Legislative Brief
The Code on Social Security, 2019

Highlights of the Bill

- The Bill replaces nine laws related to social security. These include the Employees’ Provident Fund Act, 1952, the Maternity Benefit Act, 1961, and the Unorganised Workers’ Social Security Act, 2008.

- Establishments above a certain specified size have to provide benefits (such as provident fund and insurance). These are mandatory for employees above a wage level which will be notified. For other workers, the government may frame social security schemes.

- The Bill provides for the establishment of several bodies to administer the schemes. These include a Central Board to administer the provident fund schemes and national and state-level Social Security Boards to administer schemes for unorganised workers.

- All eligible establishments are required to register under the Bill. All employees and unorganised workers have to provide their Aadhaar number to receive social security benefits. Employers may be required to report vacancies to career centres.

- The Bill specifies penalties for various offences, such as failure to pay contributions and falsification of reports. Offences which are not punishable with imprisonment can be compounded (i.e., settled) by payment of up to 50% of the maximum fine applicable.

Key Issues and Analysis

- The National Commission on Labour (2002) had recommended universal and comprehensive social security coverage to all workers, with a decentralized administration to deliver the benefits. However, the Bill continues to retain schemes with varied coverage and applicability thresholds, and a fragmented delivery system.

- The government may frame schemes for gig workers, platform workers and unorganised workers. In some cases, there may be an overlap between these definitions, which could raise questions related to the applicability of the schemes for such workers.

- The Bill mandates an employee or a worker to provide his Aadhaar number to receive social security benefits. This may violate the Supreme Court’s judgment on the usage of Aadhaar.

- The government may change the threshold for applicability of social security schemes. The question is whether the power to decide the threshold should be left with the legislature or with the government.

- The Standing Committee on Labour has made recommendations. These include creating a unified registration and compliance system, ensuring portability of benefits to migrant workers, and reducing the term for eligibility for gratuity to one year.
PART A: HIGHLIGHTS OF THE BILL

Context

Labour falls under the Concurrent List of the Constitution. Therefore, both Parliament and state legislatures can make laws regulating labour. Currently, there are over 100 state and 40 central laws regulating various aspects of labour such as resolution of industrial disputes, working conditions, social security and wages.¹ The Second National Commission on Labour (2002) (NCL) had examined existing labour laws and recommended their re-consolidation into broader groups such as industrial relations, wages, social security, safety, and welfare and working conditions.² Subsequently, four labour Codes were introduced in Parliament. These four codes relate to: (i) wages, (ii) occupational safety and health, (iii) social security, and (iv) industrial relations. While the Code on Wages, 2019 has been passed by Parliament, Bills on the other three areas are pending in Parliament.

Social security refers to protection measures provided to workers to ensure healthcare and income security in case of certain contingencies such as old age, maternity, or accidents. In India, social security schemes under different laws are designed on the basis of size of establishment, nature of employment, income of worker, or income status of the worker's household. These schemes are administered through a combination of contribution-based schemes (funded by the government, employer, or employee), state-funded social assistance programmes, or, employer-liability schemes. The NCL noted that existing social security schemes have limited coverage and varied applicability based on the class of establishments, number of employees and wage ceilings. It recommended integrating these schemes, universalizing coverage to all workers and decentralizing the delivery machinery.

In this context, the Code on Social Security, 2019 was introduced in Lok Sabha by the Minister of Labour and Employment, Mr. Santosh Kumar Gangwar, on December 11, 2019. Following this, the Bill was referred to the Standing Committee on Labour on December 23, 2019. The Committee submitted its report on July 31, 2020.³

Key Features

The Bill replaces nine laws. The Annexure to this Brief compares the provisions of the Bill with these laws.

