8.1. Implications of the Recent Developments in Informal Sector for Social Security System

It was often argued by the experts who advocated for implementation of the structural adjustment programmes that informal sector would generate employment to compensate the slow growth or reduction in organised sector employment. The trend and performance of informal sector in the context of changing macro economic scenario over the past two and a half decades discussed above questions the growth in employment. It appears unlikely that this sector would be a remedy for the problem of fast growing labour force and unemployment in urban areas. It may be noted that employment in informal manufacturing, particularly in own account manufacturing enterprises (OAME) and non-directory manufacturing enterprises (NDME), have registered low growth since the late eighties. Further, the falling work participation rates both for males and females, growing unemployment, and low productivity in the sectors with high concentration of informal sector during the nineties are not encouraging. The structural adjustment programmes thus seem to have put the small enterprises under serious stress resulting in their liquidation.

Partly, the decline of employment in informal manufacturing as noted above, can be explained in terms of the enterprises subcontracting jobs to smaller units, often carried out at household level wherein under-reporting of employment is high. This also means that a larger proportion of total workers are getting excluded from the official statistics in the nineties compared to earlier decades. Some of them identify themselves under tertiary sector which explains the increase in the share of tertiary sector in total employment. With the splitting up of production process through subcontracting and several workers in manufacturing getting classified under tertiary sector, they stand exposed to serious exploitation, as there are fewer institutions and labour laws to protect the workers in the service sector as compared to manufacturing sector.

The regulatory controls over tertiary sector are much more relaxed compared to manufacturing, largely due to difficulties of measuring output or scale of operation in
the former. Even the reporting of the number of units and workers are unsatisfactory rendering the database for informal tertiary sector extremely difficult. Knowledgeably, the extension of social security system (SSS) to informal sector has got a serious setback by this absence of data comparable across industries and over time. These come in the way of making generalisations and formulating strategies for effective intervention. Given these, as also the increasing rate of unemployment in the economy, covering the entire labour force under SSS would be extremely challenging.

It has been discussed above that a large part of the informal sector units is functioning at a low level of productivity with very little capital assets. These generally do not respond to macro economic changes including the demand and supply factors in the market. As a consequence, the increase or decrease in the number of units or employment has no bearing with increases in value added per worker or per enterprise. For them, being in business is not a matter of making profits but that of subsistence. All these point out towards a serious problem of low productivity within the informal sector. This would adversely affect the well-being of the workers and slow down the growth of informal activities—manufacturing in particular—in the long run.

In view of the weak and unstable economic base of the informal units, it would be difficult for many of these to make contributions to a comprehensive SSS, similar to the units of organised sector as being done under the present system (Kundu, Thaker and Arora, 2004). Imposing same norms and standards on these units would force many to close down. Many of these units were closed down during eighties and nineties, even without having to meet these social security obligations. It is true that informal sector is an extremely heterogeneous category in terms of productivity, profitability and growth performance and a small segment within it is linked with the market and grows in response to increases in demand and profits. It is only this section that can afford to pay the contribution as required under the existing legislated schemes.

8.2. Social Security Schemes in India

India led the developing countries by commencing programmes for health care and old age benefits with the evolution of the Employees’ State Insurance (ESI) Act 1948, Employees’ Provident Fund and Miscellaneous Provisions Act (E.P. & MPA) 1952, and Gratuity Act 1991. The ESI Act enlarged the scope of the Workmen’s Compensation Act (WCA) and Maternity Benefit Act (MBA) by providing medical care, cash benefits
and partial/total disability pension in case of industrial injury. In spite of a number of amendments to enlarge the scope of these acts, these social security schemes in India are mainly confined to the formal/organised sector.

In India the term 'social security' is generally used in its broadest sense, it may consist of all types of measures—preventive, promotional and protective as the case may be (Manohar Lal, 2004, p.2). There are a number of models providing social security to the workers in informal sector. These may be classified as under:

- Central funded social assistance programmes
- Social insurance scheme
- Public initiatives, and
- Social assistance through welfare funds of central and state governments.

