INDIA EMPLOYER FORUM™

TAKSHASHILA INSTITUTION

TeamLease®
Putting India to Work

India Employment Report

REIMAGINING *Social* SECURITY

Ten crore new
Social Security Payers in the
Reimagined Social Security System

Executive *Summary*

Societies need safety nets to catch those in need because of unlucky opening balances, past mistakes, or hard times. However, in its current state, our employer-linked social security system suffers from insufficient coverage of the worker population with only **7.17 lac** (**1.1%**) of **6.3 crore** enterprises and only **7 crore** (**11.8%**) of our **59 crore** labour force making monthly social security contributions. Paradoxically, **54%** of India's regular wage/salaried workforce does not receive social security benefits. A significant **57%** of women and **53%** of men are not eligible for social security benefits. Moreover, self-employed individuals that constitute **57.3%** of India's labour, and **22%** of casual labourers are excluded from the social security safety net. Therefore, over **79%** of India's labour force, or **46.6 crore** people, who work in non-permanent, non-salary jobs fall beyond the purview of this social security net.

The current social security system thus marked by limited workforce coverage, inadequate funding, fragmented protection mechanisms, and an overreliance on traditional formal employer-linked and government-dependent models severely underserves the needs of the workforce. It is a fragile safety net that leaves a significant section of the workforce vulnerable to economic uncertainties, health risks, and retirement insecurity. This situation necessitates a comprehensive and innovative reimagining of how social security is conceptualised and implemented.

This report takes a hard look at the problems associated with India's social security system and proposes foundational principles that should form the basis of a reimagined, universal and portable social security framework, that offers flexibility across employment types, and provides simplified contribution and management mechanisms. One of the key recommendations is to build a technology-enabled transparent system.

To that end, this paper provides the blueprint and design for a radical new system, called the Multi-Contributor Social Security (MCSS) system, which aims to provide a more inclusive, flexible, and robust social protection mechanism that uses a digital stack to solve the problems of coverage and funding that plague social security in India. It seeks to implement a technology-driven, user-centric approach. The aim is to provide comprehensive social security protection for a diverse workforce with increased economic security for workers, flexible contribution models, reduced vulnerability for informal and gig economy workers, and a more efficient and adaptable social security infrastructure. The paper also provides a carefully designed approach for transitioning mandatory employer schemes like ESI and EPFO to the MCSS system, ensuring minimal disruption to existing benefits, smooth transition for employers and employees, preservation of accumulated social security entitlements, and enhanced transparency and accessibility.

By embracing flexibility and technological integration, India can create a more resilient, inclusive and comprehensive social security ecosystem.

Table of *Contents*

Executive Summary

00

Introduction

02

1. State of Employment

1.1 Employment Indicators **04**
1.2 Quarterly Status of Employment Indicators for the 15-29 age group
1.3 Quarterly Status of Employment Indicators for 15 years and above **05**

06

2. Formal Job Creation

- Formal Job Creation under EPFO **07**
- Formal Job Creation by Top 5 States (in Lakhs) **08**
- Y-o-Y formal job growth percentage of the top 5 states
- Purchasing Managers' Index **09**

11

3. Social Security System of India

3.1 Current Employer-Linked Social Security Schemes
3.1.1 Employees' Provident Fund Organisation (EPFO)
3.1.1.1 Rate of Contribution **12**
3.1.1.2 Administrative Charges
3.1.1.3 PF Contribution (2019-23) **13**
3.1.1.4 Administrative Revenue by Admin/Inspection Charges
3.1.1.5 EPFO Excesses in Administration and Inspection Charges **14**
3.1.2 Employees' State Insurance Corporation (ESIC) **15**
4. Challenges of Social Security Schemes
5. Proposed Changes **19**

21

4. Recommendations

1. Efficiency
2. Competition
3. Choice
4. Effectiveness
5. Sustainability
6. Governance
7. Flexibility
8. Integration
9. Digitization
10. Systematic Withdrawal Plan
11. Simplified Enrollment
12. Administration Vs. Regulation
13. Alternative Sources

25
5. The Multi-Contributor Social Security (MCSS) system
5.1 Components
5.2 Income Tax benefits 26
5.3 Thresholds for withdrawals
5.4 Searchability and discoverability
5.5 Interoperability and transferability
5.6 Miscellaneous features 27
5.7 Need for a middleware
5.8 Data Security and Privacy
5.9 Regulators 28
5.10 Legal Changes
5.11 Benefits 29

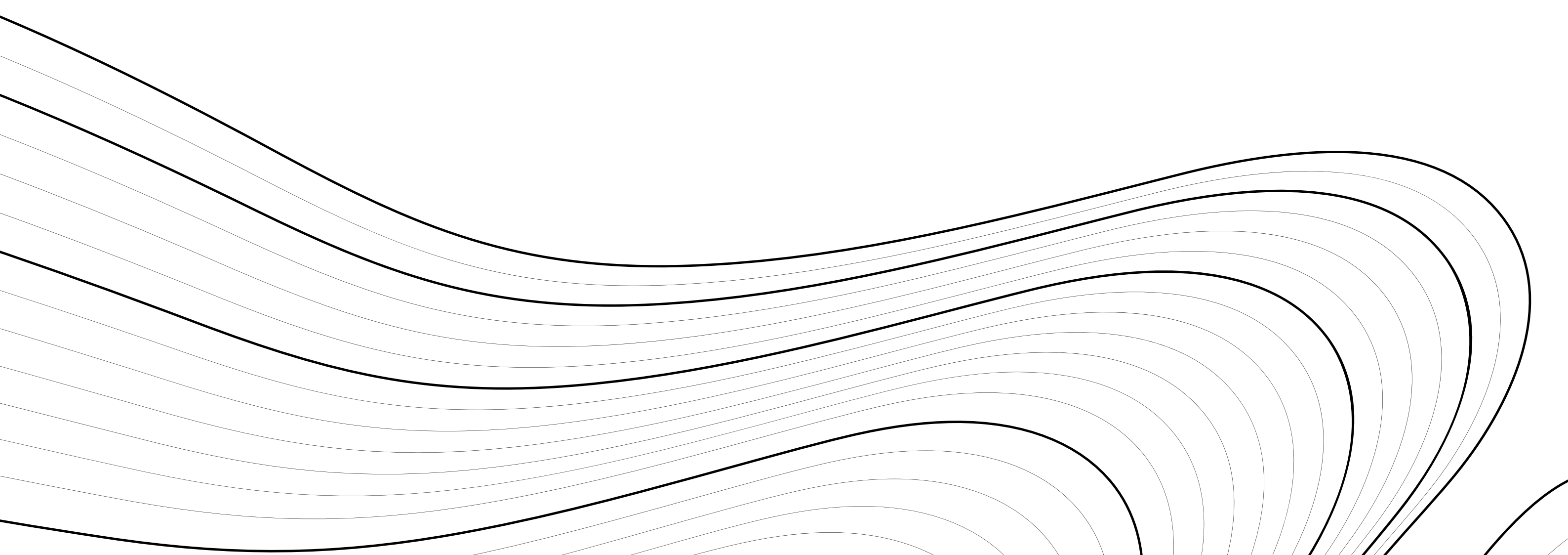
31
6. Conclusion

32
7. Petition for Change

8. Tables
Table 1: State wise Payroll Analysis 33
Formal Job Creation
Table 2: Formal Job Growth in Industries 34

35
9.Appendix to MCSS model
How to do Stock and Flow Migration of mandatory
employer schemes like ESI and EPFO to the MCSS system?
Steps for Stock and Flow Migration of ESI and EPFO to MCSS 36
Finer Details

44
10. References



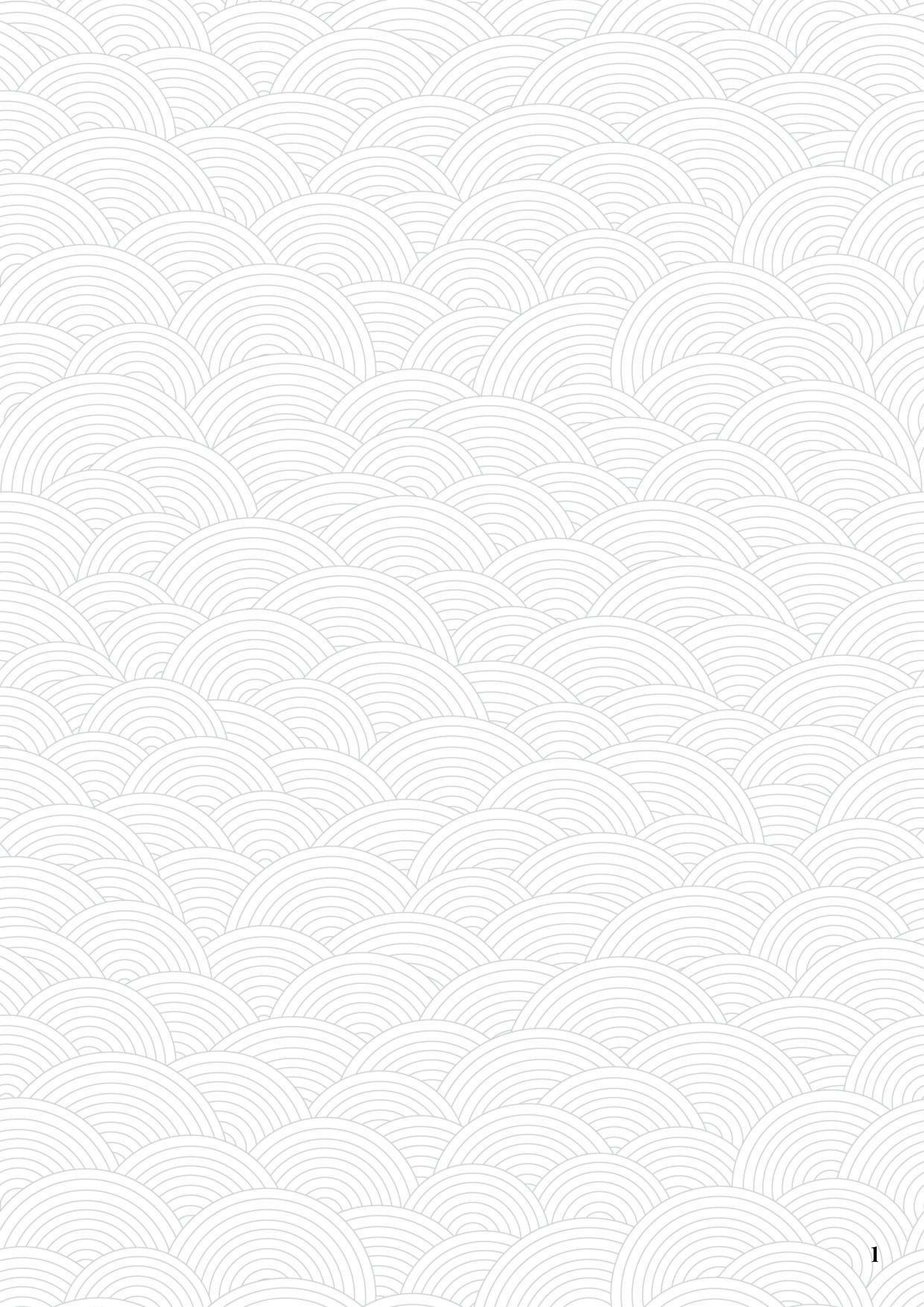
Intoduction

As we shall see in this whitepaper, the current social security system in India faces a lot of challenges. A majority of India's workforce remains trapped in informal employment, leaving them vulnerable to economic uncertainties, health risks, and retirement insecurity. They have little to no social security protection to fall back on. The rise of gig economy, platform-based work, and non-traditional employment models further exposes the limitations of existing social security systems. These are newer models of employment that require a reimagining of social security systems.

This whitepaper offers a comprehensive analysis of India's social security landscape. In sections 1 and 2, it examines the state of employment and job creation in India. Section 3 analyses the existing social security systems and their problems. It takes a hard look at some of the employer-linked social security schemes and the pressing need for transformative reforms. Section 4 proposes some recommendations around principles that need to be the foundation of the reimagined social security framework, and some concrete proposals to introduce changes in the existing system itself.

In the next section, section 5, this whitepaper presents the design and other important details of a forward-looking multi-contributor social security system (MCSS) that incorporates the principles enunciated in the recommendations. The aim is to provide a blueprint for a more inclusive, flexible, and robust social protection mechanism that uses a digital stack to solve the problems of coverage and funding that plague social security in India.

The appendix maps out the detailed steps to do a stock and flow migration of the mandatory employer schemes like ESI and EPFO to the MCSS system. ESI and EPFO have been discussed for now, but the same steps can be replicated for other government-driven and employer-linked social security schemes.