Social Security Schemes and Funding

- **Social security schemes**: Under the Bill, the central government may notify various social security schemes for the benefit of workers. These include an Employees’ Provident Fund (EPF) Scheme, an Employees’ Pension Scheme (EPS), and an Employees’ Deposit Linked Insurance (EDLI) Scheme. These provide for a provident fund, a pension fund, and an insurance scheme, respectively. The government may also notify: (i) an Employees’ State Insurance (ESI) Scheme to provide sickness, maternity, and other benefits, (ii) gratuity to workers on completing five years of employment (or lesser than five years in certain cases such as termination of fixed term contract), (iii) maternity benefits to women employees, (iv) cess for welfare of construction workers, and (v) compensation to employees and their dependants in case of occupational injury or disease.

- Additionally, the central or state government may notify specific schemes for unorganised workers, gig workers and platform workers (and set up funds) to provide various benefits, such as life and disability cover. Gig workers refer to workers outside of the traditional employer-employee relationship (e.g., freelancers). Platform workers are workers who access other organisations or individuals using online platforms and provide them with specific services. Unorganised workers include home-based, self-employed workers and wage earners in establishments with less than 10 workers. The appropriate government may notify facilitation centres to raise awareness about unorganised sector schemes and to facilitate enrolment in such schemes.

- **Contributions**: The EPF, EPS, EDLI, and ESI Schemes will be financed through a combination of contributions from the employer and employee. For example, in the EPF Scheme, the employer and employee will make matching contributions of 10% of the employee’s wages (which may be increased to 12% by notification). Contributions towards gratuity, maternity benefit, cess for building workers, and injury compensation will be borne by the employer. Schemes for gig workers, platform workers, and unorganised workers may be funded through contributions from the employer, employee, or the appropriate government.

Coverage and Registration

- The Bill specifies different applicability thresholds for the schemes. For example, the EPF Scheme will apply to establishments with 20 or more employees. The ESI Scheme will apply to certain establishments with 10 or more employees, and to all establishments which carry out hazardous or life-threatening work notified by the central government. These thresholds may be amended by the central government. All eligible establishments are required to register under the Bill, unless they are already registered under any other labour law. Employees are required to provide their Aadhaar number to receive social security benefits.

Social Security Organisations

- The Bill provides for the establishment of several bodies to administer the social security schemes. These include: (i) a Central Board of Trustees, headed by the Central Provident Fund Commissioner, to administer
the EPF, EPS and EDLI Schemes, (ii) an Employees State Insurance Corporation, headed by a Chairperson appointed by the central government, to administer the ESI Scheme, (iii) national and state-level Social Security Boards, headed by the central and state Ministers for Labour and Employment, respectively, to administer schemes for unorganised workers, and (iv) state-level Building Workers’ Welfare Boards, headed by a Chairperson nominated by the state government, to administer schemes for building workers.

**Inspection and Appeals**

- The appropriate government may appoint Inspector-cum-facilitators to inspect establishments covered by the Bill and advise employers and employees on compliance with the Bill. Administrative authorities may be appointed under the various schemes to hear appeals under the Bill. For instance, the appropriate government may notify an appellate authority to hear appeals against the order of the Inspector-cum-facilitator for non-payment of maternity benefits. The Bill also specifies judicial bodies which may hear appeals from the orders of the administrative authorities. For example, industrial tribunals (constituted under the Industrial Disputes Act, 1947) will hear disputes under the EPF Scheme.

**Employment Information and Monitoring**

- The appropriate government may require employers to report vacancies to career centres notified by the central government. The employer will not be obligated to hire any person through the career centre. These provisions will not apply to vacancies in certain employments, including agriculture and domestic service. Further, the provisions will not apply to vacancies in certain cases, such as those proposed to be filled through promotions or through independent recruitment agencies such as the Union Public Service Commission.

**Offences and Penalties**

- The Bill specifies penalties for various offences, such as for failure by an employer to pay contributions under the Bill after deducting the employee’s share, which attracts an imprisonment between one and three years, and fine of one lakh rupees. Offences (other than those attracting only imprisonment) can be compounded (settled) in certain cases by payment of up to 50% of the maximum fine applicable to the offence. The Bill sets a limitation period of five years for initiating any inquiries under the provident fund or ESI schemes.