The Central funded social assistance programmes include the employment oriented poverty alleviation programmes such as Swarnjayanti Gram Swarojgar Yojana, Jawahar Gram Samridhi Yojana, Employment Assurance Scheme and National Employment Guarantee Scheme in the rural areas. National Social Assistance Programme (NSAP) comprising old age pension, family benefit and maternity benefits, address the social security needs of the people below poverty line.

The social insurance schemes include several schemes launched by the central and the state governments for the benefits of weaker sections through the Life Insurance Corporation of India and general insurance corporations. There are schemes for the employees of shops and commercial establishments and other weaker sections. Janshree Bima Yojana is a group insurance scheme which covers natural/accidental death, partial or total permanent disability due to accident, and the people below poverty line and marginally above are eligible to join the scheme.

Some public institutions and agencies are also imparting some kinds of social security benefits to the selected group of workers. Among these, Self Employed Women's Association (SEWA) has made significant achievement in promoting social security through the formation of cooperatives.

The welfare funds also provide social protection to workers in the unorganised sector. The Government of India has set up five welfare funds. Central funds are administered through the Ministry of Labour for the beedi workers and workers in certain other occupations (Manohar Lal, 2004, pp 3-4). These funds are constituted from the cess collected from the employers and manufacturers/producers of particular
commodity/industry concerned. These funds mainly provide medical care, assistance for education of children, housing, water supply, and recreation facilities. The welfare fund model has been successfully implemented by some states for various categories of workers. The State of Tamil Nadu is running 11 Welfare Boards for workers like construction workers, truck drivers, footwear workers, and handloom and silk weaving workers. Similarly, State of Kerala is also running several welfare funds for agricultural workers, cashew workers, coir workers, fisherman, and toddy-tappers.

However, the coverage under all the above programmes is little more than 10 million out of an estimated 370 million workers in the unorganised sector (Manohar Lal, 2004 p.6).

Report of the National Commission on Labour has recommended a social security system in which state should bear the responsibility of providing and ensuring an elementary or basic level of security to all citizens of the country (Government of India, Ministry of Labour, 2002b). On the recommendations of this report, the then government has brought out a scheme of "unorganized sector workers Social Security Scheme, 2004" in the year 2004. But with the change of the government, the scheme has gone off the priority list of the new government (Jagannathan, Prabha, 2005).

It is thus very disappointing that even after over 50 years of their existence, the old age, contingency and medical care plans remain restricted to large parts of the formal sector and have failed to cover a sizeable section of the working population.

8.3 Limitations of Existing Social Security Schemes

8.3.1 Limitations and Inadequacies of the Legislated and Occupational Benefit Schemes

a. The schemes exclude smaller units

Employees' Provident Funds & Miscellaneous Provisions Act, 1952 as it stands is applicable to (EPFO, 1999, pp 24-26):

(i) every establishment which is engaged in any one or more of the industries specified in Schedule 1 of the Act or any activity Notified by Central Government in the Official Gazette.

(ii) employing 20 or more persons.

The Act does not apply to Co-operative Societies/Establishments, employing less than 50 persons and working without the aid of power. An employee of Co-operative
Society/Establishment, who is in receipt of pay up to Rs.5000 is eligible for the membership of the Fund.

The employees' State Insurance Act applies, in the first instance, to non-seasonal factories using power in the manufacturing process and employing 10 or more persons and non-power using factories or establishments employing 20 or more persons for wages (ESIC, 2000a, p.1). However, provisions of the ESI Act have been extended by most of the state governments to the following classes of establishments.

(i) Shops, hotels, restaurants, cinemas including preview theatres, road motor transport agencies and newspaper establishments, employing 20 or more employees.

(ii) Beedi manufacturing establishments employing 10 or more employees in the implemented areas;

(iii) State pencil manufacturing establishments employing one or more employees.