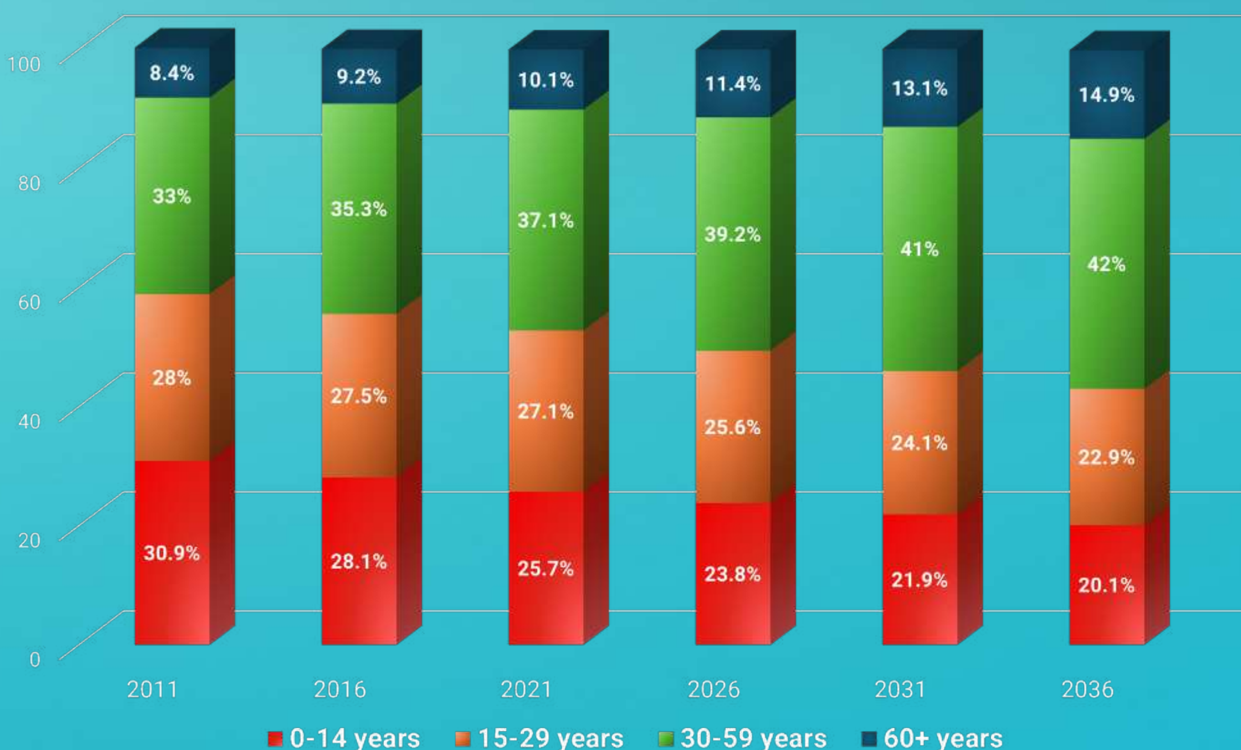
1. State of *Employment*

India, with a population of **145 crore**, has surpassed China to become the world's most populous country. This demographic milestone bestows potential benefits upon India, particularly in light of the global trend toward declining birth rates and a constricted labor market. The country is viewed as a youthful economy with significant growth potential. This growth is underpinned by India's sizable, vibrant, and youthful population, with **65%** of the populace under 35. In contrast to China, which confronts demographic challenges such as a declining workforce and an aging population, India currently boasts a demographic dividend, with **60 crore** individuals aged between 18 and 35.

India's expanding populace presents two invaluable assets: a substantial consumer market with the potential to grow ninefold from its current valuation of **US$18.5 trillion** and a significant demographic dividend. This vast potential market, coupled with a large working-age (**15-64**) population of nearly **100 crore** individuals by 2047, forecasts tremendous opportunities for the future of labour.

Upon analyzing the data, it is evident that India's working-age population is projected to reach from **73.5 crore** (**61%**) in 2011 to **98.9 crore** (**65%**) by 2036. Nonetheless, it is anticipated to represent a reduced proportion of the country's total population compared to previous years.

Proportion (%) of working-age population



In 2011, the working-age population comprised **61%** of the total population, which exhibited consistent growth through 2016 and 2021. Projections indicate a further increase, reaching **65%** in 2031. However, by 2036, though the share of India's working-age population will remian around **65%** of the total population, it will be impacted by concurrent factors such as a decrease in the proportion of the younger population, and an impending rise in the percentage of India's elderly population.

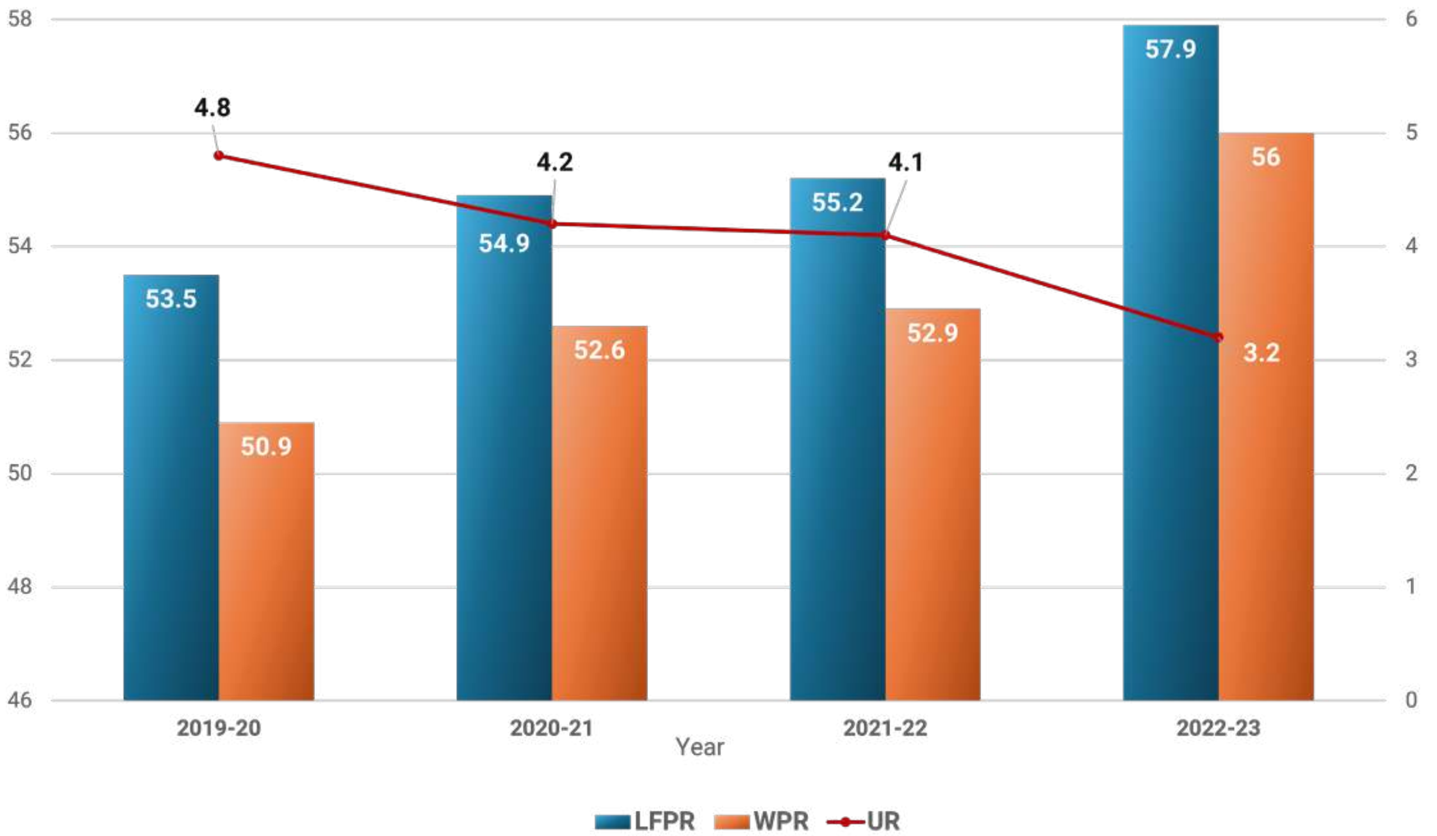
*Statistical evidence illustrates that individuals over 60 are projected to constitute close to **15%** of the total population by 2036, a notable increase from the **8.4%** recorded in 2011.*

The potential economic impact of India's expanding population on its GDP growth is contingent upon several factors, most notably the population expansion rate, the population's overall size, and the proportion of working-age individuals capable of securing gainful employment. This youthful demographic fortifies India's competitive advantage in the services and manufacturing sectors and drives discretionary spending, contributing significantly to overall economic activity.

However, the issue of employment has long been a paramount concern for Indian policymakers, and over time, it has grown increasingly intricate. The country's considerable literacy, education, and vocational skills advancement is one contributing factor. As a result, the workforce now seeks not just any job but meaningful employment, offering improved work conditions, stable positions, and better compensation.

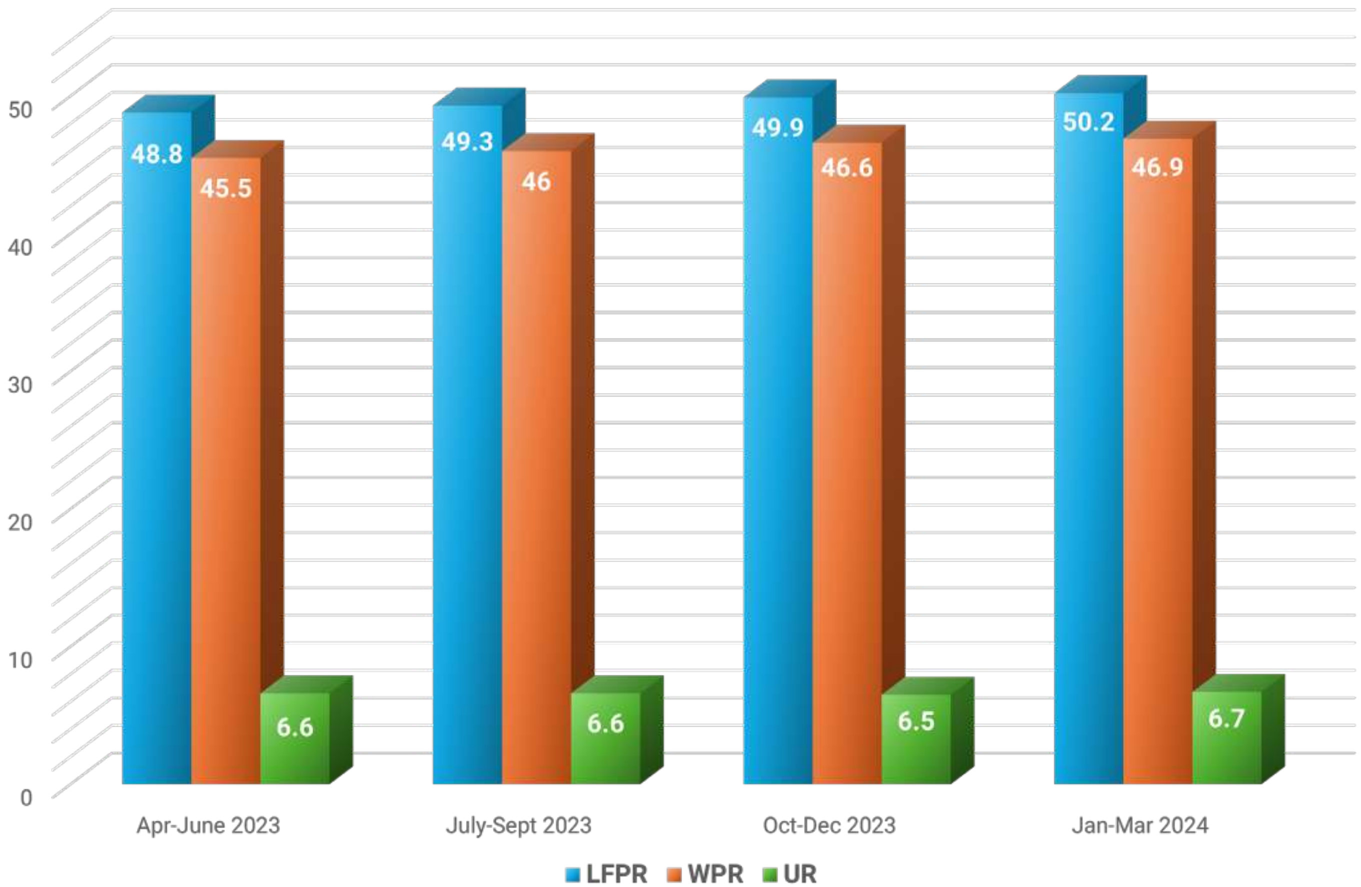
Regrettably, creating such opportunities has not kept pace with the escalating number of job seekers. Furthermore, the aspirations of the labour force have surged alongside the overall national development, leading to heightened expectations. The uneven growth of the industrial and service sectors across different regions and states has disrupted the balance between job openings and the availability of labour at local levels. This imbalance has been perpetuated by a conspicuous divergence in the distribution of employment across various sectors, resulting in an expanding income gap between agriculture and non-agricultural sectors. In addition, the allure of government jobs has soared due to the associated job security, guaranteed salaries, and deserved reputation. These factors collectively accentuate the formidable challenges of employment within the Indian context.

1.1 Employment Indicators



1.2 Quarterly Status of Employment Indicators for the 15-29 age group

1.3 Quarterly Status of Employment Indicators for 15 years and above



*** **LFPR** - Labour Force Participation Rate | **WPR** - Worker Population Ratio | **UR** - Unemployment Rate*

The recent quarterly ***Periodic Labour Force Survey*** (**PLFS**) indicates a modest increase in the unemployment rate during Q4 of FY24 compared to the preceding quarter for both the 15-29 and 15-year-old and above age brackets. Specifically, the unemployment rate rose from **16.5%** to **17%** for individuals aged 15-29 and from **6.5%** to **6.7%** for those aged 15 and above. This uptick in the unemployment rate coincided with an increase in the ***Labor Force Participation Rate*** (**LFPR**) and ***Workforce Population Ratio*** (**WPR**). In the same time frame, the LFPR grew from **40.2%** to **40.7%** for the 15-29 age group and from **49.9%** to **50.2%** for those aged 15 and above. Similarly, the WPR increased from **33.5%** to **33.8%** for the 15-29 age group and from **46.6%** to **46.9%** for individuals aged 15 and above.

2. Formal

Job Creation

To evaluate the formal employment sector and increase in job creation, as well as the formation of the current workforce, net EPFO enrollment and new ESIC subscribers are taken into account. According to data from the EPFO dashboard, **7.7 crore** members contributed monthly to the EPF till the previous year. The number of contributing establishments is **7.6 lakh**.

To determine the total number of people working in the formal sector, we must consider the **1.10 lakh** state government employees and the **47 Lakh** central government employees, as the EFPO data does not include the provident funds that government employees contribute. Additionally, the number of ESIC members who paid contributions as of March 31, 2022, is **2.78 crore** separately. To eliminate any overlap, we estimate that a quarter of ESIC members are also enrolled in the EPFO, resulting in **2.08 crore** unique ESIC members.

Percentage distribution of workers across sectors

*Table 1

*An estimated **11.4 crore** people in India are employed in the formal sector, comprising **7.7 crore** EPFO subscribers, **2.08 crore** ESIC unique subscribers, and **1.6 crore** government employees.*

As previously stated, **45.8%** of the **59 crore** people in the labour force are informal labourers in agriculture. As a result, of the remaining **54.2%** (**31.9 crore**) of individuals in the non-agriculture sector, **19.2%** (**11.4 crore**) are part of the formal sector.

The number of formal job creation under EPFO saw a notable **11.4%** increase, from **1.38 crore** in 2022-2023 to **1.54 crore** in 2023-2024. Many EPFO members have transferred their accumulated funds when transitioning between employers rather than seeking a final settlement. This practice is geared towards ensuring sustained financial security and broadening the scope of social security coverage. Notably, approximately **0.11 crore** members have disaffiliated and subsequently reestablished their association with EPFO.