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**PART B: KEY ISSUES AND ANALYSIS**

**Purpose of the Bill**

The Bill replaces nine laws related to social security. The National Commission on Labour (2002) (NCL) had emphasised the need for universal and comprehensive social security coverage to avoid deprivation of basic needs of workers, and recommended the simplification and consolidation of existing laws towards this end. The Statement of Objects and Reasons of the Bill states that it seeks to simplify and amalgamate the provisions of these laws in line with the NCL recommendations.

The NCL recommended that: (i) the social security system should apply to all establishments, (ii) the existing wage ceilings for coverage should be removed, and (iii) there should be a functional integration of the administration of existing schemes. Further, every employer and employee may make a single contribution for the provision of all the benefits, with a ceiling prescribed for such contributions. However, the Bill largely retains the current set up and does not fully implement these recommendations.

First, the Bill continues to retain thresholds based on size of establishment for making certain benefits mandatory. Benefits, such as pension and medical insurance, continue to be mandatory only for establishments with a minimum number of employees (such as 10 or 20 employees). All other categories of workers (i.e., unorganised workers), such as those working in establishments with less than 10 employees and self-employed workers may be covered by discretionary schemes notified by the government. This is similar to the current system where unorganised workers are governed by a different law (being subsumed by the Bill) under which voluntary schemes are notified for such workers. A large numbers of workers may continue to be excluded. Note that the Periodic Labour Force Survey Report (2017-18) indicates that 71% of regular wage/salaried employees in the non-agricultural sector did not have a written contract and 50% did not have any social security benefit.

Second, the Bill continues to treat employees within the same establishment differently based on the amount of wages earned. For instance, provident fund, pension and medical insurance benefits are only mandatory to employees earning above a certain threshold (as may be notified by the government) in eligible establishments.

Third, the Bill continues to retain the existing fragmented set up for the delivery of social security benefits. These include: (i) a Central Board of Trustees to administer the EPF, EPS and EDLI Schemes, (ii) an Employees State Insurance Corporation to administer the ESI Scheme, (iii) national and state-level Social Security Boards to administer schemes for unorganised workers, and (iv) cess-based labour welfare boards for construction workers.
The Standing Committee on Labour (2020) examined the Bill and recommended that the Code provide a framework for achieving universal social security within a definite time frame.\(^3\) It made several recommendations for expanding the coverage of establishments, employees, and types of benefits. These include: (i) re-considering establishment-size based thresholds and expanding the definition of “establishment” to include other enterprise categories such as agricultural and own account enterprises, (ii) expanding definitions of “employees” to include Asha and Anganwadi workers, “inter-state migrant workers” to include self-employed persons from another state, and “unorganised workers” to include agricultural workers, (iii) creating a separate fund for inter-state migrant workers, (iv) introducing unemployment insurance for unorganised workers and (v) re-introducing labour welfare funds for workers in certain industries such as iron ore mines and beedi establishments.

Table 1 below compares the Bill against the recommendations of the NCL on the existing laws with the Bill. It further sets out the recommendations of the Standing Committee on the provisions of the Bill.