The scheme is yet to be implemented in the State of Sikkim, Nagaland, Tripura, Arunachal Pradesh, Mizoram, Manipur and Union Territories of Andaman and Nicobar, Lakshwadeep, Dadra & Nagar Haveli and Daman and Diu.

Earlier, the employees of the foregoing factories and establishments in receipt of wages not exceeding Rs. 6,500 p.m. are covered under the Act (ESIC, 2000a pp 1-2). Recently, the limit has been raised from Rs. 6500 per month to Rs. 10,000 per month (Hindustan Times Correspondent, 2004).

b. High contributions

As per EPF&MPA the employers and employees contribution to the Provident Fund is at the rate of 12 per cent each of the basic wages, dearness allowance including cash values of good concession and retaining allowance, if any (separately for employer and employees). Out of 12 per cent of employers' share, 3.67 per cent goes to Provident Fund and 8.33 per cent is contributed to Pension Fund. The rate of contribution is 10 per cent for both employers' and employees' in five specific industries i.e., brick, beedi, jute, coir and guargum. Here also, out of 10 per cent of employers' share, 1.67 per cent goes to Provident Fund and 8.33 is contributed to Pension Fund (Srivastava, S. C, 2004, p-15).
The Employees State Insurance scheme is also funded by contributions emanating from employees and employers of covered factories and establishments in the implemented areas. The rates of contribution payable by employees and employers are as under (ESIC, 2000, pp2-3):

(i) Employees' Contribution: 1.75 per cent of the wages
(ii) Employers' Contribution: 4.75 per cent of the wages

Beside this, employers have to pay the administrative and inspection charges to Employees Provident Fund Organisation at the rate of 1.1 per cent of total pay on which contributions are payable. Minimum administration charges payable per month per establishment is Rs. 5 (EPFO, 1999, p 109). Expenditure incurred on provision of medical benefits by ESIC is shared by the respective state in which benefits are given. At present, about 12.5 per cent of total expenditure on medical benefits under ESI scheme is born by the state (ESIC 2000b, p-3).

All these contributions to legislated schemes totals more than 35 per cent of basic salary and specified allowances. High contribution rates prompt employers and employees to find ways to contain emoluments by wrong interpretation of law or other manipulations viz., showing a break in employment of the employee, increasing his/her perks and not the basic salary, and encouraging the employee for increasing reimbursement facilities.

Thus, because of higher contributions, particularly by the employers, legislated schemes are not affordable to small units including the lower strata of self-employed.

c. Multiple Objectives

Provident fund is an excellent example of a plan with multiple objectives. It was initiated with the objective to provide lump sum benefit upon retirement and also upon death and total disability. Subsequently, its objective was enlarged by providing loans and withdrawals for a number of reasons viz., illness, discharge of their social responsibilities like marriage of sister/brother/daughter/son, higher education of children or constructions of dwelling house (EPFO 1999, p-56). Similarly, gratuity initiated as a second retirement benefit is payable upon resignation or termination of service after five years of service.
In recent years, withdrawals from the EPFS were higher or almost same as the average amount being paid at the time of settlement (Table 8.1). With withdrawal being so high, we can not say it is a retirement benefit. It is more appropriate to view provident fund and gratuity as deferred remuneration. This goes against the basic objectives of a social security system.

Table 8.1
Details of Employees' Provident Fund Schemes (EPFS)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Membership (in millions)</td>
<td>17</td>
<td>19</td>
<td>20</td>
</tr>
<tr>
<td>Average Balance in EPFS A/c (Rs.)</td>
<td>14,435</td>
<td>16,891</td>
<td>23,155</td>
</tr>
<tr>
<td>Average Settlement (Rs.)</td>
<td>16,662</td>
<td>19,375</td>
<td>21,948</td>
</tr>
<tr>
<td>Average Withdrawal (Rs.)</td>
<td>17,662</td>
<td>20,207</td>
<td>19,846</td>
</tr>
</tbody>
</table>

Note: Data excludes members of exempted provident funds.