Formal Job Creation under EPFO

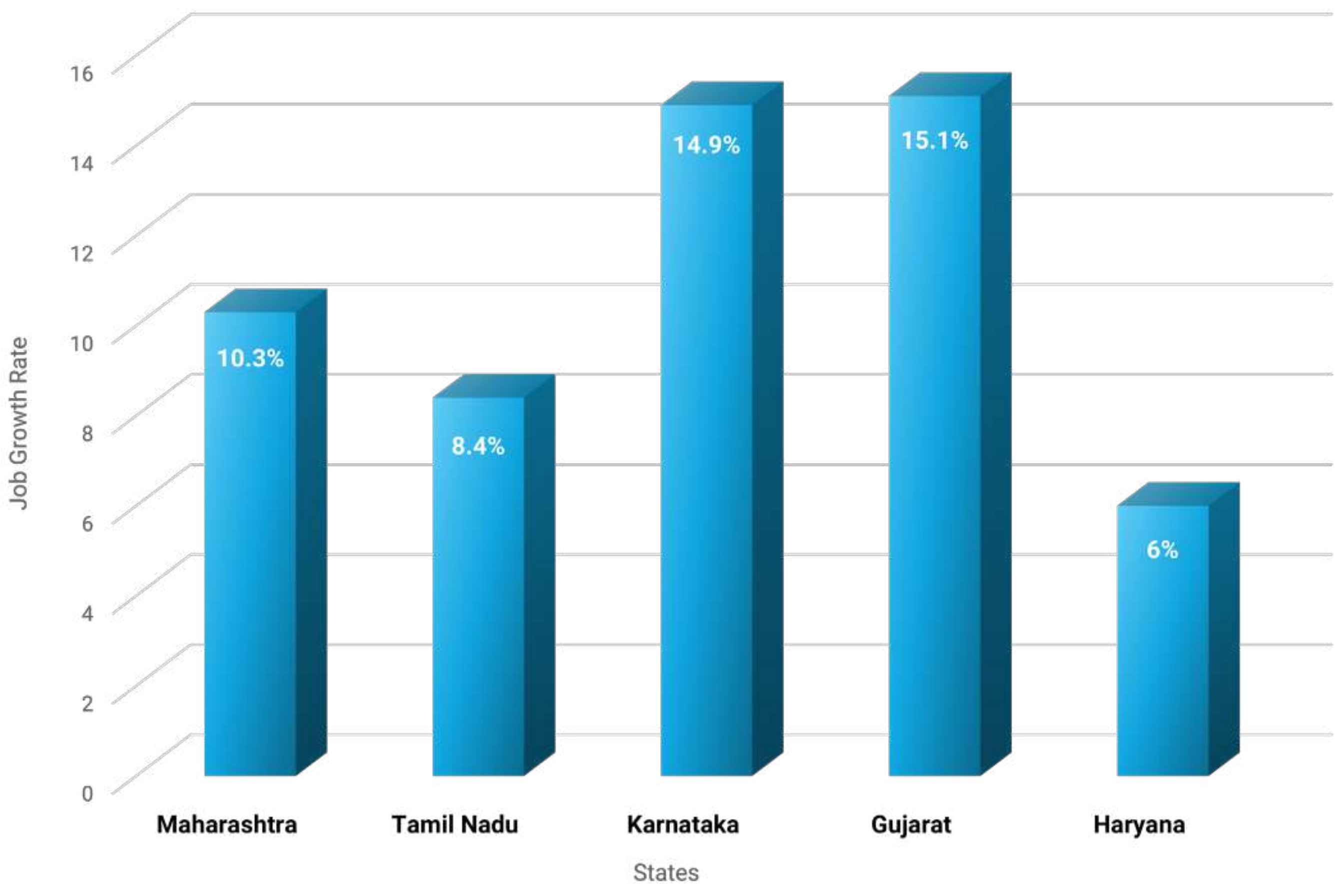
Year	Formal Job Creation (in Crore)
2019-20	78,58,394
2020-21	77,08,375
2021-22	1,22,34,625
2022-23	1,38,51,689
2023-24	1,54,45,234

*Table 2

Formal Job Creation by Top 5 States (in Lakhs)

STATE	2019-20	2020-21	2021-22	2022-23	2023-24
Maharashtra	17,44,149	14,95,493	26,45,451	30,28,978	33,40,936
Tamil Nadu	8,03,634	6,64,278	12,84,986	14,05,171	15,22,944
Karnataka	8,12,122	6,24,237	13,60,463	12,99,702	14,93,186
Gujarat	7,18,054	7,54,982	10,74,917	11,68,444	13,45,063
Haryana	5,91,348	7,16,973	9,63,560	11,72,211	12,42,030

Y-o-Y formal job growth percentage of the top 5 states

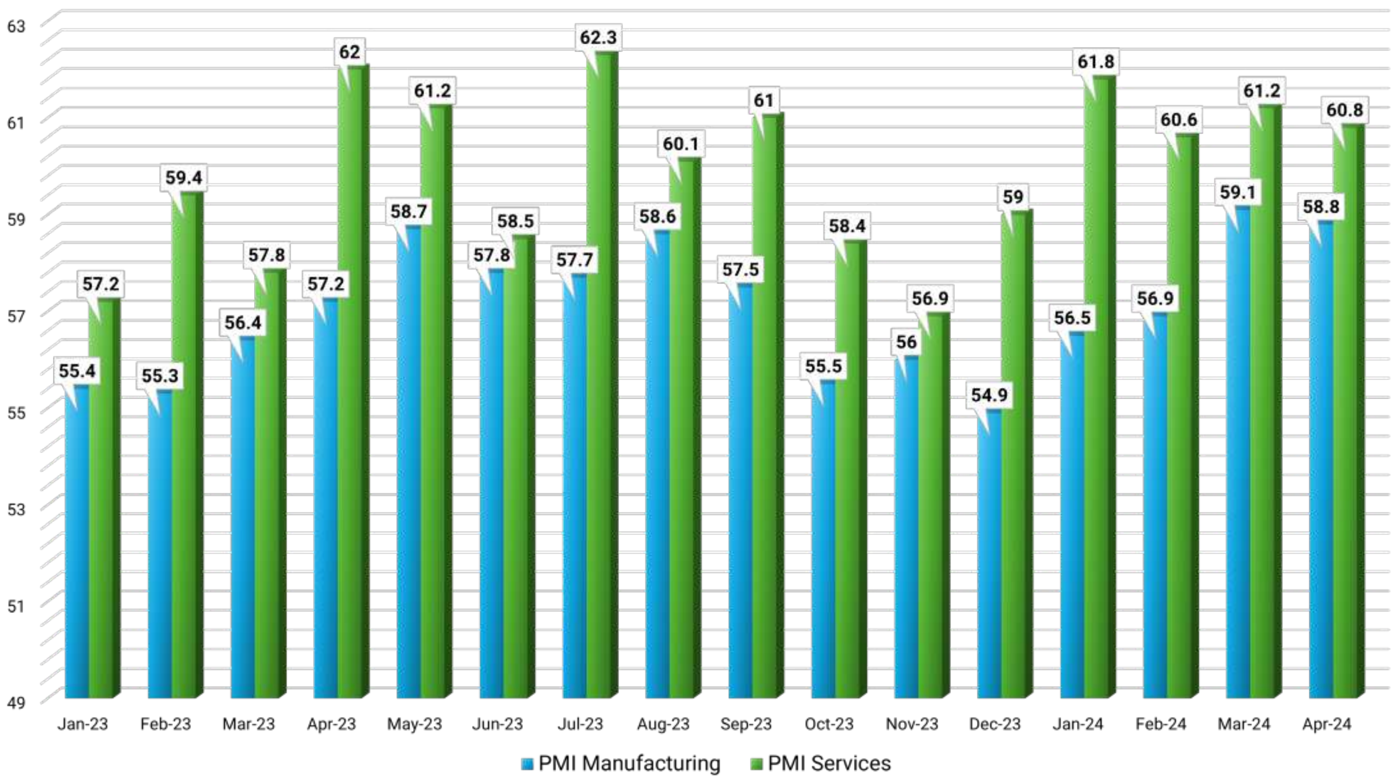


In the fiscal year of 2024, states such as Gujarat and Karnataka demonstrated remarkable growth rates of around **15%**, marking the region's highest formal job creation rates. This growth can be attributed to the increasing formalization of these state economies. Moreover, Maharashtra, Tamil Nadu, and Haryana also experienced noteworthy increases in formal employment, with growth rates of **10%**, **8%**, and **6%**, respectively. Additionally, states like Uttar Pradesh, Uttarakhand, and Rajasthan have witnessed a formal job creation growth percentage of nearly **19%** (A detailed analysis of payroll data has been provided in Table 1, which can be found in the section **"Tables"**.).

Regarding industry distribution, the number of members employed in fields such as expert services, building and construction, electrical, mechanical, general engineering products, and other miscellaneous sectors increased

(Table 2, which can be found in the section "**Tables**").

Furthermore, there is a notable upsurge in job creation in both the manufacturing and services sectors. The PMI Manufacturing employment sub-index indicates a surge in employment opportunities within the manufacturing sector, bolstered by increased export orders, expanded domestic production, and growth in international sales. Correspondingly, the PMI Services sub-index demonstrates a marked rise in job creation within the services sector, attributable to the combination of escalating business activity, robust demand from both domestic and international customers, and an upturn in export sales.



Despite rapid economic advancement, India continues to grapple with enduring challenges such as youth unemployment, underemployment, and substandard working conditions. The formalization of the expanding workforce remains a formidable obstacle. Notably, the window of opportunity presented by India's demographic dividend, which took root in the 1970s, may only remain accessible until approximately 2040.

The insufficient growth of employment opportunities, a pronounced shift towards skill-based occupations, and a surge in self-employment and informal labor significantly impede the formalization process. As the demand for a skilled workforce escalates, income disparities proportionally increase. Furthermore, the industrial and service sectors, reliant on skilled labor, counteract India's historical forte in unskilled labor. The rapid evolution of technology and the onset of digital transformation have accentuated the widening skills gap, necessitating deliberate attention to harness the potential afforded by India's demographic dividend.

3. Social Security System of *India*

India's social security system encompasses various schemes, policies, programs, and pertinent laws and regulations. It includes employer-linked social security mandates such as pension schemes and health insurance. According to the World Social Protection Report 2020-22, the International Labour Organization (ILO) defines social protection as a framework of policies and programs to mitigate poverty, vulnerability, and social exclusion throughout an individual's life cycle. This social protection framework comprises nine primary areas: child and family benefits, maternity protection, unemployment support, employment injury benefits, sickness benefits, health protection, medical care, old age benefits, invalidity/disability benefits, and survivors' benefits. Well-crafted social security systems are instrumental in effecting enduring impacts by reducing disparities, fostering resilience, and breaking the cycle of intergenerational poverty. Social protection schemes are typically categorized based on financing into contributory, non-contributory, and privately funded schemes. In the context of employment-related social security schemes, employers may stipulate that employees obtain insurance against specific risks as a condition of their employment.

3.1 Current Employer-Linked Social Security Schemes

3.1.1 Employees' Provident Fund Organisation (EPFO)

The inception of social security protection in India can be attributed to the enactment of the initial Provident Fund Act in 1925. At its onset, this legislation was confined to overseeing specific private entities to extend social security privileges to industrial labourers upon their retirement or to their beneficiaries in the event of a premature demise. Following thorough discussions since 1929, there was a collective consensus to incorporate industrial laborers in the Provident Fund scheme, accompanied by provisions allowing them the autonomy to opt-out. These regulations were disseminated to employers in 1945 to promote the integration of Provident Funds in industrial institutions. Significantly, some pioneering employers proactively established voluntary Provident Funds.

In 1947, during the Asian Regional Conference of the International Labour Organisation (ILO), India advocated adopting a contributory provident fund scheme instead of a pension or gratuity payment system. This decision was motivated by the financial and administrative constraints the newly sovereign nation faced. Furthermore, implementing a gratuity scheme was hindered by the relatively small amount that could be granted to workers or their dependents, as the workers themselves would not contribute to the fund. As a result, a compulsory contributory provident fund, involving contributions from both workers and employers, was deemed more suitable for ensuring workforce protection in India.

Following the recommendations of the Asian Regional Conference, the matter was deliberated at the 10th session of the Indian Labour Conference held in 1948, leading to a consensus on the necessity of implementing a statutory provident fund scheme for industrial workers. Based on various ordinances, the Employees' Provident Funds and Miscellaneous Provisions Act was enacted in stages and enforced by November 1, 1952.

The contribution rate, which excludes administrative charges and contributions to the Employee's Deposit Linked Insurance (EDLI) Scheme, currently stands at **12%** of the wages for both the employer and the employee within the Employee Provident Fund (EPF) scheme. The employer assumes responsibility for covering all administrative charges for EPF and contributions under the EDLI Scheme.

3.1.1.1 Rate of Contribution

	CONTRIBUTION ACCOUNTS (Rate of Contribution in %)			ADMINISTRATION ACCOUNTS (Rate of Contribution in %)		Total (%)
	EPF	EPS	EDLI	EPF*	EDLI	
Employer	3.67	8.33	0.5	0.5	0	13
Employee	12	0	0	0	0	12
Central Govt.	0	1.16	0	0	0	1.16
Total	15.67	9.49	0.5	0.5	0	26.16

(*) w.e.f. 01.06.2018

3.1.1.2 Administrative Charges

Administrative Charges Payable by the Employers of Un-exempted Establishments		
Period	**Rate**	**Reckoned on**
01.08.1998 to **31.12.2014**	1.10%	On total pay on which contributions are payable. Minimum Administrative charges payable per month per establishment is ₹5/-.
01.01.2015 to **31.03.2017**	0.85%	On total pay on which contributions are payable. The minimum sum of ₹75/- per month for every non-functional establishment having no contributory member and ₹500/- per month per establishment for other establishments
01.04.2017 to **31.05.2018**	0.65%	On total pay on which contributions are payable. The minimum sum of ₹75/- per month for every non-functional establishment having no contributory member and ₹500/- per month per establishment for other establishments
01.06.2018 *onwards*	0.50%	On total pay on which contributions are payable. The minimum sum of ₹75/- per month for every non-functional establishment having no contributory member and ₹500/- per month per establishment for other establishments

3.1.1.3 PF Contribution (2019-23)

PROVIDENT FUND CONTRIBUTIONS RECEIVED (₹ in cr.)		
Year	**Un-Exempted Sector**	**Year-wise variation in %**
2022-23*	**2,12,317.01**	25
2021-22	**1,69,855.05**	30
2020-21	**1,30,675.45**	5.07
2019-20	**1,24,365.85**	17.54

***Unaudited**

3.1.1.4 Administrative Revenue by Admin/Inspection Charges

Administrative charges received from Establishments under EPF in 2022-23 (₹ in Crore)*			
Scheme	**EPF Scheme**	**EDLI Scheme**	**Total**
Adm. Charges	4,974.29	20.25	4,994.55
Inspection Charges	348.91	5.52	354.43
Penal Damages (including 7Q Interest)**	51.67	2.37	54.04
Total	5,374.88	28.14	5,403.02

***Unaudited**

****7Q.** Interest payable by the employer - The employer shall be liable to pay simple interest at twelve percent per annum or at such higher rate as may be specified in the Scheme on any amount due from him under this Act from the date on which the amount has become so due till the date of its actual payment: Provided that higher rate of interest specified in the Scheme shall not exceed the lending rate of interest charged by any scheduled bank.

