schemes and programs spread throughout a variety of laws and regulations. Keep in mind, however, that the government-controlled social security system in India applies to only a small portion of the population.

Furthermore, the generally accepted concept of the social security system includes not just an insurance payment of premiums into government funds (like in China), but also lump sum employer obligations.

Generally, India's social security schemes cover the following types of social insurances:

- Pension
- Health Insurance and Medical
- Maternity
- Gratuity
- Disability

While a great deal of the Indian population is in the unorganized sector and does not have an opportunity to participate in each of these schemes, Indian citizens in the organized sector (which include those employed by foreign investors) and their employers are entitled to coverage under the above schemes.

The applicability of mandatory contributions to social insurances is varied. Some of the social insurances require employer contributions from all companies, some from companies with ten or more employees, and some from companies with twenty or more employees.

Pension

The Employees' Provident Fund Organization, under the Ministry of Labor and Employment, ensures superannuation pension and family pension in case of death during service. Presently only about 35 million out of a labor force of 400 million have access to formal social security in the form of old-age income protection. Out of these 35 million, 26 million workers are members of the Employees' Provident Fund Organization, which comprises private sector workers, civil servants, military personnel and employees of State Public Sector Undertakings.

The schemes under the Employees' Provident Fund Organization apply to businesses with at least 20 employees. Contributions to the Employees' Provident Fund Scheme are obligatory for both the employer and the employee when the employee is earning up to INR 6,500 (US$120) per month, and voluntary when the employee earns more than this amount. If the pay of any employee exceeds this amount, the contribution payable by the employer will be limited to the amount payable on the first INR 6,500 (US$120) only. Contributions should be made to the Employees' Provident Fund Organization on an annual basis.

The Employees' Provident Fund Organization includes three schemes:

- The Employees' Provident Fund Scheme, 1952
- The Employees' Pension Scheme, 1995
- The Employees' Deposit Linked Insurance Scheme, 1976

The Employees' Provident Fund Scheme is contributed to by the employer (1.67-3.67 percent) and the employee (10-12 percent).

The Employee Pension Scheme is contributed to by the employer (8.33 percent) and the government (1.16 percent), but not the employee.

Finally, the Employees' Deposit Linked Insurance Scheme is contributed to by the employer (0.5 percent) only.

Four main types of pension (all monthly) are offered:

- Pension upon superannuation or disability;
- Widows' pension for death while in service;
- Children's pension; and
- Orphan's pension.

In addition, there are separate pension funds for civil servants, workers employed in coal mines and tea plantations in the State of Assam, and for seamen.

Health Insurance and Medical

India has a national health service, but this does not include free medical care for the whole population. The Employees' State Insurance Act creates a fund to provide medical care to the employees and their families, as well as cash benefits during sickness and maternity, and monthly payments in case of death or disablement for those working in factories and establishments with 10 or more employees.

In case of sick leave, the employer will pay half salary to the employees covered under the Employee's State Insurance Act.

Disability

The Workmen's Compensation Act requires the employer to pay compensation to employees or their families in cases of employment related injuries resulting in death or disability.

In addition, workers employed in certain types of occupations are exposed to the risk of contracting certain diseases, which are peculiar and inherent to those occupations. A worker contracting an occupational disease is deemed to have suffered an accident out of and in the course of employment and the employer is liable to pay compensation for the same. Occupational diseases have been defined in the Workmen Compensation Act in parts A, B and C of Schedule III.

Compensation calculation depends on the situation of occupational disability:

(a) Death 50% of the monthly wage multiplied by the relevant factor (age) or an amount of INR 80,000 (US$1,474), whichever is more.

(b) Total permanent disablement 60% of the monthly wage multiplied by the relevant factor (age) or an amount of INR90,000 (US$1,667), whichever is more.

The Compensation Act also includes stipulations for partial permanent disablement and temporary disablement (total or partial).

Maternity

The Maternity Benefit Act requires an employer to offer 12 weeks wages during maternity as well as paid leave in certain other connected contingencies.

Every woman shall be entitled to, and her employer shall be liable for, the payment of maternity benefit at the rate of the average daily wage (the average of the woman's wages payable to her for the days on which she has worked during the period of three calendar months immediately preceding the date from which she is absent on account of maternity), including the day of her delivery and for the six weeks immediately following that day.

The maximum period for which any woman shall be entitled to maternity benefit shall be 12 weeks, six weeks up to and including the day of her delivery, and six weeks immediately following that day.

During the one month proceeding the period of six weeks before her expected delivery or any period during that six week period for which she does not take a leave of absence, no pregnant woman shall be required by her employer to do any work that is arduous, involves long hours of standing or is in any way likely to interfere with her pregnancy or the normal development of the fetus, or is likely to cause her miscarriage or otherwise adversely affect her health.