Partial withdrawals consumes a large share of administrative workload of the organisation. In the year 1998-99, 4.73 lakh applications were received, out of which 3.90 lakh were allowed to withdraw the money and an amount of Rs. 7.88 crore was disbursed.

d. Segmented Approach

It is unfortunate that, at times, separate legislations provide the benefits which are comparable to each other. Good example is the Exempted Establishments by the EPFO, which are governed by different Act. Beside this, a number of welfare funds have been established by the central and state governments with different terms and conditions. This shows that government has adopted segmented approach to legislated benefits.

The above approach results in variations in the nature and extent of coverage, management efficiency, and additional work and expenses which can be avoided. Main disadvantage of segmentation approach is lack of portability because of worthwhile differences in the nature and extent of coverage and rates of contributions. This results in premature settlements of account when he/she changes his/her job from one organisation to another. A good example is absence of portability of benefits between central and state governments or between plans of states even though benefits are similar or very comparable. This assumes importance because of increasing mobility and organisational and technological changes.
e. Biased Structure of Employees’ Pension Scheme

Benefits of Employees’ Pension Scheme (EPS) are linked to the final salary drawn by the employee (EPFO, 1999, p. 85). This favours employees of organisations with higher salary growth at the cost of employees of organisations with lower salary growth rate. It is evident from Table 8.2, that a person whose salary grows at the rate of four per cent per annum he receives a pension, which is equal to the 19.5 per cent of the interest on his accumulations. But an employee, whose salary grows at the rate of 10 per cent, he receives much higher pension which is equal to 81.0 per cent of the interest on his accumulations. Detailed assumptions in calculating the accumulations and their interest for different growth rates of salary are given in the footnote of Table 8.2. It may be argued that the employees having lower salary growth subsidise the employees having higher salary growth, which is contrary to well accepted pattern of social security legislation.

Table 8.2
Pension Received as Percentage of Accumulation for different Rates of Salary Growths under Employees’ Pension Scheme (EPS)

<table>
<thead>
<tr>
<th>Salary growth (per cent)</th>
<th>Salary (Rs.)</th>
<th>Accumulations (Rs.)</th>
<th>Interest @ 1% pm on accumulations (Rs.)</th>
<th>Pension (Rs.)</th>
<th>Col (5) as per cent of col4</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
<td>(5)</td>
<td>(6)</td>
</tr>
<tr>
<td>4</td>
<td>457</td>
<td>140,734</td>
<td>1,407</td>
<td>274</td>
<td>19.47</td>
</tr>
<tr>
<td>6</td>
<td>973</td>
<td>176,444</td>
<td>1,764</td>
<td>584</td>
<td>33.10</td>
</tr>
<tr>
<td>8</td>
<td>2,028</td>
<td>225,485</td>
<td>2,255</td>
<td>1,217</td>
<td>53.97</td>
</tr>
<tr>
<td>10</td>
<td>4,145</td>
<td>307,223</td>
<td>3,072</td>
<td>2,487</td>
<td>80.95</td>
</tr>
<tr>
<td>13</td>
<td>11,746</td>
<td>494,935</td>
<td>4,949</td>
<td>6,712</td>
<td>135.61</td>
</tr>
</tbody>
</table>

Note: Assumptions for the above table:
(i) Starting salary: Rs.100.
(ii) Contributory service: 40 years.
(iii) Accumulations: Contributions @ 9.5(i.e., 8.33+ 1.17) per cent of salary plus interest at the rate of 12 per cent on year end balances.
(iv) Pension amount is equal to fifty per cent of the salary and dearness allowances.


Calculations of EPS are not done on a rational basis. It links pension to average salary of last 12 months with liberal family pension (minimum pension has been increased from Rs.150 to Rs.450), low discount rate but fixed contribution at the rate of 9.5 per cent of salary. If major assumptions relating to salary growth (10 per cent), interest income (12 per cent) and life expectancy prove incorrect (i.e. salary growth is
increased, interest on income is reduced and life expectancy is increased), it may be necessary to reduce pension benefit for future pensioners and/or increase employers' contributions by a fair to meaningful extent. As discussed above, employers' contributions are already very high and once the governments have given certain level of pension benefits, it is very difficult to withdraw.

