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Analysing developments impacting business

PRADHAN MANTRI SHRAM-YOGI MAANDHAN YOJANA: PENSION FOR THE UNORGANISED WORKERS

4 February 2019

In the interim budget 2019 (Interim Budget) presented by the Finance Minister on 1 February 2019, the measures taken by the Government of India (Government) in the past few years for the benefit of different categories of workers were highlighted. To mention a few, the amendments introduced in the Payment of Bonus Act, 1965 (Bonus Act) pursuant to the Payment of Bonus (Amendment) Act, 2015, which enhanced the eligibility limit for employees from Rs 10,000 per month to Rs 21,000 per month and the calculation ceiling under Section 12 of the Bonus Act from Rs 3,500 per month to Rs 7,000 per month in respect of scheduled employments, were highlighted. A similar emphasis was placed on the Payment of Gratuity (Amendment), Act 2018 read with the notification dated 29 March 2018 issued by the Ministry of Labour and Employment, which enhanced the ceiling on the amount of gratuity payable to an employee under the Payment of Gratuity Act, 1972 from Rs 10,00,000 to Rs 20,00,000. Recognising that a significant portion of the GDP of the country is contributed by the 42,00,00,000 workers constituting the unorganised sector, the Government in its Interim Budget announced a pension scheme for the said class of workers in the form of the 'Pradhan Mantri Shram-Yogi Maandhan Yojana' (PMSMY).

Features of PMSMY

The PMSMY intends to cover unorganised workers with an income of up to Rs 15,000 per month. Such workers will be provided with an assured monthly pension of Rs 3,000 upon them attaining the age of 60 years. For availing the said pension, the eligible unorganised workers will be required to contribute certain sum on a monthly basis, which will depend on the age at which they join the PMSMY scheme, till they attain the age of 60 years. Therefore, an unorganised sector worker joining the scheme at the age of 18 years will have to contribute Rs 55 per month, while a worker joining the scheme at the age of 29 years will have to contribute Rs 100 per month. The Government will make a monthly contribution of a similar amount to the pension account of the worker.

For the purpose of implementation of the PMSMY scheme, which is likely to be effective from the current year, the Government has allocated Rs 500,00,000, and it is proposed that additional funds will be allocated on a need basis from time to time. The Government expects that the scheme will cover at least 10,00,00,000 workers in the unorganised sector within the next five years.

Comments

Whilst the pension entitlement to employees forming part of the organised sector is largely governed by a statutory regime comprising of the Employees Provident Funds and Miscellaneous Provisions Act, 1952, the Employees' Pension Scheme, 1995, and the

Employees' Provident Funds Scheme, 1952, the pension framework for the unorganised sector is implemented through various schemes, most prominent of which has been the Atal Pension Yojana (APY). The APY scheme is a voluntary defined pension scheme targeted towards all the workers in the unorganised sector who join the National Pension System as administered by the Pension Fund Regulatory and Development Authority and are not part of any statutory social security scheme. Under the APY, the unorganised workers, upon attaining the age of 60 years, are entitled to receive a monthly pension of Rs 1,000, Rs 2,000, Rs 3,000, Rs 4,000, or Rs 5,000 depending on their contributions which, in turn, depend on the age at which they join the scheme. Therefore, in order to avail a monthly pension of Rs 3,000 at 60 years of age, a worker would have had to contribute Rs 126 per month if he/she joined the APY scheme at the age of 18 years or Rs 347 per month if he/she joined the said scheme at the age of 30 years.

It can be argued that the PMSMY scheme is a mere extension of the APY scheme with a few notable differences. Under the APY scheme, it was possible for a worker to avail a higher monthly pension by contributing more to the pension account; the PMSMY scheme, on the other hand, does not offer such flexibility. However, the PMSMY scheme is more beneficial than the APY scheme when it comes to the monthly contribution a worker is required to make in order to avail an assured monthly pension of Rs 3,000. Other than these differences, the PMSMY largely overlaps with the existing APY scheme, offering little in terms of labour reforms in the vulnerable and marginalised unorganised sector. The scheme, however, assumes significance especially in view of absence of any well-defined statutory framework for the economic security of the unorganised workers, which would otherwise entrust responsibility on the employers to contribute towards such workers' social security.

It remains to be seen how the new "mega" pension scheme will remove the defects – such as the one pertaining to the definitional attributes of "unorganised workers" – in the existing pension framework for the unorganised sector in order to ensure that the benefits of the scheme reach the persons proposed to be covered therein.

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