<table>
<thead>
<tr>
<th>Feature</th>
<th>NCL Recommendations</th>
<th>2019 Bill</th>
<th>Standing Committee Recommendations</th>
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<tr>
<td>Coverage</td>
<td>Move from the current fragmented social security system to an integrated universal one with: (i) mandatory state-funded social security for the poor, (ii) contribution-based system for workers earning up to a certain wage (with part-state-subsidy for unorganised workers), and (iii) voluntary schemes for others.</td>
<td>Retains coverage as per existing laws, with limited modifications.</td>
<td>Code does not clearly define benefits and entitlements for several categories of workers.</td>
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<td>The Bill additionally permits the government to frame schemes for gig workers and platform workers.</td>
<td>Code should provide a framework to achieve universal social security for all workers with firm entitlements and within a defined time frame.</td>
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<td>Registration</td>
<td>Move from differing registration requirements to a comprehensive system of registration of workers and establishments.</td>
<td>Establishments to register with respective organisations.</td>
<td>Provide for a unified registration and compliance platform. All establishments should mandatorily register with a single authority.</td>
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<td>Aadhaar-based registration for all eligible workers.</td>
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<td>Portability</td>
<td>Address lack of portability by issuing cards with unique social security number to enable portability.</td>
<td>No explicit provision for portability of benefits.</td>
<td>Provide for common “minimum mandatory entitlements” across states for construction and unorganised workers to enable portability.</td>
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<td>Ensure portability for migrant workers.</td>
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<td>Delivery</td>
<td>Move to a decentralised mechanism with: (i) national authority chaired by the Prime Minister, (ii) central board for managing the scheme, (iii) state boards for delivery and implementation, and (iv) local committees for identification and registration of beneficiaries.</td>
<td>The Bill retains the same organisational set up as under existing laws.</td>
<td>Code continues with the existing fragmented structure for delivery of benefits. Committee recommended that the government consider putting in place a more compact system of governance of social security.</td>
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Sources: Existing social security Acts; 2\(^{nd}\) National Commission on Labour; Report of the Standing Committee on the Bill; 2019 Bill; PRS.

**Provisions on gig workers and platforms workers are unclear**

The Bill introduces definitions for ‘gig worker’ and ‘platform worker’. Gig workers refer to workers outside the “traditional employer-employee relationship”. Platform workers are those who access organisations or individuals through an online platform and provide services for payment. The Bill also creates provisions for unorganised workers. An unorganised worker is defined as one who works in the unorganised sector, and includes workers not covered by the Industrial Disputes Act, 1947, or other provisions of the Bill (such as provident fund or gratuity). It also includes self-employed workers. The Bill mandates different schemes for all these categories of workers. However, there may be some overlap between their definitions. We illustrate this below.

Consider the example of a driver working for an app-based taxi aggregator. Here, there is no employee-employer relationship. For example, appointment letters are not issued, social security benefits are absent, work hours are not regulated by the employer, and the driver may choose to work for a competitor taxi aggregator. Therefore, the nature of the work involved may lie outside the purview of a ‘traditional employer-employee relationship’, making him a ‘gig worker’. However, the driver is able to pursue this job only through an online platform. This would meet the definition of a ‘platform worker’ as well. Such a driver may also be an ‘unorganised worker’ as he may be self-employed. With such overlap across definitions, it is unclear how schemes specific to these categories of workers will apply. Further, the Code is silent on how these schemes will be funded. The Standing Committee on Labour (2020) examining the Bill recommended: (i) expanding the definition of “unorganised workers” to include gig and platform workers, (ii) making the definition of “gig worker” more specific to avoid misinterpretation, and (iii) expanding the definition of “platform worker” to enable inclusion of future models of work.\(^3\)

Note that workers in the gig economy are typically classified as independent contractors and thus are not provided labour protections, including social security benefits.\(^7\) The Code does not specify how the role of third parties (such as, digital intermediaries) will be determined to decide their liability in funding schemes for gig and platform workers. Globally, some regions have defined principles by which to identify employer-employee relationships which may be disguised and mis-classified as independent contract work. For example, the state of California
passed a Bill in 2019 which classifies certain independent contractors as employees and entitles them to certain benefits such as health insurance, if the hiring company fails to prove that: (i) the tasks performed by the person fall outside the usual course of the company’s business, (ii) the company does not exercise control over the manner in which the person performs their tasks, and (iii) the person is customarily engaged in a trade or occupation of the same nature as that involved in the work performed. The European Union has also passed directives to recognise the rights of persons in certain non-standard employments like platform work, if they work for over an average of three hours per week over a four-week period.