Some other lacunas of EPS are: (i) Assumes salary growth rate of 10 per cent and interest at 12 per cent without any ceiling. In last few years there has been a sharp fall in the interest rates. Return on EPS has averaged below nine per cent in the period from October 1995 to March 2001 as against the assumption of 12 per cent; (ii) Commutation and refund of capital sum is fixed at Rs.100 for Re. one of pension without regard to age, interest rate, and life expectancy; (iii) An employee whose salary growth is low and whose pension is linked to average salary for the last 12 months feels a moral hazard; (iv) Liberal interpretation of definition of salary results in inclusion of incentives, job linked allowances, lump sum paid through a settlement, salary accrued up on encashment of unutilised/accrued leave etc., which may result in disproportionate increase in pension in relation to contribution; (v) No minimum pension for post-EPS (1995) members; and (vi) Since valuation of EPS, a number of improvements have been made in benefits viz., introduction of commutation on liberal basis, increase in minimum pension from Rs. 150 to Rs. 450, liberalisation of salary through interpretation, declining interest rates, etc. Further the difference of 2 per cent between assumptions relating to salary growth and interest income is not likely to be maintained at least for some years. These facts raise doubts about the viability of EPS.

In short, EPS has not taken into consideration the heterogeneity of a larger number of employers in different industries in different locations with different salary levels and growth rates.

f. Medical Care Plans

ESIS which started its operations in 1952, now covers about nine million employees (over 40 million beneficiaries which includes the dependent members of the employees) with salary and specified pay items up to Rs. 10,000. In this scheme an employee has to contribute @ 1.75 per cent and employer has to contribute @ 4.75 per cent, (total 6.5%) of salary and specified pay items. It provides medical care to employee and his/her dependents, cash benefits during illness and accident and pension (indexed) upon death or total and partial permanent disability through an industrial injury. It has a number of hospitals, dispensaries under its control and
reserved beds in some hospitals. It has also made arrangements with medical practitioners for attention to minor ailments.

Surprisingly, ESIS is not accepted by a large number of its beneficiaries especially better-offs and educated. Some of the important reasons for not accepting this scheme are: (i) non-availability of hospitals and dispensaries to smaller towns, inconvenient location of its hospitals and dispensaries in big towns, availability of specialists on certain days for specified hours, specified list of medicines precludes the use of more suitable and latest improved drugs; (ii) Low budget of ESIS for drugs i.e. Rs. 600 per employee's family per year at the current prices; (iii) Rigid procedures and considerable paper work induces the beneficiaries to opt for private treatment; (iv) higher operating costs because of under-utilisation of facilities. Because of these reasons employees of some organisations have been able to convince their employers in extending medical plan not covered by ESIS. The CGHS, a contributory medical care plan for employees and pensioners of government departments is also not popular and facilities are underutilised for reasons that are comparable to that of ESIS.

Most of the medical care plans place emphasis on minor illness. Often, reimbursement limit of medical treatment is linked to salary and/or salary grade. Private sector organizations provide liberal medical care facilities to the employees (including their families) having higher salary grade. Public sector organizations also provide liberal medical care facilities to their employees as compared to government employees but they do not make much distinction on the basis of their salary grades.

g. Investment Policy
More than 80 per cent of the EPF corpus of Rs. 104,000 crore (amounting Rs. 80,000 crore) is invested in Special Deposit Scheme. Interest rates, on these deposits are not market driven and earn a low rate (Joshi, D. 2003). The interest rate on SDS is primarily based on political considerations rather than economic viability which in turn creates aberrations in the interest rate market. Some times the interest rate paid to employees is more than the rate received from the investments. Indeed, there is an absence of professionals who can give proper guidance in investing the funds. About 5 to 10 per cent of exempted provident funds outperform the EPFS. There is considerable variation in the rates of return earned by the funds under different management systems. Illustratively, in recent years, investments of ESIS, earned an
income of about 6 per cent which is much below than that of EPFS (8 to 12 per cent). Many welfare funds are also less professionally managed than the EPFS.

h. Tax Regulations
Tax regulations need to adhere to two principles. One is that all income should be taxed, and second, different segments of the population should be accorded equitable and fair treatment. Unfortunately, Indian regulations meaningfully depart from these principles.

