

An Analysis of Impact and Implications of Voluntary Retirement Scheme

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Abstract

The government of India adopted a new economic policy whereby it relaxed and in certain cases removed restrictions on import and export. This resulted in significant changes in industrial and business sectors. One of his important aspects of the liberalized economic policy is the Exit Policy.

Under this policy the government has allowed business and industrial establishment, to reduce their excess staff and employees. The reduction of excess staff is a result of restructuring of organizations due to modernizing, applying new technology and new methods of operation so that the industrial organizations could operate economically and withstand the competition with companies and organizations which have accepted foreign collaborations, innovative methods and technology up gradation, rendering some employees surplus.

Since the procedure under Industrial Disputes Act 1947, for retrenching involves a lot of legal hurdles and complex procedures, the government authorized schemes of voluntary retirement of employees after offering them suitable voluntary retirement of employees after offering them suitable voluntary retirement benefits, and giving some tax relief on such payments to employees who are eligible to retire voluntarily under the guidelines issues by the government and Income Tax authorities.

In the five-year plans which were doped and implemented by the Government it had established and developed public sector undertaking to create employment and also to augment the increased demands of industrial goods, fertilizers and other core industries. The encouragement given to public sector was so significant that it crated employment opportunities on a mass scale. Most of the public sector undertakings were not cost effective. The trade unions have been opposing retrenchment under the exiting labor laws. The government, therefore, found a solution to the problem of surplus staff by allowing voluntary retirement both in public and private sectors. The human resource in the industrial sector have become surplus on account of (a) exiting level of technology (b) will become surplus with adoption of newer technologies and technological up gradation. If the textile industry adopts latest technology in manufacturing units, 15 million workers in the industry would be out of their jobs, around 2-4 million workers are found surplus in the various sick industrial units all over India. Similarly, millions have been found surplus in government undertakings.

TECHNICALITIES OF VOLUNTARY RETIREMENT SCHEME (VRS)

EFFECTS OF EXCESS MANPOWER

1. Excess manpower results in high labour costs, which increases the production cost and thus ending in high product or service costs.
2. It reduces the competitive ability of the enterprise.
3. Excess manpower in any business activity or industrial establishments reduces employee efficiency and labour productivity.
4. Surplus human resources pose theraet for technology up gradation, which is essential in the competitive market.
5. Surplus labour may result in poor industrial relations and unrest amongst labour.

REASONS FOR PROPOSING VRS

1. Recession in business
2. Intense competition, which makes the establishment unviable unless downsizing, is resorted to.
3. Changes in technology, production process, innovation, new product line
4. Realignment of business-due to market conditions
5. Takeovers and mergers
6. Business re-engineering process
7. Product/Technology obsolesces.

PROCEDURE OF VOLUNTARY RETIREMENT SCHEME

The employer has to issue a circular communicating his decision to offer voluntary retirement scheme-mentioning therein.

- a) The reason for downsizing

- b) Eligibility i.e. who are eligible to apply for voluntary retirement
- c) The age limit and minimum service period of employees who can apply (Employees who is 40 and above those who have completed minimum 10 years of service in the establishment)
- d) The benefits that are offered

It should be noted that employees who offer to retire voluntarily are entitled as per law and rules the benefits of Provident Fund, Gratuity and salary for balance of privilege have up to the date of their retirement, besides the voluntary retirement benefits.

- a) The right of an employer to accept or rejects any application for voluntary retirement.
- b) The date up to which the scheme is open and application are received for consideration by the employer.
- c) The circular may indicate income tax incidence on any voluntary retirement benefits, which are in excess of Rs. 5 lakh, which is maximum tax-free benefit under such schemes.
- d) It should also indicate that those employees who opt for voluntary retirement and accept the benefits under such scheme shall not be eligible in future for employment in the establishment.

