Layoff Protection in India: The Worker Safety Net One Year After the Labour Codes

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News context: Job-security concerns linked with AI and the approaching first anniversary of the Labour Codes' implementation on 21 November have renewed attention to protection after job loss. A discussion by K.R. Shyam Sundar and Rahul Charkha on 20 November 2026 examines the legal and social safeguards.[1][2]

Exam context: Labour reforms, social security and "AI and the future of work" are direct Mains topics for UPSC/State PCS. The provisions of the Labour Codes and ESIC schemes provide useful Prelims context.

General Studies (GS-III): Indian economy: employment, unorganised sector, technological change and jobs
General Studies (GS-II): Welfare schemes: social security for workers, labour laws
Prelims: The four Labour Codes (implemented in 2025), the Industrial Relations Code 2020, ESIC, ABVKY/RGSKY



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Introduction

Layoffs are becoming an increasingly prominent feature of the employment landscape worldwide. Companies' rapid adoption of artificial intelligence and significant investments in AI infrastructure have heightened concerns about job security and the future of employment. Against this backdrop, the question arises: if an Indian worker loses their job, what protection does the law offer?[1]

Main Body

Legal scope: The Code's eligibility and applicability conditions matter. Section 67 excludes badli and casual workers, requires the eligible worker to be on the muster roll with at least one year of continuous service, and excludes intervening weekly holidays from compensable lay-off days.

The legal framework: the Industrial Relations Code, 2020

The legal framework has four major elements relevant to lay-off and retrenchment:[3]

Lay-off compensation: Under Section 67, a worker who has completed one year of continuous service is entitled, during lay-off, to compensation equal to 50 per cent of the total of basic wages and dearness allowance. If a lay-off exceeds 45 days in any twelve-month period, further compensation can be stopped where the worker and employer so agree, and the employer may retrench the worker under Section 70 after the first forty-five days.

Conditions precedent to retrenchment: Under Section 70, a worker with not less than one year of continuous service cannot be retrenched unless (a) they have been given one month's written notice indicating the reasons, or wages in lieu of such notice; (b) they have been paid compensation equivalent to fifteen days' average pay for every completed year of continuous service (including any part thereof in excess of six months); and (c) notice has been served on the appropriate Government.

Special protection for large establishments: Chapter X (Section 77) applies to industrial establishments employing not less than 300 workers on an average per working day. Under Section 79, such establishments must give three months' notice and obtain the prior permission of the appropriate Government before retrenchment. If the Government does not communicate its order within 60 days, permission is deemed to have been granted. On retrenchment after permission, the worker receives compensation of fifteen days' average pay for every completed year of service. Retrenchment without permission is deemed illegal from the date of notice.

Worker Re-skilling Fund: Under Section 83, a "Worker Re-skilling Fund" is set up, to which the employer must contribute an amount equal to fifteen days' wages last drawn for every retrenched worker; the amount is credited to the worker's account within forty-five days of retrenchment.

The four Labour Codes: one year on

On 21 November 2025, the four Labour Codes (the Code on Wages 2019, the Industrial Relations Code 2020, the Code on Social Security 2020 and the Occupational Safety, Health and Working Conditions Code 2020) came into effect, rationalising 29 labour laws.[2] Key changes: mandatory appointment letters for all workers; gig and platform workers defined and covered for the first time; aggregators must contribute 1-2 per cent of annual turnover (capped at 5 per cent of the amount payable to such workers) towards welfare; fixed-term employees get benefits equal to permanent workers and gratuity after one year instead of five; a national floor wage. According to PIB, social-security coverage has risen from about 19 per cent in 2015 to more than 64 per cent in 2025.[2]

Cash relief on unemployment: ESIC schemes

Under the Atal Beemit Vyakti Kalyan Yojana (ABVKY), an insured worker who loses their job receives 50 per cent of average daily wages for up to 90 days, once in a lifetime; the scheme stands extended up to 30 June 2027. Eligibility requires at least one year of insurable employment immediately before unemployment and at least 78 days of contribution in the specified contribution period. Relief is not available on voluntary resignation, dismissal for misconduct or participation in an illegal strike. Under the Rajiv Gandhi Shramik Kalyan Yojana (RGSKY), involuntary unemployment (retrenchment/closure) fetches an allowance of 50 per cent of wages for the first 12 months and 25 per cent for the next 12 months.[4][5]

Remaining challenges

These protections reach mainly the organised sector, while studies such as the Committee on Unorganised Sector Statistics (2012) estimate that over 90 per cent of India's workforce is in informal employment. Retrenchment compensation (fifteen days' wages per year of service) proves inadequate for long spells of unemployment; the re-skilling fund amount is also

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modest. The provision under which permission is "deemed" granted after 60 days can weaken the protective intent. Moreover, delays in states framing rules under the Codes, and the continuation of old provisions during transition (as PIB notes), affect real protection on the ground.[2]

The way forward

The direction of the suggestions emerging from expert discussion is clear, move from a one-time severance payment towards wider unemployment insurance; make the re-skilling fund effective; bring unorganised and gig workers within unemployment protection; and maintain a balance between flexibility for employers and security for workers.