For employees of government and semi-government, investments are made in statutory provident funds (SPF). Salary deductions of private sector companies, whose provident funds are recognised by the commissioner of Income Tax, are invested in Recognised Provident Funds (RPF). All the employers’ contributions are exempted from tax in case of SDF. Beside this, employees’ contribution towards these funds is eligible for tax relief under Section 88 of Income Tax Act. In case of RDF also, the employer’s contribution is tax free up to 12 per cent of the salary. Beside this, interest credited in the accounts of SDF and RDF is tax free. However, in case of RDF the income tax rebate is up to 9.5 per cent per annum (Gopalan, Deepa, 2003). Against these tax benefits to the employees of government, semi-government and other companies, self-employed are eligible to tax rebate of their contributions made in different schemes up to Rs. 70,000 only.

Secondly, profitable and progressive employers provide to its employees, liberal medical/health care expenses up to Rs. 15,000 for minor complaints plus insurance/reimbursements for hospitalization and surgery, and for overseas treatment. The coverage includes employee himself, his/her spouse, children and dependant parents. As against this, a self-employed and employees of smaller and conservative employers enjoy tax deduction up to Rs. 10,000 for medical claim coverage, a concession available to all employees.

Lock-in period for withdrawals of investments in SDF and RDF is five years for housing and seven years for other purposes. It is very less as compared to pensionable funds where the lock in period is very large (up to the retirement age of 60 years). With this the individuals who opt for short term plans are more benefited than those who go for medium term plans and long term plans. It also facilitates recycling of funds which has a negative affect on the revenue and do not increase savings.
Tax regulations favour lump sum to pension benefits. As discussed above, employer's contributions to a provident fund, interest on provident contributions, commutation, interest component of specified other deposits and plans (gratuity in most cases), and bonus component of insurance are tax exempt. As against this, pension is taxed like salary or income.

i. Others
There are a few other limitations of the legislated schemes that evoke rethinking on the part of policy makers. Like EPS, benefits of gratuity are linked to the final salary drawn by the employee which favour the employees of the organisations with higher salary growth at the cost of employees of organizations with lower salary growth rate. Employees Deposit Link Insurance Scheme (EDILIS) links benefits to balance in PF account (EPFO, 1999, p-81) which has liberal withdrawal facilities for a number of purposes.

8.3.2 Voluntary Programmes
Over a dozen private sector life insurance companies have flooded the market with a large number of insurance (individual and group both) and pensionable schemes. The state owned Life Insurance Corporation alone has over 50 products (Adhikari, A., 2003a). Of late, the Indian market has been witnessing a large number of flexible and innovative insurance products with riders for numerous critical illnesses. Broad outline of various voluntary insurance schemes available in India are given below.

Individual Insurance Schemes
Individual schemes include whole life, endowment, term plan, joint life plan, children's plan and money back schemes. The premium is entitled for rebate under section 88 of the Income Tax Act. The lump sum money at the time of maturity or death is also exempt from income tax under Section 10(D).

Group Insurance Schemes
Group insurance schemes offer life insurance shield to employees of a corporate sector and partnership firms or professionals and people from economically weaker section.
Pension Schemes

The private sector insurance companies are currently offering unit-linked pension product and traditional profit sharing participating pension scheme (Adhikari, A., 2003 b)

The unit-linked pension product works like a mutual fund in the manner of investment in equity and debt in the market, while under the participating model, the premium is deposited in the personal accommodation account from where the head office expenses, mortality contribution, etc., are deducted and the balance is invested in various financing instruments.