3.1.1.5 *EPFO Excesses* in Administration and Inspection Charges

The expenditure in administering the Employees' Provident Fund, as provided in para 54 of the EPF Scheme,1952, is met from the levy of Administrative and Inspection charges at the prescribed rate from the employers of un-exempted and exempted establishments, respectively. The excesses created due to these administration and inspection charges could be better utilised for social security, and could indeed be termed wasteful. They also add to the operational expenses of companies, which is detrimental to the growth of the social security infrastructure.

1.06.2018 onwards, **0.50%** of the total pay on which contributions are payable. The minimum sum is **₹75/-** per month for every non-functional establishment with no contributory member and **₹500/-** per month for other establishments.

The Income and Expenditure of Administration Account for the year 2021-22 relating to the Employees' Provident Fund Scheme, 1952 is as follows:

	₹ in Crore	2022-23*	2021-22	2020-21	2019-20
	Income				
A	Administrative, Inspection Charges & Penal damages (including 7Q interests)	5374.88	4487	3797.36	3834.36
B	Interests on investment	2064.36	1918.83	1796.11	1861.05
C	Receipts from other accounts	52.91	43.91	38.13	37.61
D	Miscellaneous receipts	6.94	15.25	9.67	31.75
	Total	**7499.09**	**6464.99**	**5641.25**	**5764.77**
	Expenditure				
A	Revenue expenditure	5237.86	4347.12	3773.61	3723.33
B	Payments to other accounts	52.91	43.91	38.12	37.61
	Total	**5290.77**	**4391.03**	**3811.73**	**3760.94**
	Excess of Income over expenditure	2208.32	2073.97	1829.53	2003.83

**Unaudited*

3.1.2 Employees' State Insurance Corporation *(ESIC)*

The *Employees State Insurance Scheme* (ESIS) was established in 1952 to provide a social security safety net for formal sector workers meeting specific criteria for enrollment, wage levels, and power utilization. It is imperative to note that ESIS, India's largest health insurance program, operates on compulsory payroll deductions and extends coverage to all employees earning up to **₹21,000** per month within organizations employing 10 or more individuals. As of 2019, the contribution rate has been reduced from **6.5%** to **4%,** with the employer and employee sharing **3.25%** and **0.75%** respectively. This scheme aims to aggregate health risks and is sustained by collecting premiums from employees, employers, and government contributions based on a fixed percentage of wages. ESIS delivers healthcare services via its network of hospitals and dispensaries and also encompasses private hospitals to address needs beyond its infrastructure.

Particulars	March 2022 (crores)	March 2023 (crores)
No. of Employees	2.78	3.05
No. of Beneficiaries	12.03	13.30
No. of Employers covered	0.15	0.20
No. of Insured Women	0.58	0.67

4. Challenges of Social Security Schemes

1. Societies need safety nets to catch those in need because of unlucky opening balances, past mistakes, or hard times. However, in its current state, our employer-linked social security system needs more coverage of the worker population. It is ridden with structural inefficiencies and is severely inadequate to provide for the needs of an individual. Moreover, as the RoI on EPF investments is relatively low, only **7.17 lac** (**1.15%**) of **6.3 Crore** enterprises and **7 crore** (**11.8%**) of our **59 Crore** labour force make monthly social security contributions. The EPF invests mostly in fixed-income assets, with only a small portion in domestic indices, which deliver modest returns to scheme members and hardly outpace inflation. There is no set portfolio allocation based on the individual's needs, raising whether individuals are better off investing independently or through private corporations to construct a retirement fund.

Paradoxically, **54%** of India's regular wage/ salaried workforce does not receive social security benefits. A significant **57%** of women and **53%** of men are not eligible for social security benefits. Furthermore, self-employed individuals constitute **57.3%** of India's labour, and **22%** of casual labourers are excluded from the social security safety net. Therefore, more than **79%** of India's labour force, or **46.6 Crore** people, are working in non-permanent, non-salary jobs and are beyond the purview of this social security net. Although the Social Security Code 2020 attempts to incorporate the unorganized sector, gig workers, contract workers, interstate migrants, and platform workers, there is still a long way to go until they are fully included under these schemes, and implementation remains to be seen. Nonetheless, social security might be viewed as a good development, representing the beginning of a more inclusive policy.

Though pension systems like the Atal Pension Yojana are becoming increasingly popular, massive reforms are required to make social security accessible and affordable for all Indians.

The existing labor laws mandate employers to confiscate a considerable portion of the salary of employees earning low wages monthly and hand it over to public sector monopolies such as EPFO. This high gross salary deduction feels particularly severe at lower wages, and the most significant pushback for higher net salaries comes from employees who often have informal employment choices. The rationale for protecting employees from themselves is at the core of the enormous difference between gross wages and take-home salaries. EPFO requires a mandatory **12%** contribution from both employees and employers. In a cost-to-company world, this mandatory contribution does not increase gross salary but comes out of it, reducing net salary.

Mandatory Social Security Deductions/Cost from Payroll CTC

DEDUCTIONS	₹ <=21000			₹>=21000 (opt-out PF*)		
	Employer (% cost)	Employee (% cost)	Monthly Total (%)	Employer (% cost)	Employee (% cost)	Monthly Total (%)
Provident Fund	3.67	12	15.67			
EPS	8.33		8.33			
ESI	3.25	0.75	4.00			
PF/EDLI admin expenses	1.00		1.00			
Professional Tax					0.36	0.36
Labour Welfare Fund (state)	0.06	0.03	0.09	0.06	0.03	0.09
Statutory Bonus	0.69		0.69			
Gratuity	4.81		4.81	4.81		4.81
DEDUCTIONS (%)			**34.6%**			**5.3%**
NET SALARY (₹)**			13,734 (For ₹21,000)			52,085 (For ₹55,000)

Bonus - **8.33%** is an annual payout, and **0.69%** is a monthly payout
LWF - Employee ₹20, Employer ₹40 Yearly Contribution, varies state to state
** A fresh employee earning above the wage ceiling limit of ₹21000 can opt out of PF and other social security contributions if he/she wishes not to be covered under the social security net.*
*** The net salary has been calculated using representative examples of ₹21000 and ₹55000.*

Nothing is wrong with compulsory savings, but setting them at a level much higher than the savings rate for that income bracket is an irrationality that breeds informal employment. The household savings rate as a percentage of GDP was **12%** in 2020-21 and **5%** in 2022-23, hitting a 47-year low. The lack of discretionary purchasing power directly impacts economic growth as it impairs the creation of a virtuous cycle of growth.

2. The primary objective of contributory social security systems is to facilitate the maintenance of individual consumption levels throughout their lives by promoting savings during their most economically productive years. This framework aims to provide a source of income or credit during decreased productivity, such as retirement, unemployment, or illness. The COVID-19 pandemic underscored significant deficiencies in India's social security policies, particularly for individuals in the informal sector, constituting most of the populace. The disparity between formal and informal sector employees became evident during the lockdown.

*Notably, India's principal social security programs, **EPF** and **ESIS**, extend coverage to merely **19%** of the total workforce, with employers mandated to deduct **35%** from employees' salaries for EPF contributions when employing over 20 workers.*

Despite EPF amassing a fund of **12 lakh Crore** with **6.5 crore** contributors, **60%** of the accounts remain inactive. Moreover, ESIS requires employers with over 10 employees to enforce a mandatory **4%** salary deduction for employees earning below 21,000 per month. The scheme's claims-to-settlement ratio is notably low, prompting widespread discontent despite its annual profits at 10000 crores. Accordingly, the issue seems to stem not from a dearth of funds but rather from inadequate policies and governance within these institutions.

3. The COVID-19 pandemic has brought to the fore the deficiencies within the ESIS and the ESIC system. This underscores the essentiality of implementing reformation focused on outcome assessment, enhanced governance, and increased competitiveness. Regrettably, the Employee State Insurance Scheme (ESIS), India's most affluent health system with **₹80,000** crore in cash reserves and coverage for **13 crore** individuals, was notably absent in its response. Furthermore, the long-standing mismanagement, substandard quality, and weak governance of ESIC underscore a history of underperformance, resulting in a disheartening absence of positive outcomes.

4. ESIS is currently grappling with governance-related deficiencies – specifically, a dearth of vision, objectives, and strategic direction. Established in 1948 through an Act of Parliament, ESIS is under the administrative purview of the Employee State Insurance Corporation (ESIC), an autonomous entity within the Indian government. The ESIC chairman is the Union minister of labour, and an executive body, akin to a Board comprising 18 members representing state governments, employers, trade unions, and medical professionals out of a total of 59 representatives, convenes to deliberate on policy matters. However, owing to its large composition, this committee encounters significant impediments in facilitating substantive discourse, rendering decisions, and exercising efficient oversight.

5. ESIC currently lacks a modern information and risk management architecture. It does not transparently prioritise enhanced customer experience, grievance redressal, and improved health outcomes. It is imperative for ESIC to establish explicit targets and regularly report transparently on the progress towards these objectives. Specifically, while financial protection is a key objective of health insurance, ESIC has yet to assess or comprehend the extent of out-of-pocket expenses borne by ESIS beneficiaries.

6. ESIC, in collaboration with the ESIS departments of corresponding state governments, operates its own network of medical service providers and facilitates outsourced tertiary care in private hospitals. This framework positions ESIC as both a financial backer and a healthcare service provider, embodying fundamental elements of a “Managed Care” model. However, the absence of competitive forces inherent in single-payer national models such as ESICs presents a potential risk of benefit denial.

7. Social security in India leaves out unorganised sector workers. It leaves out gig workers and platform workers. Even within the organised sector, about **54%** lack social security benefits, according to the PLFS report, which is basically informal employment. Overall, more than **80%** of India’s workforce is engaged in informal employment, which means they lack any sort of social security safety net. Even the National Pension System (NPS), which is theoretically open to all, has an abysmal coverage of only about **6.2 crore** subscribers (which is approximately **10%** of the workforce), as of March 2023. The Employee State Insurance Corporation (ESIC) was recently in the news for considering an extension of its coverage to unorganised and gig sector workers. On July 24, 2023, Rajasthan became the first Indian state to pass legislation aimed at providing social security benefits to gig workers. These are efforts by governments to expand social security beyond the formal sector. But given the financial constraints and the piecemeal approach towards widening the net, this won’t be sufficient to expand the coverage of our social security system in its current form.

8. Being either employer-based or funded by the government makes social security in India suffer from a financing problem. The NPS and the Old Pension System (OPS), a Defined Benefits system with no employee contributions, are financially burdensome for the government, due to which we keep seeing pensions crop up as a contentious financial problem. The NPS, which is a Defined Contribution system, introduced in 2004, was an attempt to reduce this financial burden on the government to some extent. The current Unified Pension Scheme (UPS) which was introduced recently and will be effective from April 1, 2025. It incorporates elements of the OPS while introducing a contributory model. There are various other government schemes aimed at providing social security, like schemes for unemployment allowances, insurance, and other benefits. All of these strain government resources, with pensions consuming around 9% of the central government’s revenue and **19%** of its expenditure. Therefore, there is an urgent need to reimagine our social security system to make it more broad-based in its coverage and open to contribution by multiple sources.

9. A significant issue is that the current government systems managing various social security schemes are outdated and rigid. These monolithic systems are slow-moving and lack scalability, customisation and agility. They have been known to cause problems even with routine tasks such as withdrawals and transfers. These software systems were developed without adequate consideration of their architecture, design and overall structure. While we include employers in the provision of social security, the systems themselves are administered by governments, because when it comes to social security, we cannot think beyond the government.

10. Ajay Shah and Vijay Kelkar, in their book, “In Service of the Republic: The Art and Science of Economic Policy”, speak of the need to evaluate the necessity of any governmental intervention on the touchstone of market failures, like externalities, public goods, information asymmetry, market power, incomplete markets, income and wealth inequality, etc. And hence we need to check if there is any need to restrict social security just to the EPFO. A user should be able to leverage all options of creating his social security net, and tap all sources. The aim should be to make it easier for people to reach out to each other and explore various social security options and we need to use the agility of private sector entities to build such a system. We have a very good precedent of such a collaboration in the robust UPI network of India where private entities have built on top of the UPI network to provide myriad options to users.

The National Payments Corporation of India (NPCI) – a non-profit organisation, is an umbrella organisation that facilitates services like UPI Payment, Bharat Bill Pay, RuPay Card, FASTag, NACH, etc. owned by a consortium of major banks, it has built this digital public infrastructure at a very fast pace. Similarly, consider the Indian Software Product Industry Round Table (iSPIRT), another non-profit organisation which spearheaded the set of open APIs known as the India Stack, which undergirds the digital public infrastructure consisting of Aadhaar, UPI, etc.

5. Proposed Changes

As seen in the preceding sections, social security in India faces two main problems of inadequate financing and limited coverage, apart from other problems like administrative cost, delays, and legacy-oriented, old systems which are not very efficient, scalable or customisable. There is an urgent need to widen the social security net, and to find alternative avenues of financing.

The imperative to reimagine social security policies becomes increasingly evident as traditional family-based social security structures wane due to modernisation and shifting demographics. India's standing in the 2022 Global Pension Index dropped from 41st out of 44 countries to 45th out of 47 countries in 2023, indicative of significant inadequacies and shortcomings within the system's sustainability and adequacy.