Any woman working in an organization and allowed to maternity benefit may give written notice to her employer stating that her maternity benefit and any other benefits to which she may be entitled may be paid to her or to anyone she nominates in the notice, and that she will not work in any establishment during the period for which she receives maternity benefit.

On receipt of the notice, the company shall authorize the employee to absent herself from the company until the end of six week period following the day of her delivery.

The maternity benefit for the period preceding the date of her expected delivery shall be paid in advance by the company to the employee after having confirmed that she is pregnant. The amount due for the subsequent period shall be paid by the employer to the employee within 48 hours of the child's birth.

In addition to the above, the act states that no company shall deliberately employ a woman in any organization during the six weeks immediately following the day of her delivery or her miscarriage. No company shall compel its female employees to do tasks of a laborious nature or tasks that involve long hours of standing or which in any way are likely to interfere with her pregnancy or the normal development of the fetus, or are likely to cause her miscarriage or otherwise adversely affect her health.

Gratuity

For establishments with ten or more employees, the Payment of Gratuity Act requires the payment of 15 days of additional wages for each year of service to employees who have worked at a company for five years or more.

The 100 day anniversary of the new government was witness to a significant modification in the social security regime in India. Further to the Finance Minister's proposal, put forward by him in his budget speech this year, the Ministry of Labour and Employment on 22 August 22, 2014 raised the statutory ceiling for monthly salary for the purpose of calculating contributions under the Indian social security schemes (namely the provident fund (PF) scheme, pension scheme and the deposit linked insurance scheme) from INR 6,500 to INR 15,000.Further, minimum monthly pension benefit of INR 1,000 was also introduced under the pension scheme.

As per the amendment, w.e.f September 1, 2014, all employees having a monthly salary up to INR 15,000 shall be mandatorily covered under all the three schemes and shall be required to make monthly contributions. In case an employees' monthly salary is higher than INR 15,000, he may opt out of the PF scheme (if not already a member). If such employee voluntarily opts for membership, it is essential that the monthly contribution is made on at least INR 15,000 unless an option to contribute on a higher salary is exercised.The mandatory inclusion for PF members under the pension scheme has also now been done away with. Employees drawing monthly salary in excess of INR 15000, who are not existing members of the pension scheme, will now not be eligible for membership under the pension scheme. A reading of this suggests that this amendment is also applicable for International Workers. Thus, an International Worker assigned to India on or after 1September, 2014 will only be required to become a member of the PF scheme and for such an individual, the entire employer and employee share of contribution (24% of monthly salary) will be allocated to the PF Scheme.

The amendments were introduced by the Government with the intent to address the coverage gaps in social security schemes for individuals and to consciously extend the benefit of social security to a wider range or class of employees. The Circulars specify a laundry list of such employees and some of those who will be covered in the net are employees of government departments, individuals in the banking, real estate and health care industries employed through third party vendors, individuals employed in schools, hospitals, hotels, restaurants, show rooms of branded companies etc.

In addition to the bridging of coverage gaps, the Government also seeks to benefit members by increasing the 'monthly pensionable salary' for pension benefit calculation to INR 15,000 and also increasing the lump-sum benefit available under the deposit-linked insurance scheme on the death of an employee by 20%.

Whilst this is welcome news for some individuals, it may mean a reduction in take home and a bonus in the retirement account for others. Thus, planning is the call of the day.

From the employers' perspective, a review of coverage under the social security schemes is recommended to ensure timely and accurate compliance with the amended schemes. In particular, employers registered under the PF law should:

- Review their employee population and cover all employees with monthly salary up to INR 15000 as members of PF scheme.
- Review salary structures and current payroll processes to ensure correct deduction and deposit of contributions under various schemes w.e.f September 1, 2014.

- Review coverage of all employees for whom contribution towards pension scheme is made on monthly salary exceeding INR 15,000.
- Ensure correct compliance and coverage for International Workers

A conscious effort should also be made by employers to employees of the benefits of membership under such schemes and a reiteration of the systematic investment benefits flowing from these.

Conclusion

Therefore the social secutity package broadly covers two categories of labour measures: (i) those relating to the medical facilities, compensation benefit insurance coverage to the employees. (ii) those relating to the provident fund, gratuity provision. It thus consists of all types of preventive promotion protective measures for labour welfare.

This is a constructive and welcome step taken by the Government to aid the low wage earners and to promote a socially empowered society in India. Careful planning shall however be required to ensure availability of sufficient Government reserves to cover the increased social security payouts expected in the future.

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