Conclusion

The Labour Codes have consolidated and modernised India's layoff-protection framework, but the true test of legal protection lies in its reach. As job uncertainty grows in the age of AI, delivering timely compensation, cash relief and re-skilling to every worker who loses a job, organised or unorganised, is what a "protected, future-ready workforce" will truly mean.

Mains practice question

Question: In the context of one year of the implementation of the Labour Codes, evaluate the legal and social protection available to workers against layoffs in India. Discuss the limitations of this framework in the age of artificial intelligence and the reforms needed. (15 marks, 250 words)

Answer outline:

1. **Introduction**
   Set out the growing layoff landscape and AI-driven change; link the question to the first anniversary of the four Labour Codes (21 November 2025).

2. **Main Body**
   Legal protection: Section 67 (lay-off compensation of 50%), Section 70 (notice + fifteen days' compensation), Chapter X (300+ establishments, prior permission), Section 83 (re-skilling fund); social security: ABVKY/RGSKY, gig and platform coverage, fixed-term employee benefits; limitations: exclusion of the informal workforce (~90%), inadequacy of compensation, the "deemed permission" provision, delays in state rules; reforms: wider unemployment insurance, effective re-skilling, universal protection.

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3 **Conclusion**

Conclude that the direction of reform is right, but the reality of protection lies in reach and implementation; balancing flexibility with security is the policy challenge ahead.

Sources:

[1] "What protections do workers in India have in case of layoffs?", 20 November 2026, https://www.thehindu.com/opinion/op-ed/what-protections-do-workers-in-india-have-in-case-of-layoffs/article71720179.ece

[2] PIB, "Government Makes the Four Labour Codes effective", 21 November 2025, https://www.pib.gov.in/PressReleasePage.aspx?PRID=2192463

[3] Industrial Relations Code, 2020, Sections 67, 70, 77, 79, 83, https://www.labour.gov.in/static/uploads/2025/07/682a44b5426bff2c1f4943ee1b2fd566.pdf

[4] ESIC, Atal Beemit Vyakti Kalyan Yojana, https://esic.gov.in/unemployment-allowance

[5] ESIC, Unemployment Allowance (RGSKY/ABVKY details), https://esic.gov.in/unemployment-allowance

Frequently asked questions

What compensation does a worker get during lay-off?

Subject to the Code's statutory applicability and exclusions, Section 67 covers a worker other than a badli or casual worker whose name is on the establishment's muster roll and who has at least one year of continuous service. Lay-off compensation is 50 per cent of the combined amount of basic wages and dearness allowance for eligible lay-off days, excluding intervening weekly holidays. After 45 days of lay-off within twelve months, further compensation may cease if the worker and employer have agreed to that effect; retrenchment must comply with Section 70. Source (https://www.labour.gov.in/static/uploads/2025/07/682a44b5426bff2c1f4943ee1b2fd566.pdf)

What is the Worker Re-skilling Fund?

Under Section 83, the fund is set up with the employer contributing an amount equal to fifteen days' wages last drawn for every retrenched worker. The amount is credited to the worker's account within forty-five days of retrenchment. Source (https://www.labour.gov.in/static/uploads/2025/07/682a44b5426bff2c1f4943ee1b2fd566.pdf)

What relief do ESIC schemes provide on unemployment?

Under the Atal Beemit Vyakti Kalyan Yojana (ABVKY), an insured worker who loses their job receives 50 per cent of average daily wages for up to 90 days, once in a lifetime; the scheme is extended up to 30 June 2027, and relief is unavailable on voluntary resignation or dismissal for misconduct. Under the Rajiv Gandhi Shramik Kalyan Yojana (RGSKY), involuntary unemployment fetches 50 per cent of wages for the first 12 months and 25 per cent for the next 12 months. Source (https://esic.gov.in/unemployment-allowance)

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