We need to design a system that gives users many options, the ability to choose the best option and switch if required, and to customise their social security basket. The problems of reach and financing in a social security system will require such innovative thinking for resolution. The idea of decentralising and democratising such systems gives more control to the user by way of providing more options. The world is moving towards more open and interoperable systems. In a recent Bank for International Settlements (BIS) working paper, Nandan Nilekani and others propose the "concept of the "Finternet" as a vision for the future financial system: multiple financial ecosystems interconnected with each other – much like the internet... Unified ledgers are a promising vehicle to turn this vision into reality." Cutting-edge digital technology will need to be leveraged to create such systems.

In this spirit, this whitepaper proposes two main types of reforms:

• Some immediate reforms that can be carried out in the existing system itself to make it more efficient and effective, and less onerous for the stakeholders involved. These reforms will align with some principles that need to be followed for better functioning of the social security framework. This also recognises that while a larger, comprehensive reform of the system, which involves migration to a better platform, will take time, in the meantime, these short term, immediate reforms will help strengthen the existing system till we migrate to the new proposed ecosystem.

• Over the longer term, creation of a redesigned, comprehensive new system, called the Multi-Contributor Social Security (MCSS) system, the details of which will be detailed in the sections to come. This whitepaper also lays out the steps by which this migration will be done.

In the short term, on a broad level, the changes propose the following three design reforms for **the mandatory social security deductions to empower employee choice**:

Whether to make a **12%** employee contribution to a provident fund or opt out of it

Whether to pay a **12%** employer contribution to the **Employee Pension Scheme** (EPS) or an individual account opened with the **National Pension Scheme** (NPS)

Allow employees the choice of paying their contributions to EPS or to purchase insurance from any IRDA-regulated insurance company

4. *Recommendations*

After having considered the problems associated with the social security framework as it exists now in India, let's look at the recommendations that this whitepaper proposes to resolve these deficiencies. These recommendations have been aligned with some principles that they are supposed to espouse, providing a rationale for the recommendations.

1. Efficiency

EPFO, with its expensive charges of **4%** of the contribution, needs to rationalize its costs by **1/10th** to bring it to par with other banks such as SBI. EPFO must reclaim its position as a non-profit, flow-through entity with benchmarked costs. It should serve as an intermediary between employers and employees rather than charge employers huge administration costs, translating into indirect taxation. It is also important to look at the operational and administrative efficiency of a government driven and operated system. We need to explore the possibility of using the agility and efficiency of the private sector to operate such a system.

2. Competition

All Employees, old and new, should have the choice to contribute to EPFO or the ***National Pension Scheme*** (NPS). This will enable individuals to reclaim control over the investment and return of their savings and make these organisations and schemes more accountable to their clients. It is proposed that the salary confiscation regime in formal employment be revised to grant employees the agency to determine the allocation of their remuneration. Emphasis must be placed on allowing employees to decide whether to contribute **12%** of their earnings to the Provident Fund or abstain from doing so. Furthermore, it must also grant employees the autonomy to allocate their **12%** employer contribution to either the Employee Pension Scheme or an individual account under the NPS. Additionally, the proposal encompasses the freedom for employees to direct their ESI contribution to the ESI corporation or to procure insurance from any IRDA-regulated insurance company.

3. Choice

Mandatory deductions that translate into a substantial gap between haath waali (net) salary and chitthi waali (gross) salary in a cost-to-company world are unfair as they minimize savings. The mandatory deductions/costs of about **35%** and **5%** for **₹21,000** and **₹55,000** monthly salary, respectively, are lopsided, especially as research suggests the savings rate for individuals with incomes below **₹25,000** per month is close to zero. Employees should have two choices: make any employee contributions (**12%**) and opt out of the defined benefit EPS scheme and contribute this to their core fund (**8.33%**). A reduction in deduction will thus emerge as a double-edged sword that will improve the savings-to-spending ratio while at the same time boosting formalisation.

4. Effectiveness

Employment has shifted from a lifetime contract to a taxicab relationship; most employees of this generation will have multiple employers, including themselves. EPFO has a design birth defect that links records to employers rather than employees and their many lacs of orphaned accounts, with the last estimate putting unclaimed balances at over **₹39,000 crore**. Making EPFO contributions to an Aadhar number will create traceability, portability, and access. This change will also enable the offering of EPFO products to self-employed and gig workers.

5. Sustainability

EPS must be removed from EPFO and merged with universal and fiscally funded old-age security pensions like the Atal Pension Yojana. EPFO, as a work-linked program, must remain a defined contribution to avoid the risks of aging, investment income, and cross-subsidy that it cannot handle.

6. Governance

Rectifying this governance deficit necessitates establishing a more streamlined board with age and term limitations, specific expertise prerequisites, a sophisticated information infrastructure, and substantive decision-making authority.

7. Flexibility

Introducing competitive dynamics could be achieved by granting employees the option to select from various social health insurance plans akin to the German-model ESIS, established by consortia of employers, labor unions, or commercial insurers. This approach would afford beneficiaries, through their employers, the flexibility to opt for distinct "***Managed Care***" entities, thus evaluating them based on cost-effectiveness, service quality, and customer engagement.

8. Integration

All social security spending must be integrated holistically with education, health, and elderly care. The required employer health insurance program, ESI, covered around **3.14 crore** employees (**6%** of the labor force), including **51.20 lakh** women out of **13.32 crore** beneficiaries. This program is criticized for low quality, uneven coverage, and employee harassment. Its **75,000 crore** in bank deposits demonstrates decades of overcharging employers, and this system should be integrated with the Pradhan Mantri Jan Arogya Yojana, which is part of Ayushman Bharat and requires companies only to make payroll deductions into Aadhar accounts.

9. Digitization

The digital landscape offers multiple entry points for intervention. ***Social Protection Open Digital Ecosystems*** (SP-ODEs) present a consolidated digital platform facilitating seamless access to welfare programs across diverse government departments. When integrated with citizen databases and direct benefit transfers, SP-ODEs have the potential to bolster inclusive social protection significantly. This encompasses food security and housing schemes and necessitates a distinct sub-ecosystem for employment-linked social security involving active participation from statutory employers. Furthermore, several state labor departments have introduced dedicated portals for compliance matters, such as registration and licensing, and have streamlined the process by enabling automatic renewals for these compliances. The digital public infrastructure facilitates the movement of individuals through a digital identification system, the transfer of funds via a real-time fast payment solution, and, finally, the exchange of personal information through a consent-based data-sharing system to realize the advantages of ***Digital Public Infrastructure*** (DPI).

10. Systematic Withdrawal Plan

Currently, the EPF allows retirees to withdraw their savings only in a lump sum, which can lead to financial depletion. In contrast, the NPS requires members to use at least **40%** of their corpus for annuities, ensuring steady income but potentially lacking value, especially in underdeveloped markets. Additionally, annuities can't be inherited if the retiree dies early. A partial withdrawal scheme could help retirees manage their wealth while accessing funds gradually. The government should consider alternatives for EPF and NPS, such as implementing systematic withdrawal plans or developing more flexible annuity products. These changes would require amending existing laws and consulting with stakeholders.

11. Simplified Enrollment

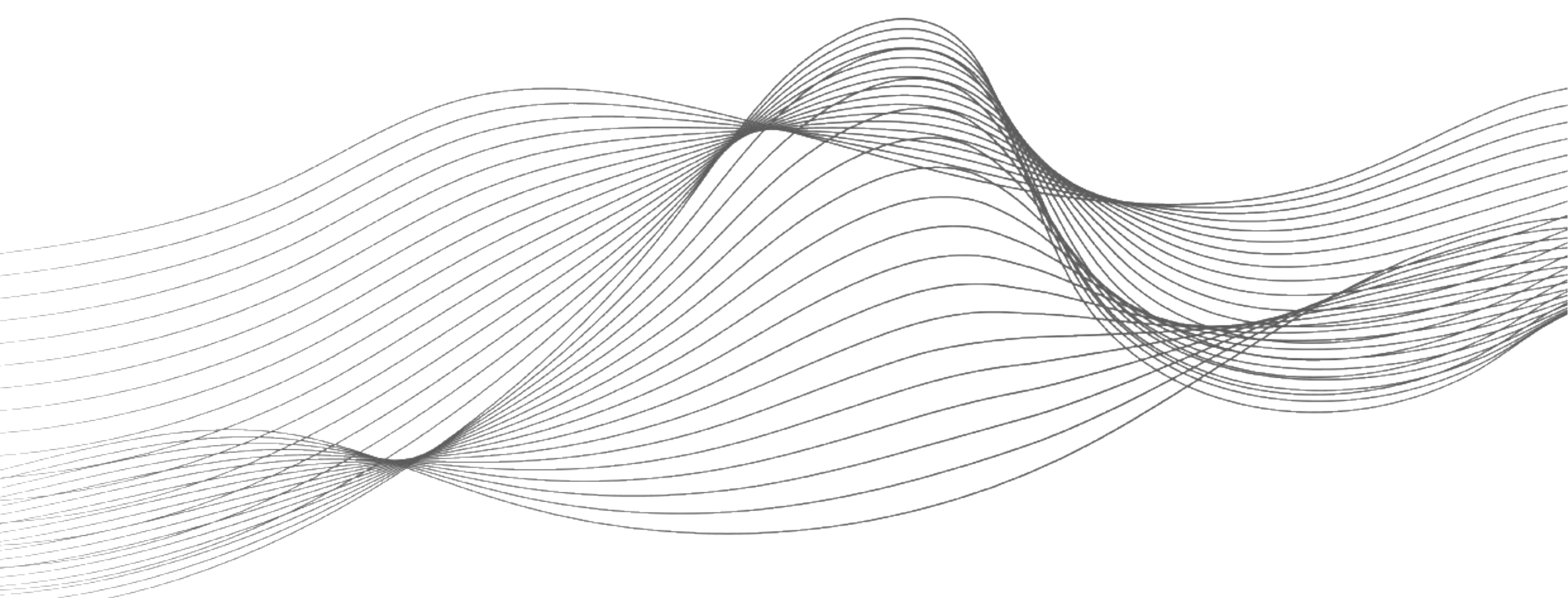
We need strong infrastructure to effectively integrate gig workers into the NPS and the Atal Pension Yojana (APY). The NPS offers flexibility for gig workers with fluctuating incomes, while the APY provides guaranteed returns for those with lower incomes. Instead of creating new schemes, the government should raise awareness about these options. Simplifying the enrollment process and addressing contribution gaps from job loss or inconsistent income are essential. Digital tools can enhance participation by ensuring convenience and accessibility.

12. Administration Vs. Regulation

Provident fund organizations have a dual role in administering and regulating the funds, which has led to serious governance failures. As a result, taxpayers are often left to cover the costs of these failures. To address this, the government should form an expert committee to review the governance mechanisms of all provident funds. In the medium term, the government should also consider appointing the Pension Fund Regulatory and Development Authority (PFRDA) as the dedicated regulator for the pensions sector to enhance accountability and oversight.

13. Alternative Sources

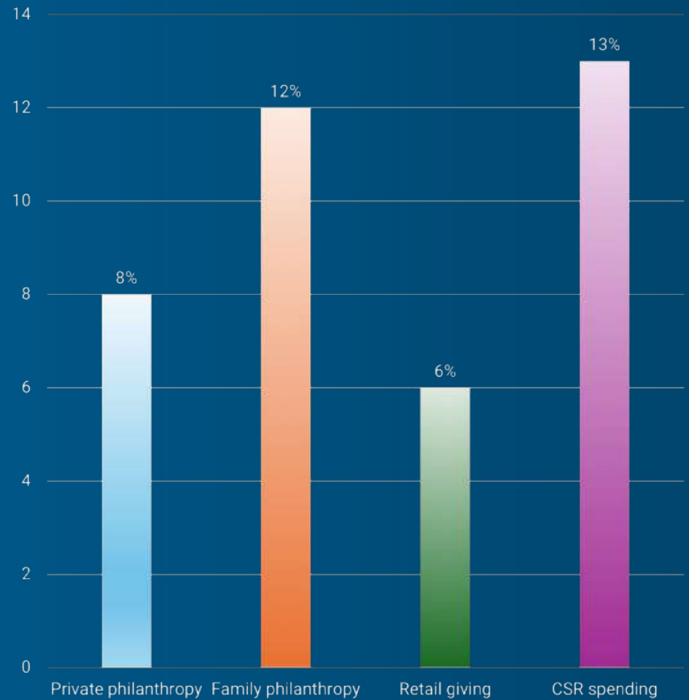
We need to decouple social security from its tight dependence on governments and on employers/ continued employment. Contributions to EPF, for instance, are tied to a person's employment, and a gap in employment leads to a pause in the social security corpus for that individual. It is, however, during a period of unemployment, that the requirement for a social safety net is more. Moreover, government finances are limited. Hence, looking towards the government solely to fund a social safety net would be a folly. What could be newer sources of financing in such a scenario? Taxation is one avenue, but beyond a point, taxation is coercion. It yields diminishing returns. An innovative solution to the problem lies in the implementation of a Multi-Contributor Social Security (MCSS) system which aims to loosen the coupling between social security and governments or employers. It is an open, transparent, customisable, scalable and expandable system which seeks to leverage multiple entities, i.e. the Central and State governments, employers, employees, philanthropists, charitable organisations, companies (as part of their Corporate Social Responsibility - CSR) and individuals to contribute directly to a designated MCSS account.



According to recent reports, the number of Indian philanthropists contributing **₹5 crore** or more to charity reached a record high of 119 individuals in 2022-23, up from just 27 in 2016-17, with donations totalling **₹8,445 crore** in FY23, an increase from **₹5,623 crore** the previous year. Private philanthropy has maintained an average growth rate of approximately **8%** from FY 2017 to FY 2022. CSR spending has increased by **13%** over the past five years, reaching **$3.3 billion (INR 27,000 crore)** in FY 2022. Family philanthropy has increased by **12%** over the past five years, reaching **$3.6 billion (INR 29,600 crore)** in FY 2022, primarily driven by the growth of HNIs and affluent givers (with a net worth of **INR 7–200 crore**). Retail giving, which accounts for just over **22%** of total contributions, has grown modestly at **6%** annually from FY 2017 to FY 2022, but is projected to increase at a faster rate of **9%** annually, contributing approximately **29%** of total private giving by FY 2027. However, despite a **9%** increase in cumulative wealth, UHNIs in India donate significantly less than their counterparts in the US, UK, and China. Indian UHNIs could increase their total contributions by 8 to 13 times if they matched the giving levels of their counterparts in China, the UK, and the US. Indian UHNIs donate between **0.04%** and **0.06%** of their wealth, while Chinese UHNIs contribute between **0.37%** to **2.15%**.