Besides the state-owned life insurance corporation, important private sector companies doing insurance business are ICICI Provident life Insurance Company, HDFC standard life, Birla sun life, Max New York, SBI life and Tate AIG life.

Most of these voluntary programmes may be characterised as investment plans as they provide for refund of capital sum upon death and do not fit in within the framework of a genuine social security system. Secondly, these schemes are for the higher and middle income persons who can afford to pay the premium and not for the poor persons who are unable to pay the premium. In informal sector, most of the persons are unable to afford these schemes.


8.4.1 Emergent Need to Cover All Workers

There is an urgent need for extending benefits of social security to all working individuals and their dependents through a time bound programme (Kundu, Thakur, and Arora, 2004). Because of significant increase in the number of small nuclear families and of working spouses, there has been a decline in the role of joint family and other traditional arrangements for taking care of old and handicapped.

The average life expectancy of people in the country has gone up significantly. On the other hand, there has been a decline in the period of contributory membership in the benefit plans, largely because of increase in duration of education; increasing mobility because of technological and organisational changes, early voluntary retirements, increase in self-employment, part time employment, temporary and contract employment. The high cost of education and medical care, changing life styles and increasing consumerism have put pressures on income and forced the employee
to withdraw the "social security savings" before retirement (Kundu, Thakor and Arora, 2004).

8.4.2 The Proposal of a Three Tier System
A broad framework for setting up of a comprehensive social security system in the country is discussed below. However, considerable work would have to be done for designing the detailed programmes, enacting/modifying legislation and establishing an appropriate monitoring and insurance system.

A. Mandatory Scheme
There are some important points that need to be considered while framing the mandatory scheme. It is the primary responsibility of each working individual to make provision as per his capacity for old age, contingencies and health/medical care. Basic programme must be relatively simple, consistent and easy to administer. The existing occupational plans must be integrated with mandatory legislated plans so as to avoid overlaps and duplication and to facilitate improvements in benefits. Initially, it may be limited to cover only a limited number of exigencies such as old age, survivor and total disability pensions and medical care. Considering significant variations in health care expectations, provision of four or five levels of facilities, starting with primary health care centre and going up to reasonable level of medical assistance, seems unavoidable. The programme should not be viewed as a welfare activity or reward for long service. It should cater to the different needs of different category of persons/individuals through flexibility and options, preferably through cafeteria approach to benefit within established limits. This could be met largely through legislation, permitting establishment of well regulated funds.

The government must take the major responsibility of meeting the minimum needs of the bottom quartile of population and the handicapped. This would require certain degree of cross-subsidisation to be built within the scheme. Government contributions may be utilised to meet minimum pension requirement, medical care and providing benefits to the handicapped. The programme should be affordable to the lower strata of the society. It should not require a total contribution of more than 12 to 15 per cent of current remuneration on net income, prior to deductions as permitted by tax regulations.

Membership with contributions may be permitted from age 18 to the retirement age. The retirement age may, however, vary from 60 years to 67 years. The pension
scheme must have an indexed minimum pension, applicable to all participants. A flat
amount, say Rs. 500 at 2000-01 prices, will facilitate cross-subsidisation.
Improvements in the scheme may be brought in subsequently by providing larger
options to make it more marketable.

Mandatory programme should not permit lump-sum payments, withdrawals or
commutation of pension. All workers covered under legislated schemes may be
included in the mandatory programme but they should be allowed to contribute to the
extent prescribed under the programme.

B. Supplementary Programme
Supplementary programme, comprising old age and contingency pension and
health/medical care including deferred medical care, should assign high priority to
health/medical care and to group insurance. The contribution may vary from year to
year, depending on the cost of service delivery. Total contributions (from
employee/individual, employer, if any, and government) to this programme may be
limited say up to 25 per cent of current remuneration/income less the amount
contributed to the mandatory programme. The mandatory programme may thus be
treated as part of the supplementary programme. Carry-forward facility may be
provided up to five years for shortfalls in contributions, as per the limit mentioned
above.