**Mandatory linking with Aadhaar may violate Supreme Court judgement**

The Bill mandates an employee or a worker (including an unorganised worker) to provide his Aadhaar number to receive social security benefits. This may violate the Supreme Court’s *Puttaswamy-II* judgement. In its judgement, the Court had ruled that the Aadhaar card number may only be made mandatory for expenditure on a subsidy, benefit or service incurred from the Consolidated Fund of India. Applying this principle, the Court has struck down the mandatory linking of bank accounts with Aadhaar. Since certain entitlements such as gratuity and provident fund (PF) are funded by employers and employees and not by the Consolidated Fund of India, making Aadhaar mandatory for availing such entitlements may violate the judgement. Note that the Employees’ Provident Fund Organisation (EPFO) had made Aadhaar linking with PF accounts mandatory in 2015. After the judgement, the EPFO issued orders against the enforcement of these provisions. In the context of mandatory linking of Aadhaar for registration of unorganised workers, the Standing Committee on Labour (2020) noted the government’s assurance that this provision will be re-examined.

**Threshold for applicability of Bill left to delegated legislation**

The threshold for applicability of various social security schemes is specified in the First Schedule of the Bill. For example, the Employee’s Provident Fund will be applicable for every establishment with at least 20 employees. The Bill empowers the central government to amend this schedule. Therefore, the threshold for applicability of the social security schemes can be changed by the government through notification. Note that under the existing laws, this power could only be exercised through amendments passed by Parliament or state legislatures. The question is whether the power to decide such thresholds should be retained by the legislature of whether it should be delegated to the government. The Standing Committee on Labour (2020) also noted that the Bill delegates various aspects for rule-making by the government, especially in relation to defining the entitlements, benefits and contributions under the Bill. It suggested that the Ministry review all such instances of delegation in the Bill.

**Other Labour Codes and recommendations of the Standing Committee**

The Standing Committee on Labour (2020) gave certain other recommendations on the Bill. Further, some of the Committee’s recommendations on another labour code pending in Parliament, i.e. the Occupational Safety, Health and Working Conditions (OSH) Code, 2019, may also apply to this Bill. These include:

- **Reduction in term for gratuity**: Under the Bill, gratuity is payable if the employee has served a continuous period of five years. The Committee recommended reducing this to one year and extending gratuity to all other categories of workers including contract, seasonal, and piece-rate workers.

- **Employment Exchanges**: One of the laws replaced by the Bill governs employment exchanges, where certain employers are required to report vacancies and job seekers may track openings. The Committee noted that this law is not connected with social security and recommended its removal from the Bill.

- **Social security for plantation workers**: The OSH Code contains health and safety provisions for workers in plantations measuring at least five hectares. In its report on the OSH Code, the Committee noted an assurance of the Ministry that workers in plantations measuring less than five hectares would be covered in the Code on Social Security. However, the definition of a “plantation” in the Bill retains the five-hectare threshold.

The Bill also defines the term ‘employer’ to mean a person who employs any persons and specifically includes certain categories of workers. In the case of a factory, employer means the occupier of a factory, i.e., the person with ultimate control over the affairs of the company. However, the remaining three labour codes define the term ‘employer’ to include occupier as well as the manager of the factory. It is not clear why managers of factories have not been included in the definition. Further, the Bill also does not define certain terms used to define an ‘establishment’. These include the terms ‘industry’, ‘trade’, ‘business’, ‘manufacture’ or ‘occupation’.