This shows the scope for growth in philanthropy in India in the future. We need to make available avenues for this to be done in an easier and seamless manner.

In the next section, we will now look at one proposed solution which takes care of the recommendations mentioned above, especially those pertaining to digitisation, governance, flexibility, choice, competition and integration. It could help solve the problems of insufficient funding and inadequate coverage that plague the social security ecosystem in India.

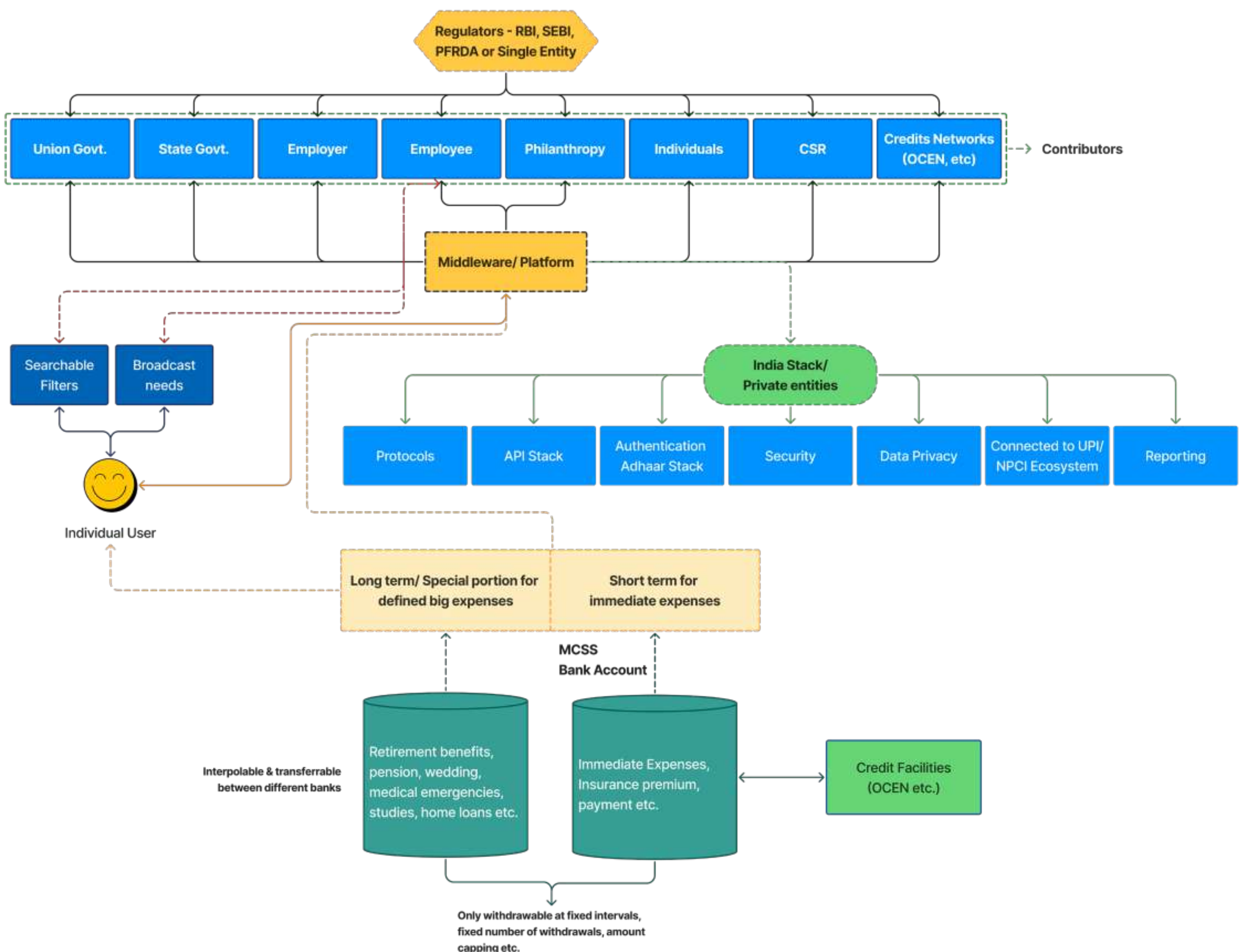


A **Multi-Contributor Social Security (MCSS)** system, as detailed in the section below, emerges as a transformative solution that addresses multiple critical needs in India's social security landscape. It enhances efficiency by reducing dependence on expensive administrative structures like EPFO, while offering choice and flexibility by allowing contributions from diverse sources beyond just employers and government. The system promotes effectiveness through its potential for Aadhaar integration, ensuring better traceability and portability of benefits. Its sustainability is strengthened by diversifying funding sources across governments, employers, philanthropists, and CSR initiatives, reducing the fiscal burden on any single entity. The digital infrastructure enables seamless integration of multiple contributors and beneficiaries, supporting better governance through transparency and streamlined operations. Most importantly, MCSS's design fundamentally solves the current system's rigidity by decoupling social security from continuous employment, making it particularly valuable during periods of unemployment when social safety nets are most needed. With India's growing philanthropic capacity, as evidenced by the significant increase in high-value donors and CSR spending, MCSS provides a structured channel to leverage this expanding pool of private social capital for broader social security coverage.

5. The Multi-Contributor Social Security (MCSS) system

Let's look at the details of the proposed Multi-Contributor Social Security (MCSS) system. This system aims to loosen the coupling between social security and governments or employers. The aim is to make the system more open, transparent, customisable, scalable and expandable. In this whitepaper, we look at the design of this MCSS system, the idea for which was first proposed by Nitin Pai from The Takshashila Institution, and was detailed in a paper by Takshashila Institution ("Reimagining Social Security for 21st Century India: A radical approach - Multi-Contributor Social Security (MCSS) system", authored by Arindam Goswami). In this whitepaper, we try to recommend a path forward for the integration of the erstwhile social security systems and this new system. The details of this MCSS system have been reproduced in the below sections to the extent necessary for the purposes of this whitepaper. For more details about the MCSS system, readers can refer to the paper by Takshashila.

Let's start by looking at the components of the MCSS system:



MCSS Design

5.1 Components

A person would designate one of his bank accounts as his Multi-Contributor Social Security (MCSS) account. Multiple entities, i.e. the Central and State governments, employers, employees, philanthropists, charitable organisations, companies (as part of their Corporate Social Responsibility - CSR) and individuals should be able to contribute directly to this designated MCSS account. They in turn could get tax benefits for their contributions. We can use the JAM (Jan Dhan - Aadhaar - Mobile) trinity to increase the penetration of these accounts.

The MCSS account will have two components:

• A long term/special portion for pension and defined big expenses like wedding, medical emergencies, studies, home loans, etc.
• A short-term portion for immediate expenses, insurance payments, etc.

There could be a small portion kept aside for investment purposes into mutual funds, government bonds and the like. However, the aim of this system being social security, this portion will have to be kept very small so as to reduce the associated risk.

The system will have the following components:

1. MCSS Bank account: This will be a special type of bank account opened with a bank. It will have two components – a long-term/special portion and the short-term portion. Both will be described further in this document.

2. **Middleware platform:** As will be described in following sections, this system has to be very flexible and customisable. Due to its complex nature, it would be better to have this exposed via a middleware/platform; maybe as an India Stack open network. In the alternative, we could just define the protocols, standards, security and data requirements, and minimum basic functionalities, and allow private sector entities to develop it. The middleware will act as the orchestration layer for functionalities like searchability, discoverability, interoperability, keeping track of different portions of the MCSS account, etc. Any value-added functionalities in the future would also be built at the middleware layer.

3. **Contributors** – These will be the various entities that would make monetary contributions to a person's MCSS bank account. These will either login via the middleware platform or the specific bank.

4. Regulators: These will be the regulators for this system. This could be a single hybrid regulator or multiple regulators.

5. External services such as credit facilities like **Open Credit Enablement Network** (OCEN) that can plug into the system at the middleware layer or at the banking layer.

Some parts of this system will be mandatory. We can mandate pension savings from the long-term portion, insurance coverage via the short-term portion, investments into NPS, etc. These suggestions will ensure that the safety net doesn't devolve into another savings account without any retirement/pension arrangements or social security aspects. The MCSS system is, first and foremost, a social security system intended as a safety net for people in need.

The retirement part of the long-term portion could be like the current NPS system (**40%** into an annuity plan at retirement, etc) or it could be built into this portion independent of the NPS.

5.2 Income Tax benefits

Contributors will be incentivised through standard tax deduction mechanisms, mirroring the existing provisions of Section 80G of the Income Tax Act, which will provide fiscal motivation for participation while maintaining established regulatory frameworks.

The potential financial governance challenges, including risks of money laundering, round -tripping, and tax evasion, will be comprehensively mitigated through rigorous auditing protocols and enhanced income tax return processing mechanisms. The mandatory linkage of transactions with PAN and/or Aadhaar data creates a robust tracking infrastructure that substantially simplifies compliance monitoring and reduces operational complexities for tax authorities.

5.3 Thresholds for withdrawals

There would be different thresholds for each of the parts of the MCSS account. The first deposits into this account should go into the short-term portion, and once that crosses a threshold limit, contributions can flow into the long-term portion. This ensures that components like insurance premiums, which will get paid from the short-term portion, will be the first to be serviced by contributions into the account. This is because the MCSS system is also designed as an immediate safety net for individuals. Hence, retirement benefits, which are part of the long-term component, are important, this system is also to majorly act as a source to fulfil small, immediate and important expenses (for instance, withdrawing money to deal with an accident or illness), which will act as a social security/ safety net for the individual, and will be defined under the rules. Withdrawals and other usages of the short-term portion can be allowed only once it reaches the threshold. There will be similar thresholds defined for withdrawals and other usages of the long-term portion also.

5.4 Searchability & discoverability

One of the main features of this system will be that, to make it more attractive and customisable for contributors, they should be able to search for individuals and groups filtered out based on criteria like age, income, livelihood sector, specific needs, employment status, etc. That will make the process of discoverability very seamless and easy. Contributors could specify the purpose of their contributions, which could help provide avenues for targeted contributions. Similarly, recipients should be able to specify their needs at a very granular level.

5.5 Interoperability & transferability

To encourage competition, this MCSS account should be transferrable and interoperable across different providers or banks. However, while the bank account may change, the MCSS unique id will not, which will ensure continuity and seamless service across different providers.

The interfaces built at the middleware layer will have to be standardised so that private entities building the middleware can integrate easily.

Every MCSS account should have a unique ID, which we can call the MCSS account number. The individual bank account number, which would be different for each bank, would map to this MCSS account number. This would help in interoperability of this account and also in maintaining the history for the user across banks, thus maintaining continuity for the user.

The MCSS unique ID should be plugged into the UPI/NPCI system. This would enable the MCSS

unique ID itself to be used for transfers to the underlying bank account. This would simplify the process considerably.

5.6 Miscellaneous features

Facilities like issuing debit cards, regular withdrawals and bank-to-bank transfers (NEFT, RTGS, etc.) which are available in other bank accounts, other than those allowed under the rules for the specific purposes of the MCSS system, should not be allowed for the MCSS accounts. Since this account will have different parts dedicated to different use, the benefits of this account will have to be tailored according to these, so as to maintain strict compartmentalisation. For example, withdrawals may be allowed only from the short-term portion of the account which is dedicated to immediate expenses.

5.7 Need for a middleware

The MCSS bank account will have multiple functionalities, which make it very complex. Building it at every bank will be difficult. Also, it would be unnecessary repetition of effort. Hence, it would be better to have it exposed via a middleware or as an IndiaStack open network.

Middleware is the platform which will orchestrate all the functionalities of this system. The purpose of the middleware platform is to expose all of the customisability, searchability and discoverability to contributors and recipients. This middleware should be exposed via application programming interfaces (APIs).

The government or the regulators should just define the protocols, standards, minimum basic functionalities, security and data privacy requirements, and allow private sector entities to develop it. It could also be a public-private entity or something like IndiaStack.

It can be one of the Open Networks being built as part of the India Stack networks. Interoperability and transferability should be non-negotiable aspects. It will also ensure faster adoption of this across the ecosystem; otherwise each bank will have to develop this entire capability. Alternatively, the Central Recordkeeping Agencies (CRA) as in the NPS system, which has 3 CRAs (CAMS, KFintech, NSDL) could be used. NPS has a Trustee Bank (Axis bank) which handles all the transfers. In the MCSS case, it will be the individual bank account which will handle all the withdrawals and deposits. However, considering that we want the data to be centrally available for interoperability, it makes sense to develop it in one single place, like at IndiaStack or some government entity. Otherwise with private sector entities coming in, data sharing will be a hassle.

Building it as a middleware and exposing functionalities via APIs has the added advantage that other private entities could expand functionalities by building on top of this system. Functionalities and features could be built as plugins to this system, and used as wrappers. This improves the ease of building systems and also makes things agile, scalable and customisable.

5.8 Data Security and Privacy

Data security for this system demands a dynamic, comprehensive approach that transcends conventional protective measures. Given the sensitive nature of the data ecosystem—encompassing banking, investments, pensions, and multiple financial domains—security protocols must be perpetually evolving to align with global best practices. The approach should establish rigorous audit and reporting mandates that not only match but potentially exceed existing standards in banking and fintech sectors.

Rather than micromanaging implementation, the strategy will focus on defining precise standards and protocols, empowering private entities to develop robust security infrastructures.

Data privacy considerations will be comprehensively addressed, ensuring full compliance with the Digital Personal Data Protection Act, 2023, and extending protective measures to incorporate the comprehensive privacy principles outlined in the General Data Protection Regulation (GDPR). A critical design feature will be the ability to enable contributor and account holder anonymity, providing users granular control over their personal information visibility.

The middleware platform will serve dual roles as both data fiduciary and data controller, with banks functioning as data acquirers for the user, or data principal. This centralised approach ensures comprehensive data management and controlled data processing, with information being filtered and strategically distributed to contributors.

User data retention will extend beyond account closure or system opt-out, with archived records maintained for essential tracking, auditing, and compliance purposes. While the data remains accessible for authorised queries, its availability will be strictly controlled and purpose-specific.

