

PENSION FOR INFORMAL WORKERS

Relevant for: Indian Economy | Topic: Issues Related to Poverty, Inclusion, Employment & Sustainable Development

A major announcement in the Interim Budget 2019-20 was the creation of the Pradhan Mantri Shram Yogi Mandhan, a pension scheme for informal workers. Under this scheme, subscribers will receive an assured monthly pension of 3,000 per month from the age of 60 onwards. Towards this, they will have to contribute 55 a month (if they join at the age of 18 years), or 100 a month (if they join at the age of 29 years). The government will match these contributions. The government has reportedly set a cap on the age of joining at 40 years, but this is yet to be officially confirmed by the Labour Ministry.

In his Budget speech, Finance Minister Piyush Goyal said half of India's GDP comes from the work done by 42 crore workers in the unorganised sector, such as street vendors, rickshaw pullers, construction workers, rag pickers, agricultural workers, beedi workers, those engaged in the handloom and leather industries, and domestic workers. He said the government must provide these workers with a "comprehensive social security coverage" in their old age. The Shram Yogi Mandhan scheme is aimed at achieving that, and therefore includes all informal sector workers with an income of less than 15,000 per month. According to the government, this works out to 10 crore people.

Finance Ministry officials have suggested that the pension payouts could be made directly in the workers' accounts, which would be Aadhaar-linked.

So far, the government has allocated just 500 crore for the scheme, but this is likely to be increased in the full Budget that will be presented in July. An analysis of the Interim Budget documents shows that the allocation for the Pradhan Mantri Shram Yogi Mandhan could possibly come at the expense of an existing pension scheme — the National Social Assistance Programme (NSAP) — announced last year to benefit more than three crore poor senior citizens, disabled people, and widows.

The NSAP had originally been allocated 9,975 crore in the 2018-19 Budget, which was reduced to 9,200 crore in the Interim Budget 2019-20, which is a drop of 775 crore.

Social sector workers have pointed out that creating a voluntary contributory pension scheme for informal sector workers is not likely to work as their salaries are low. The argument is that they already pay large amounts as indirect taxes.

Further, for a salaried worker, the pension contribution can be cut from the salary. A daily wage earner or migrant labourer will, however, have to regularly deposit her income each month, which is an uncertain proposition.

The government is silent on what happens to the scheme if an informal sector worker misses a contribution. Does the worker become disqualified from the scheme? If so, what happens to the amount already contributed? Will the government refund the worker that amount, or will that amount be forfeited? Another matter to be considered is what happens to a worker who transitions to the formal workforce. Answers are awaited on all these questions.

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