

Labour Codes and Reforms in India : Recent Updates

Labour Codes

- 29 Labour Laws being consolidated into 4 Codes
- Key Objectives include
 - ✓ Reduce compliance burden
 - ✓ E-Filing and digitization
 - ✓ Enhance Social Security
 - ✓ Improve labour relations
 - ✓ Consistency in Pensionable Wages
 - ✓ Overall Transparency and Ease of doing business

Recent Updates

- Government waiting for States to accept and release the new rules.
- Out of 30 States, 26 have approved Code on Wages (and 20 for Social Security)
- Industry and Labour representations to Government on certain controversial proposals
- Best estimate timeline for implementation appears to be Q2/Q3 of CY 2022
- Labour Strikes on 28th and 29th March 2022 opposing Codes

Impact on Rewards

- Traditional concept of Basic Pay replaced by a concept of Wages impacting all statutory benefits
- Historically Basic Pay was 25%-40% of Gross Pay which could get replaced by Wages at 50%-70% of Gross Pay
- Large incremental cost expected in DB plans like Gratuity and Leave encashment actuarial liabilities.
- Employees cash in hand salary to be impacted if PF (DC) contributions go up

Industry Actions

Basis a 2021 Aon Survey

- Less than 5% organisations have made any changes to Rewards and Retirement plans in advance
- More than 35% organisations is looking at increasing Basic Pay to align with the New Definition of Wages
- 29% exploring capping the Gratuity benefits (at the statutory cap of INR 2mn)
- Compensation Structure changes are being considered (21%) to manage costs

Recommended Steps

- Assess Impact on Rewards, particularly on DB plans like Gratuity and Leave
- Make suitable budgetary allocations to 2022 payroll costs allowing for impacts
- Review Compensation Structure to minimize impact and achieve greater compliance
- Agree with internal stakeholders on potential changes to be made within Rewards programs (but preferably hold implementation until Government notification)