Personally Identifiable Information (PII) will be subject to absolute confidentiality protocols, with robust safeguards preventing any external exposure, even in scenarios involving targeted contributions. To preserve individual autonomy, users will be empowered with a "right to be forgotten" mechanism, enabling them to request complete data anonymisation while preserving core records for tax and legal requirements. This approach balances comprehensive data utility with stringent privacy protections, ensuring individual data sovereignty within the system's operational framework.

5.9 Regulators

The regulatory landscape will necessarily be complex, involving multiple specialised agencies: the Reserve Bank of India (RBI) overseeing banking components, the Securities and Exchange Board of India (SEBI) managing investment aspects, and the Pension Fund Regulatory and Development Authority (PFRDA) governing pension-related elements. To streamline governance and enhance user experience, a unified regulatory body with representative membership from these key agencies is proposed. This integrated approach would provide users a singular, comprehensive regulatory interface for addressing potential issues, simplifying the overall regulatory ecosystem.

5.10 Legal Changes

Establishing a transformative financial ecosystem demands a sophisticated legal architecture that balances innovation, security, and individual protection. The proposed framework requires strategic legislative interventions across multiple acts - RBI Act, 1934, SEBI Act, 1992, and PFRDA Act, 2014 - to create a cohesive regulatory landscape that defines emerging financial entities, their operational parameters, and dispute resolution mechanisms.

Rather than incrementally amending existing legislation, a comprehensive standalone law might more effectively capture the system's complex dynamics. This approach would embed foundational principles of openness, deregulation, and privacy, creating a flexible yet robust regulatory environment. Technical specifications for API interfaces should emerge not from traditional regulatory bodies, but from a synthesised expertise group comprising technical specialists, legal experts, civil society representatives, judicial and executive stakeholders, ensuring a holistic, nuanced approach to technological governance.

Legislative frameworks must strike a delicate balance - providing comprehensive protection without becoming bureaucratically oppressive.

This requires meticulously defined new entities, platforms, and transaction protocols, including explicit guidelines on withdrawal limits, premature closure norms, and long-term account management.

To streamline oversight, a hybrid regulatory mechanism with representation from existing financial regulators could provide integrated governance. Critically, the proposed legislation should be comprehensively detailed, minimising reliance on delegated legislation. Any subordinate regulations must derive authority from explicitly defined legal sources, with strict limitations preventing arbitrary expansion of transgressions, penalties, or dispute resolution mechanisms. The goal is a legal framework that empowers innovation while maintaining rigorous safeguards for individual and systemic financial security.

In the Appendix section at the end, we have laid out the steps that can be followed to do stock and flow migration of mandatory employer schemes like ESI and EPFO to the MCSS system.

5.11 Benefits

The Multi-Contributory Safety System (MCSS) tries to reimagine social security in India by connecting individuals and communities in order to support each other through a digital, flexible platform. At its core, the system creates a middleware that seamlessly connects potential contributors with those in need, breaking down traditional barriers in social security mechanisms.

By leveraging India's robust digital public infrastructure like Aadhaar and UPI, the MCSS platform introduces transparency and accessibility in philanthropy. Contributors can now precisely target their support, using sophisticated filters to connect with specific groups or individuals, while recipients can broadcast their needs with unprecedented clarity and reach. It makes discoverability and searchability easier, which makes targeted support mechanisms easier to implement. This can ensure effectiveness of the system by making sure that resources reach the most appropriate recipients more quickly and precisely. This system aids sustainability by promoting long-term social support by creating flexible, adaptable funding mechanisms that are not solely dependent on government or employer resources. Private philanthropy gets an added, efficient and effective avenue.

The platform promotes efficiency by streamlining social security support by creating direct, transparent pathways between contributors and recipients, eliminating bureaucratic intermediaries and reducing administrative overhead. Multiple contributors and diverse support mechanisms create a competitive environment that drives innovation in social support strategies. It provides unprecedented control and choice to users, with the ability to customise contributions based on specific criteria, personal preferences, and targeted social needs.

If we want to reduce systemic corruption and improve accountability in social security distributions, then the increased transparency and direct connections that are features of the MCSS system help in improving the governance aspect in social security in India.

Flexibility is a key feature of this system. The platform's plug-and-play architecture allows continuous innovation, with various entities able to build additional features and use-cases. The aim is to create a holistic, interconnected support ecosystem by connecting digital infrastructure, private philanthropy, and social security needs. This promotes integration as a key design principle. And leveraging technologies like IndiaStack transforms traditional social security models into modern, tech-enabled support networks. This ties in neatly with the objective of using increased digitisation for the benefit of the people.

6. *Conclusion*

India's current social security system is a patchwork of schemes that struggles to meet the needs of its diverse population. The heavy dependence on an employment-linked structure has left a majority of the workforce in the informal sector without adequate protection. Implementation challenges, lack of comprehensive coverage, and systemic inefficiencies further weaken the impact of these initiatives. To address these pressing concerns, an alternative model is essential—one that emphasises universal access and decouples social security from formal employment. A rights-based approach, supported by robust institutional frameworks, improved funding mechanisms, and the integration of digital tools, can ensure greater efficiency and reach. Such a system should aim to cover all citizens, prioritising the most vulnerable while fostering inclusivity and equity.

Reforming the social security framework is not just a policy imperative; it is a moral and economic necessity. By investing in a more inclusive and effective system, India can not only uplift millions from vulnerability but also lay the foundation for a more resilient and equitable society.

7. A Petition for *Change*

Social Security contributions are an important employer obligation, but we make the case for three reforms in choice, competition, and efficiency that will greatly improve employer, employee, and society objectives. Our labour laws mandate the highest employer salary deductions in the world at **34.6%** for low-wage employees and only **5.3%** for high-wage employees (table below).

Mandatory Social Security Deductions/Cost from Payroll CTC						
DEDUCTIONS	**₹ <=21000**			**₹>=21000 (opt-out PF*)**		
	Employer (% cost)	**Employee (% cost)**	**Monthly Total (%)**	**Employer (% cost)**	**Employee (% cost)**	**Monthly Total (%)**
Provident Fund	3.67	12	15.67			
EPS	8.33		8.33			
ESI	3.25	0.75	4.00			
PF/EDLI admin expenses	1.00		1.00			
Professional Tax					0.36	0.36
Labour Welfare Fund (state)	0.06	0.03	0.09	0.06	0.03	0.09
Statutory Bonus	0.69		0.69			
Gratuity	4.81		4.81	4.81		4.81
DEDUCTIONS (%)			**34.6%**			**5.3%**
NET SALARY (₹)**			13,734 (For ₹21,000)			52,085 (For ₹55,000)

We firmly believe that the proposed reforms could raise formal employment by **10 crore** and significantly accelerate formal job creation while considerably raising employee welfare.
Please sign the attached Petition Form to enlist your support.

8. Tables: State-wise Net Payroll Analysis

State	2019-20	2020-21	2021-22	2022-23	2023-24
ANDHRA PRADESH	1,62,166	1,87,986	2,73,104	2,90,842	2,96,389
ARUNACHAL PRADESH	1,124	1,374	1,571	2,662	2,463
ASSAM	58,275	36,634	23,284	64,432	64,628
BIHAR	82,457	3,78,771	92,059	1,63,163	1,58,033
CHATTISGARH	65,761	81,446	1,19,369	1,35,762	1,36,780
DELHI	5,34,884	4,25,486	8,89,628	10,29,376	11,47,925
GOA	44,632	50,539	57,154	75,716	76,948
GUJARAT	7,18,054	7,54,982	10,74,917	11,68,444	13,45,063
HARYANA	5,91,348	7,16,973	9,63,560	11,72,211	12,42,030
HIMACHAL PRADESH	58,860	82,189	85,494	89,442	1,03,443
JHARKHAND	66,329	65,950	97,040	1,34,190	1,52,442
KARNATAKA	8,12,122	6,24,237	13,60,463	12,99,702	14,93,186
KERALA	81,140	63,823	1,40,378	1,74,624	1,87,050
MADHYA PRADESH	1,90,401	1,79,978	2,62,348	3,22,448	3,56,460
MAHARASHTRA	17,44,149	14,95,493	26,45,451	30,28,978	33,40,936
MANIPUR	2,146	1,354	1,604	2,596	1,482
MEGHALAYA	3,734	1,940	4,174	4,163	4,145
MIZORAM	313	436	456	274	511
NAGALAND	813	108	546	1,213	1,086
ORISSA	71,427	1,00,361	1,67,483	2,19,180	2,51,088
PUNJAB	99,277	1,07,224	1,48,061	1,45,827	1,73,984
RAJASTHAN	2,44,463	2,83,760	4,09,217	4,46,274	5,32,651
TAMIL NADU	8,03,634	6,64,278	12,84,986	14,05,171	15,22,944
TELANGANA	4,38,697	4,17,091	7,57,548	8,52,205	9,53,518
TRIPURA	2,575	2,541	3,520	2,528	3,877
UTTAR PRADESH	4,62,190	4,90,109	6,80,229	7,42,508	8,93,532
UTTARAKHAND	1,15,267	1,55,479	1,55,045	2,01,760	2,42,085
WEST BENGAL	2,68,409	2,21,354	3,71,595	4,88,262	5,60,115
ANDAMAN AND NICOBAR ISLANDS	1,591	1,881	1,524	2,682	2,564
CHANDIGARH	64,460	85,094	1,30,159	1,47,967	1,61,868
JAMMU AND KASHMIR	67,449	29,269	31,853	36,356	35,521
LADAKH	247	235	805	731	487
TOTAL	**78,58,394**	**77,08,375**	**1,22,34,625**	**1,38,51,689**	**1,54,45,234**

Formal Job Growth in Industries

Industry	2019-20	2020-21	2021-22	2022-23	2023-24
EXPERT SERVICES	35,21,187	37,03,403	51,67,400	57,64,840	64,14,488
TEXTILES	1,67,123	1,71,866	3,10,216	2,42,941	3,48,018
ENGINEERS - ENGG. CONTRACTORS	4,08,537	4,92,561	6,18,479	8,15,515	8,45,763
TRADING - COMMERCIAL ESTABLISHMENTS	5,22,641	3,42,805	8,67,431	9,40,953	9,08,014
ELEC, MECH, OR GEN ENGG PRODUCTS	3,81,283	3,83,408	4,91,430	6,02,274	6,96,037
ESTABLISHMENTS ENGAGED IN CLEANING, SWEEPING SERVICES	1,78,371	2,50,182	3,32,253	3,96,921	4,39,667
GARMENTS MAKING	72,578	37,396	86,345	60,324	72,198
BUILDING AND CONSTRUCTION INDUSTRY	5,13,766	4,66,721	6,03,086	7,34,087	9,38,522
OTHERS	1,51,473	2,64,494	7,34,106	9,90,606	11,78,178
HOTEL	1,051	210	426	720	707
ESTABLISHMENT ENGAGED IN MANUFACTURE, MARKETING SERVICING, USAGE OF COMPUTERS	2,70,350	2,01,862	4,36,692	3,29,623	2,67,908
FINANCING ESTABLISHMENT	1,22,710	69,896	1,59,569	2,36,056	3,24,980
HOSPITALS	49,428	36,934	69,792	74,729	82,581
SCHOOL	57,464	62,700	42,544	1,18,825	1,01,304
SOCIETIES, CLUBS OR ASSOCIATIONS	5,645	1,11,236	8,542	10,007	6,928

9.Appendix to MCSS model

How to do Stock and Flow Migration of mandatory employer schemes like ESI and EPFO to the MCSS system?

Here we map out the detailed steps to do a stock and flow migration of the mandatory employer schemes like ESI and EPFO to the MCSS system. This will have to be done very carefully with checks and balances at every step. We look at just ESI and EPFO for now, but the same steps can be replicated for other government-driven social security schemes.

Note that these steps are not about the entire MCSS system, but just about the migration of these select mandatory employer schemes to the MCSS system. The MCSS system will also have aspects of discoverability, searchability and customisability, which will be part of the middleware, which we are not going to look at in this section.

Steps for Stock and Flow Migration of ESI and EPFO to MCSS

1. Assessment and Data Mapping:

a. ESI: Map employer contributions for health insurance to the short-term component of the MCSS account.
b. EPFO: Redirect employer and employee provident fund contributions to the long-term component.
c. Aggregate existing employee accounts into the MCSS database for seamless transition.

2. Policy and Legal Framework Changes:

a. Amend labour, social security, and other relevant laws to replace employer-centric contribution systems with employee-centric MCSS-linked systems.
b. Define clear thresholds for contributions and withdrawals, ensuring continuity of benefits.
c.The laws should provide clarity about all the entities and stakeholders involved, their responsibilities, users' rights and responsibilities, privacy and security aspects, etc.

3. Banking system changes:

a. Banks will have to update their software systems to reflect this new type of account.
b. While all the withdrawal and other types of transactions associated with an MCSS account can be made accessible via the middleware to ensure a single point of check, the banks would also ideally want to have some checks at their end.

4. Digital Integration:

a. Develop middleware APIs to connect the EPFO and ESI systems to the MCSS platform.
b. Create interfaces for real-time data syncing and contributions.
c. Define protocols and standards to be followed for developing the middleware layer, and for integrating other value-added services on top of the middleware.

5.Gradual Rollout:

a. Phase 1: Pilot the system with a subset of industries (e.g., IT and manufacturing) to ensure robustness.
b. Phase 2: Gradually expand to cover all sectors.

6. Training and Capacity Building:

a. Train HR departments and payroll software providers on the new MCSS system.
b. Educate employees on the benefits and operations of their MCSS accounts.

7. Data Security and Privacy:

a. Implement robust encryption protocols to safeguard employee data.
b. Ensure compliance with data protection regulations (e.g., India's Digital Personal Data Protection Act).

8. Migration of Funds:

a. Transfer existing EPF and ESI funds into the corresponding MCSS components.
b. Establish processes to reconcile discrepancies during migration.

9. Performance Monitoring and Feedback:

a. Continuously monitor the system's performance through pilot programs.
b. Incorporate feedback from stakeholders to refine processes and policies.

Finer Details

Let's look at a few of these steps in some more detail.

Step 1: Assessment and Data Mapping
This step ensures a clear understanding of how current systems (ESI and EPFO) operate, allowing for seamless integration into the employee-centric MCSS framework.