As in the case of mandatory programme, under this programme also, lump-sum
benefits should not be given. Group insurance should provide benefits upon total (or
significant) physical disability (TPD) through accident or illness, comparable or better
than those accruing to survivors.

The programme may have different structure of benefits and be provided by say
half a dozen organisations and their number should be reviewed after every five years.
The programme should permit transfer of funds from PPF and other tax sheltered plans
while ensuring that tax concession is not given twice on such transfers.

C. Voluntary Programme
A voluntary programme may include pension, term insurance, health/medical care,
long term health care including deferred medical care, repayment of loans up to certain
limits for specified purposes at reasonable rates. Withdrawals may be allowed up to
specified limits upon death, TPD, substantial disability and at normal retirement.
Schemes under this programme should allow tax concessions that are less favourable than those of mandatory and supplementary programmes.

8.4.3 Investments
Investment guidelines must ensure reasonable safety and should not neglect the economic viability. A research wing may be established which should study the markets and practices of other developing and developed countries. Guidelines must be based on the research findings and permit reasonable flexibility in selection, switching and reshuffling of portfolio.

8.4.4 Tax Regulations
Tax regulations should not discriminate between employee and self-employed, between employee of government and non-government agencies and that based on gender or other considerations. This may be achieved in a time phased manner within a period of say five years. The regulations must take into consideration the lock-in period of various funds. These regulations should eliminate favoured treatment to lump-sum benefits like PF, gratuity, endowment insurance, commutation, and leave encashment amounts. Each income accruing to the employee must be taxed once. It must be ensured that no component of income goes out of taxation system by moving it from one to another category.

Ceiling should be imposed on tax sheltered contributions on the total amount, inclusive of employer contribution. Lastly, there should be a built-in provision for transferring of funds from supplementary and voluntary programmes to the mandatory programme.

8.4.5 Implementation of the Scheme
An independent Social Security Authority (SSA) should be established to regulate and monitor all benefit funds including legislated, occupational and welfare funds. The authority should have wide powers, covering all aspects of the programmes, including framing of regulations and their interpretation, imposition of fines and penalties for their violations. SSA may also have an in-built re-dress system for grievances, like Income Tax Tribunals with the provision of appeal to the Supreme Court of India. SSA must have a research wing which should arrange for an actuarial valuation of the mandatory plan after every five year. Based on that, it should be able to recommend improvements/changes in plans, legislation, and amount of contributions.
Initially, a permanent number for social security membership may be assigned to all members on a lifelong basis without regard to occupation or region of residence. Later on, the number could be given at the time of enrolment in a school or even at birth. These numbers should have the possibility of being used for purposes other than social security. Local bodies and NGOs of repute may be involved in this work.

Professional organisations, such as chambers of commerce and industry, unions/associations of employees and other identifiable groups should be permitted to establish the benefit funds. Each fund may permit membership to employees of one or a few organisations. This can reduce the cost of collection and remittance over the years that would ultimately reduce the rates of contributions. These benefit funds should be required to make investments through approved organizations that may include insurance companies.

An insurance corporation may be established to insure benefits up to specified limits on the lines of bank deposits and/or similar organisations. This type of arrangement is already there in some other countries.

### 8.4.6 Other Stipulations

Definitions of basic terms used in the schemes like employee, salary/wage, current remuneration, should be simplified and made unambiguous. All welfare funds, assistance programmes and legislated benefit funds must be amalgamated with the mandatory and supplementary programmes. Contributions made to welfare funds, other assistance funds and savings achieved through proposed changes in tax regulations may be diverted to the mandatory programme.

Portability of benefit from one fund to another must be permitted on a fully vested basis. Legislation needs to be enacted to oversee all benefit funds, ensuring proper maintenance of records, accounts, auditing, actuarial valuation and participation of members/beneficiaries.

The above proposal of a three-tier social security system (SSS) provides a broad framework for setting the comprehensive SSS in the country. Considerable work would have to be done for designing the detailed programme, enacting/modifying legislation and establishing an appropriate monitoring system.