



# Benefits to Employees & Compensation Impact

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## Due to New Labour Codes in India

# Preface – Why New Labour Codes Were Introduced

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- Drawbacks of Earlier Labour Laws:
  - India had 29 central labour laws creating complex compliance
  - Different definitions of 'wages' under different laws
  - Difficult compliance for employers and confusion for employees
  - Limited social security coverage for gig and unorganized workers
  - Outdated provisions not aligned with modern employment structures
- Objective of New Labour Codes:
  - Simplify labour regulations
  - Provide uniform wage definitions
  - Expand employee social security benefits
  - Improve transparency and ease of compliance



# Background of Labour Codes

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- India replaced 29 labour laws with 4 Labour Codes to simplify regulations and improve employee welfare.
- Codes include:
  - Code on Wages, 2019
  - Industrial Relations Code, 2020
  - Code on Social Security, 2020
  - Occupational Safety, Health and Working Conditions Code, 2020



# Why the New Labour Codes Matter for Employees

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- • Better wage protection
- • Expansion of social security coverage
- • Higher retirement benefits
- • Improved job security
- • Standardized salary structures
- • Better health and safety provisions



# Impact on Salary Structure

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- • Higher portion of salary classified as basic wages
- • Reduction of allowance-heavy salary structures
- • Increased statutory benefit calculations
- • Greater transparency in compensation packages



# Impact on Take Home Salary

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- • PF contribution increases because basic wages increase
- • In some cases take-home salary may slightly reduce
- • However long term financial benefits improve significantly
- • Employees receive stronger retirement security
- • More Employees will be covered under ESIC



# ESIC Wage Calculation, Limits & Employee Benefits (New Labour Codes)

- **ESIC Coverage Limits**

- Wage limit: ₹21,000 per month
- Disabled employees: ₹25,000
- Employer: 3.25%
- Employee: 0.75%

- **Wage Calculation (50% Rule)**

- Wages include:
  - Basic Pay
  - Dearness Allowance
  - Retaining Allowance
- Allowances cannot exceed 50% of total salary

- **Employee Benefits**

- Free medical treatment for employee & family
- 70% wages during sickness
- 100% wages during maternity
- 90% wages for disability
- Dependents benefit & funeral expenses
- Uniform wage definition under the Code on Social Security, 2020 strengthens employee social security coverage



## Provident Fund Benefits for Employees

- **PF Contribution Structure:-**PF is still governed through the framework of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952, which is now subsumed into the Code on Social Security, 2020.
- **How New Wage Definition Increases PF Benefits:-**Allowances cannot exceed 50% due to which PF contribution increases
- **Higher Retirement Savings:-** Because PF is calculated on **higher wages**, the employee accumulates a **larger retirement corpus**.
- **Higher Pension Benefits:-**Part of the employer contribution goes to **Employees' Pension Scheme (EPS)**, Higher wages result in Higher pensionable salary and Higher monthly pension after retirement.
- **Additional PF Advantages to Employees:-**Employees can also use PF for:
  - Housing purchase or construction
  - Medical emergencies
  - Education expenses
  - Marriage expenses
  - Unemployment support



# Gratuity Benefits Improvement

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- • Gratuity linked with higher basic wages
- • Fixed-term employees also eligible for gratuity
- • Pro-rata gratuity available even without 5 years service in fixed-term employment
- • Overall higher gratuity payouts



# Expansion of Social Security

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- Social security coverage extended to gig workers and platform workers
- Aggregators may contribute to social security funds
- Wider access to insurance, pension and welfare schemes

# Benefits for Contract and Fixed Term Employees

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- • Equal benefits compared to permanent employees
- • Eligibility for gratuity
- • Similar working conditions and benefits
- • Reduction in exploitation of short-term contracts



Restructured Wage Definition-Basic Pay+ DA must constitute at least 50% of total compensation which directly impacts the wages used for calculation of gratuity, under new code on wages and revised gratuity framework have increased gratuity liability and compliance responsibilities for employer, additionally eligibility for gratuity has been broadened with fixed term employees now entitled to gratuity on completion of one year of service. Now it is advisable to set up approved gratuity trust to systemically fund their gratuity obligations.

- It ensures better liability management and cash flow stability.
- Risk mitigation:-Once trust is formed the gratuity corpus becomes irrevocable and ring fenced for gratuity payments only, can not be used by company even in case of financial crises, thereby safeguarding employee's entitlement.
- Tax efficient funding-Employers can claim tax benefits on contributions
- Flexibility in surplus

\*\*LIC group gratuity scheme will be best suitable in size, risk profile and long-term exit liability plans



# Women Employee Benefits

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- • Greater participation of women in workforce
- • Permission to work in all establishments with safety measures
- • Protection regarding working hours and safety provisions



# Other Employee Welfare Measures

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- • Mandatory appointment letters
- • Digitization of compliance
- • Faster grievance redressal
- • Improved transparency between employer and employee



# Overall Employee Compensation Impact

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- • Increase in retirement benefits (PF, gratuity)
- • Structured salary components
- • Higher social security coverage
- • Better long-term financial protection



# Conclusion

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- The new labour codes aim to strengthen employee welfare by improving compensation structures, increasing social security coverage, and ensuring better workplace protection across industries.

**Thankyou Very Much**

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