1. Mapping Contribution Flows:

- **Employee Contributions:** Identify the current percentage of salaries contributed by employees to ESI and EPFO.
  - **EPFO:** Typically, 12% of an employee's salary is contributed by the employee, matched by the employer.
  - **ESI:** Employee contributions are around 0.75% of gross wages.
- **Employer Contributions:** Map how much employers contribute to ESI (3.25% of wages) and EPFO (12% of salary) and ensure they are redirected to MCSS-linked accounts.

2. Beneficiary Database Migration:

- Retrieve and verify existing records from EPFO and ESI databases, including:
  - Unique employee IDs (UAN for EPFO, ESI account numbers).
  - Associated contributions and balances.
  - Employee demographics like age, income, and dependents for benefit planning.
- Integrate this data into a unified MCSS database, ensuring every employee has a linked MCSS account.

3. Benefit Categorisation:

- **Long-Term Benefits:** EPFO balances for pensions and provident fund are mapped to the long-term component of MCSS accounts.
- **Short-Term Benefits:** ESI contributions for health insurance and immediate medical expenses are mapped to the short-term component.

4. Auditing and Error Resolution:

- Conduct a thorough audit to identify data inconsistencies in current EPFO and ESI records, such as mismatches in contributions or missing data.

• Create a mechanism for employees and employers to verify and resolve disputes before migration.

5. Identify Overlaps and Exceptions:

• **Overlap:** Employees contributing to both ESI and EPFO may have funds allocated to similar benefits (e.g., health insurance). Develop rules to consolidate such overlapping contributions.
• **Exceptions:** Identify special cases (e.g., temporary or seasonal workers) and design tailored MCSS account structures.

6. Crosswalk for New Contributors:

• Define mechanisms for bringing non-formal sector workers into the system. For example:
  • Gig workers, platform workers and freelancers who are currently excluded from ESI and EPFO can start contributing directly to MCSS accounts.

7. Mapping Employer Obligations:

• Redefine how employers will contribute to employees' MCSS accounts instead of managing ESI/EPFO payments.
• Automate employer contributions into employee-specific MCSS accounts based on real-time salary data.

Step 4: Digital Integration

The digital integration step ensures that the MCSS platform seamlessly connects with legacy systems like EPFO and ESIC to enable real-time contributions, data synchronisation, and smooth fund migration. This step is pivotal for ensuring a functional and interoperable system that supports employers, employees, and regulators.

1. Middleware API Development

Middleware acts as a bridge between the legacy EPFO/ESI systems and the new MCSS platform, enabling data exchange and functionality alignment without overhauling existing systems.

1. API Design Principles:

• **Modular Architecture:** APIs should be designed to handle specific functions such as data retrieval, fund transfers, and compliance checks independently.
• **Interoperability:** Ensure compatibility with various enterprise resource planning (ERP) and pay roll systems used by employers.
• **Scalability:** Build APIs to handle increasing data volumes as the MCSS system expands to cover more sectors and regions.

2. Key Middleware APIs:

• **Contribution API:**
  • Facilitates the transfer of employer and employee contributions from payroll systems to employee-specific MCSS accounts.
  • Includes validation checks for contribution amounts based on salary slabs and compliance rules.

• **Data Synchronisation API:**
  • Syncs employee details, contribution histories, and fund balances between EPFO/ESI systems and MCSS in real-time.
  • Supports automatic updates when employee records are modified or transferred.

• **Fund Transfer API:**
  • Automates the migration of existing funds (EPF balances, ESI contributions) into the MCSS framework.
  • Ensures secure and error-free transfers using encryption and checksum validation.

- **Compliance Monitoring API:**
  - Tracks whether employers are making timely and accurate contributions for their employees.
  - Flags anomalies, such as missing or delayed payments, for regulatory action.

2. Real-Time Data Syncing

Real-time synchronisation ensures that any changes in employee status, salary, or contributions are immediately reflected in the MCSS accounts, maintaining up-to-date records for benefits and compliance.

1. **Two-Way Syncing:**
   - **From Legacy Systems to MCSS:**
     - Import existing data from EPFO/ESI systems, including employee demographics,
       contribution histories, and dependent details.
     - Update MCSS accounts whenever there are changes in contributions or withdrawals in legacy systems during the transition phase.
   - **From MCSS to Legacy Systems:**
     - Push updates about contributions routed directly to MCSS accounts for reconciliation with EPFO/ESI records, ensuring a seamless handover.
2. **Employee Status Tracking:**
   - Incorporate real-time tracking of events such as job changes, resignations, or additions of dependents (e.g., for health benefits under the ESI component).
   - Automatically trigger updates to contributions or benefit eligibility based on the employee's status.
3. **Error Handling and Resolution:**
   - Implement automated tools to detect and flag inconsistencies in data syncing (e.g., mismatched employee IDs, incorrect contribution amounts).
   - Build a dispute resolution interface for employers and employees to correct errors quickly.

3. User-Friendly Interfaces

The success of digital integration depends on intuitive, secure interfaces that simplify interactions for stakeholders.

1. **Employer Interface:**
   - **Contribution Dashboard:**
     - Displays pending and completed contributions for each employee.
     - Provides alerts for due payments or discrepancies.
   - **Bulk Upload Capability:**
     - Allows employers to upload payroll data in batches for automated contribution processing.
   - **Regulatory Compliance Checker:**
     - Enables employers to verify compliance with MCSS regulations before submission.
2. **Employee Interface:**
   - **Account Overview:**
     - Displays real-time balances in the long-term and short-term components of the MCSS account.
     - Shows transaction histories, including contributions, interest accruals, and withdrawals.
   - **Benefit Tracker:**

- Allows employees to track eligibility and access benefits such as pensions, health insurance claims, or unemployment benefits.
- **Portability Features:**
  - Enables employees to update their employment status or transfer their account when changing jobs.
- **Regulatory Interface:**
  - **Compliance Monitoring Dashboard:**
    - Provides regulators with a centralised view of employer contributions, employee accounts, and fund flows.
  - **Real-Time Alerts:**
    - Flags non-compliance issues or irregularities for timely intervention

4. Security and Data Privacy

To ensure trust and protect sensitive data, the digital integration process must prioritise security and compliance with data protection laws.

1. **Data Encryption:**
   - Use end-to-end encryption for all data exchanges between EPFO/ESI systems, MCSS, and employer/employee interfaces.
2. **Access Control:**
   - Implement role-based access controls (RBAC) to restrict data access to authorised personnel only.
   - Use multi-factor authentication (MFA) for sensitive operations, such as fund transfers or account updates.
3. **Compliance with Data Protection Laws:**
   - Ensure adherence to the Digital Personal Data Protection Act (DPDPA) in India, covering consent-based data usage and protection mechanisms.

5. Integration Testing and Rollout

Thorough testing and phased implementation are essential to ensure a seamless transition.

1. **Testing Phases:**
   - Conduct integration tests to simulate fund transfers, contribution flows, and error scenarios.
   - Perform user acceptance testing (UAT) with select employers and employees to validate the functionality of interfaces and APIs.
2. **Gradual Deployment:**
   - Start with a small group of employers and employees to test real-world performance.
   - Scale up integration based on feedback, ensuring minimal disruption to ongoing contributions.

6. Continuous Improvement

Digital integration is not a one-time effort but a continuous process of optimisation.

1. **Performance Monitoring:**
   - Use analytics tools to track API response times, data sync rates, and error resolution times.
   - Address bottlenecks and improve efficiency based on performance data.
2. **Feedback Mechanisms:**
   - Regularly collect feedback from employers, employees, and regulators to identify pain points.
   - Update APIs and interfaces to reflect evolving user needs and regulatory requirements.

Step 5: Gradual Rollout
A phased implementation ensures minimal disruption while building confidence among stakeholders.

1. Phase 1: Pilot Program:

- **Industry Selection:** Start with sectors that have a high level of compliance and digital readiness, such as IT, manufacturing, and banking.
- **Geographic Focus:** Pilot the program in metropolitan regions where employer-employee data bases are well-maintained.
- **Employee Enrolment:**
  - Pre-populate MCSS accounts for participating employees with data from ESI and EPFO.
  - Allow employees to verify their contributions, balances, and personal details during enrollment.
- **Contribution Flow Testing:**
  - Employers in the pilot group redirect contributions to MCSS accounts through APIs connected to payroll systems.
  - Test short-term and long-term fund allocations and the disbursal of benefits (e.g., insurance claims).

2. Phase 2: Expansion to Organised Sectors:
- **Include More Sectors:** Gradually expand to sectors like construction, textiles, and education, ensuring adjustments for unique employment patterns (e.g., daily wage workers in construction).
- **Integrate Gig Workers:** Introduce voluntary contribution mechanisms for gig workers and self-employed individuals, supported by employer-like contributions from platform companies (e.g., Swiggy, Zomato).

3. Phase 3: Full National Rollout:
- **Rural and Informal Economy:**
  - Engage informal workers by simplifying registration and creating micro-contribution options.
  - Collaborate with banks and microfinance institutions to increase access.
- **Incentives for Adoption:**
  - Offer employers tax incentives for smooth onboarding to the MCSS system.
  - Provide employees initial benefits like government-backed contribution matching to encourage participation.

4. Compliance and Feedback Mechanisms:
- Establish real-time compliance dashboards for regulators to monitor employer contributions and fund flows. These can be provided either at the middleware layer itself, or through data sharing via APIs, or via file-based/reports-based mechanisms.
- Collect feedback from pilot participants to refine processes and address pain points.

5. Contingency and Support Systems:
- Set up a dedicated support centre for resolving migration-related queries.
- Ensure a fallback mechanism to temporarily revert to legacy systems in case of major disruptions during the transition.

6. Performance Monitoring:
- Track metrics such as the number of accounts created, funds successfully migrated, and claims processed in the pilot and early phases.
- Use data-driven insights to fine-tune policies, especially for underserved segments like gig

workers and informal labour.

Step 8: Migration of Funds

The migration of funds from existing EPF and ESI systems into the MCSS framework is a critical step to ensure a smooth transition without disrupting employee benefits. This process involves careful planning, secure execution, and transparency to maintain trust among stakeholders. Since this involves multiple stakeholders, there should be a centralised team that oversees this entire process. It can involve all stakeholders, and distribute responsibilities, but the overall responsibility and accountability should be with one central entity.

1. Transfer of Existing EPF and ESI Funds to MCSS

- **Segregation of Funds:**
  The first step is to classify and segregate funds from EPF and ESI accounts based on their intended purposes:
  - **EPF Contributions:** These funds, primarily for retirement and pensions, will be transferred to the long-term component of employees' MCSS accounts.
  - **ESI Contributions:** These funds, used for health insurance and immediate medical needs, will be redirected to the short-term component of MCSS accounts.
- **Centralised Transfer System:**
  - Develop a secure, automated transfer mechanism between the EPFO, ESIC, and MCSS databases.
  - Use unique employee identifiers, such as the Universal Account Number (UAN) for EPFO members, to map funds to the corresponding MCSS accounts.
  - The UAN number could be mapped to the unique MCSS id.
- **Employee Consent and Verification:**
  - Notify employees of their account balances in EPF and ESI before migration.
  - Allow employees to verify their details, such as contributions, dependents (for health benefits), and personal data, before funds are transferred.
- **Timelines and Prioritisation:**
  - Set clear timelines for fund transfers, starting with active accounts where contributions are ongoing.
  - Prioritise transfers for employees nearing retirement or requiring immediate health benefits to avoid interruptions in payouts.

2. Establishing Reconciliation Processes

- **Audit Existing Accounts:**
  - Conduct a pre-migration audit to ensure that account balances, interest accruals, and contributions are accurate in the EPFO and ESIC systems.
  - Cross-verify records against payroll data from employers to address any discrepancies.
- **Error Identification:**
  - Identify common errors, such as missing contributions, incorrect interest calculations, or duplicate accounts.
  - Categorise errors based on their severity (e.g., critical discrepancies that affect payouts vs. minor data mismatches).
- **Discrepancy Resolution Mechanism:**
  - **Create a Grievance Redressal System:**
    - Employees can raise queries or objections if they find discrepancies in their migrated funds.
    - Set up a timeline-bound resolution process to address these concerns.
  - **Employer Responsibility:**
    - Require employers to submit reconciled payroll data for their employees to address any gaps in historical contributions.

- **Reconciliation Teams:**
    - Form dedicated teams at EPFO, ESIC, and MCSS to handle discrepancies and oversee fund reconciliation.
    - Equip these teams with data analytics tools to identify and resolve systemic errors efficiently.

3. Interest and Benefits Accrual During Migration

- **Seamless Interest Calculations:**
    - Ensure that EPF balances continue to accrue interest during the migration process.
    - For ESI contributions, ensure that health benefits remain accessible to employees without any gaps.
- **Pro-rata Adjustments:**
    - If the migration occurs mid-financial year, calculate pro-rata interest for EPF balances and transfer the accrued amounts into MCSS accounts.
    - Similarly, adjust ESI contributions to reflect the proportion of the financial year completed.

4. Handling Dormant or Inactive Accounts

- **Inactive EPF Accounts:**
    - Identify dormant EPF accounts (e.g., accounts with no contributions for more than 3 years).
    - Notify account holders and provide them with options to activate their accounts under the MCSS system or withdraw their balances.
- **Unclaimed ESI Contributions:**
    - Use a dedicated portal to inform employees and their dependents about unclaimed ESI balances.
    - Allow a grace period for beneficiaries to claim or transfer these funds to MCSS accounts.

5. Communication and Transparency

- **Clear Notifications to Stakeholders:**
    - Send personalised notifications to employees about the migration process, including details of their migrated balances and expected timelines.
    - Notify employers about their updated contribution responsibilities under MCSS.
- **Real-Time Tracking:**
    - Create a tracking dashboard where employees can monitor the status of their fund migration in real-time.

6. Post-Migration Validation

- **Final Reconciliation Audit:**
    - Conduct a post-migration audit to ensure that all funds have been successfully transferred and mapped to the correct MCSS accounts.
    - Cross-check employee feedback and payroll data to confirm accuracy.
- **Report Generation:**
    - Generate detailed reports for regulators, employers, and employees, summarising the migration outcomes.

7. Contingency and Support Systems

- **Dispute Resolution Escalation:**
    - Establish a multi-tiered grievance escalation framework, enabling employees to approach higher authorities if initial resolution attempts fail.

- **Fallback Mechanism:**
    - Maintain the capability to revert individual accounts to the EPF/ESI systems in case of critical migration failures, ensuring no loss of employee benefits.

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