**Annexure: Comparison of the Bill with the laws being subsumed**

Table 2: Comparison of the existing nine laws with the Bill

<table>
<thead>
<tr>
<th>Coverage</th>
<th>Current laws</th>
<th>Code on Social Security, 2019</th>
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<tbody>
<tr>
<td>▪ Mandatory social security for workers in certain establishments based on size or income of workers. Unorganised workers are covered: (i) under the Unorganised Workers’ Social Security Act (UWSCSA) which prescribes voluntary social security schemes, and (ii) through cess-based labour welfare funds.</td>
<td></td>
<td>Retains the existing set up and applicability thresholds, with some changes. The applicability thresholds may be amended by central government through notification. Key changes include:</td>
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<tr>
<td>▪ Wages: Benefits calculated on wages which typically include basic wages and exclude allowances, concessions and social security contributions.</td>
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<td>Wages: Similar definition. However, if excluded components (other than retirement benefits like gratuity) exceed 50% of remuneration, then the amount in excess of 50% will be deemed as ‘wages’.</td>
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<tr>
<td>▪ EPF: Provident fund and pension schemes only apply to certain scheduled establishments employing 20 or more workers and to any other class of establishments as may be notified by the government. The scheduled establishments include textile, cement, electrical, iron and steel, and heavy chemical industries.</td>
<td></td>
<td>EPF: The provident fund and pension scheme will apply to all establishments employing 20 or more employees, and to any other class of establishments as may be notified by the government.</td>
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<td>▪ Employees’ State Insurance (ESI): Applies to establishments hiring at least 10 employees. Benefits available to those earning up to Rs 21,000 per month.</td>
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<td>ESI: ESI Scheme will apply to establishments hiring 10 or more employees. However, if the employer and majority of employees agree, then ESI may apply to such establishment by notification. Further, the central government can extend ESI to any hazardous occupation even if a single employee is engaged.</td>
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<td>▪ Gratuity: Payable on continuous service of five or more years in an establishment.</td>
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<td>Gratuity: Fixed-term employees (i.e., employed for a fixed duration) will be entitled to pro-rated gratuity based on term of the contract.</td>
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<td>▪ Maternity Benefit: In addition to maternity benefit, every woman is entitled to medical bonus of up to Rs 3,500 (if pre-natal confinement and post-natal care is not provided by employer). Central Government may amend this to up to Rs 20,000.</td>
<td></td>
<td>Maternity Benefit: Removes the upper limit of Rs 20,000.</td>
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<td>▪ Unorganised Workers: If any state enacts law providing more beneficial welfare schemes to unorganised workers, then the UWSCSA will not apply.</td>
<td></td>
<td>Unorganised Workers: The Bill allows schemes for unorganised workers to be additionally funded by the corporate social responsibility fund defined under the Companies Act, 2013. However, the Bill does not include provision on overriding effect of more beneficial welfare schemes passed by different states.</td>
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<tr>
<td>Registration</td>
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<td>Central government may also frame social security schemes for gig workers and online platform workers.</td>
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<tr>
<td>▪ Different laws have different registration requirements for establishments and employees.</td>
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<td>Every eligible establishment is required to register. Further, Aadhaar-based registration is mandated for all categories of workers.</td>
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<tr>
<td>Employment Exchanges</td>
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<td>“Career centres” to provide career services to employers, persons who seek employment, and for those seeking vocational guidance, career counselling or guidance to start self-employment. Bill requires notification of vacancies to career centres by every establishment.</td>
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<tr>
<td>“Employment exchanges” to provide career services to employers and persons who seek employment. Private sector establishments which employ 25 or more persons required to notify vacancies.</td>
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<tr>
<td>Offences</td>
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<td>The Bill adds a five-year limitation period for initiating inquiries for payment of dues under EPF and ESI schemes.</td>
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<tr>
<td>▪ Different laws specify different offences. For example, failure by an employer to pay EPF or ESI contributions after deducting employee’s share attracts imprisonment of up to one year, and fine of Rs 10,000. Subsequent offence under ESI (for non-payment of contributions) and under EPF attracts imprisonment of two to five years and fine of Rs 25,000. Similarly, non-payment of maternity benefits attracts an imprisonment of three months to one year and fine of Rs 2,000 to Rs 5,000.</td>
<td></td>
<td>Increases penalties. For example, failure by an employer to pay contributions after deducting employee’s share attracts imprisonment of one to three years, and fine of one lakh rupees. Subsequent failure to pay contributions attracts imprisonment of two to five years and fine of three lakh rupees. Offences which are not punishable with imprisonment only may be compounded (settled) up to 50% of the maximum fine for the offence, subject to certain conditions.</td>
</tr>
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</table>

**Sources:** Existing nine Acts, The Code on Social Security, 2019; PRS.


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