STEPS TAKEN FOR INTRODUCING AND IMPLEMENTING VOLUNTARY RETIREMENT SCHEME

1. If the company is public sector undertaking obtain approval of the Government
2. Identify departments/employees to whom VRS is to be offered (Target group of employees-age above 40 years and employees with more than 10 years service in the company)
3. If there is a union of employees in the establishment involves the union by communicating to them the reasons, the target group and benefits to be offered to those who opt for the scheme.
4. Formulate terms of VRS and benefits to be offered are to be mentioned in the circular or communication to employees and decide the period during which the "scheme is to be kept open"
5. Motivate the managers through counseling
6. Counseling employees is an essential part of implementing the scheme. The counseling should include what the retiring employee can do in future i.e. rehabilitation, how to manage the funds received under the scheme
7. After receipt of applications for accepting VRS, scrutinize, decide whose applications are to be accepted and those whose are not to be accepted
8. For those whose application are to be accepted prepare a worksheet showing the benefits each will receive including other dues like provident Fund, gratuity and earned leave wages for he balance unveiled earned leave, and tax incidence should the VRS amount exceed Rs. 5 lakhs.

MERITS OF VOLUNTRY RETIREMENT SCHEME

1. There is no legal obstacle in implementing VRS-as is predominantly encountered in retrenchment under the labour the labour laws
2. It offers to the employee an affective financial compensation than what is permitted under retrenchment under the law
3. Voluntary nature of the schemes precludes the need for enforcement, which may give rise to conflicts and disputes
4. It allows flexibility and can be applied only to certain divisions, departments where there is excess manpower
5. It allows overall savings in the employee costs thus lowering the overall costs.

DEMERITS OF VRS

1. To certain extent it fears, a sense of uncertainty among employees.
2. Sometimes the severance costs are heavy and outweigh the possible gains
3. Trade unions generally protest the operating of such schemes and may cause disturbance in normal operations.
4. Some of the good, capable and competent employee may also apply for separation, which may cause embarrassments to the managements.

TYPES OF VRS:

- Time basis : where policy is made open only for some specific time period
- Running VRS: where policy is made open for the whole year.
- Government decision: In present time the deciding authority is government forms are send to the ministries and then they will decide who can avail VRS or not.

METHODS OF VOLUNTARY RETIREMENT SCHEME: The first method of voluntary retirement is

Golden Handshake Scheme (GHS), was originally negotiated with APSEWAC for use in industrial transaction but is now being offered more generally. Under this scheme, workers are offered four month of last basic pay for the year of service, in addition to the standard legal dues. The legal dues cover amounts due from the provident fund, gratuities and pensions, encashment of earned leave, reimbursement of medical expenses and arrears of pay and allowance. The gratuity equals one month of last basis pay for every year of service .For managerial and supervisory staff the voluntary retirement scheme is also known as the voluntary Separation Scheme (VSS) under which the staff receives two month of last basic pay for every year of service in addition to the standard legal dues. Under voluntary retirement Scheme (VRS) staff receives 1.5 month pay per year of service or balance month of service left which ever is less.VRS amount includes basic and dearness allowances other benefits are not a part of VRS amount. The amount of VRS compensation including gratuity is received from the government fund if any public sector company wants to pay any extra amount they have to pay it through their own fund after due permission from respective ministries.

TAXATION RELATED TO VRS AMOUNT: Compensation up to Rs 5 lakh is tax free but any amount over that is fully taxable, even if received in subsequent years and even if received in subsequent years and even if received by way of LIC annuity or a company pension plan any amount headed under the head 'Salaries' over Rs 5 lakh is not eligible for standard deduction and for any rebate under section 88.

HURDLES IN IMPLEMENTING VRS: It deals with the lives of people who are offered to end the careers abruptly and probably do nothing for the rest of their lives .Thus many problems arise while implementing the scheme .Some problems are anticipated by the management and appropriate action plan was drawn for it (Chitra, 2004) Basic problems which arise at the time of implementation of VRS are.

- Non acceptance of VRS
- Over acceptance of VRS
- Operational problem
- Post VRS Blues

Major hurdle in the acceptance of the scheme is trade union as union does not easily accept any type of change even made with genuine reasons .Over acceptance of VRS in (Chitra, 2004) PSU banks also caused the problem .

POST VRS MEASURES: Company should take up few measures which will help the retiring employees to maintain their morale. Separate scheme are run by many nodal agencies for **Counseling, Retraining and Redeployment (CRR)** of rationalized employees of central public sector enterprises.

SALIENT FEATURES OF THE SCHEME

The CRR Scheme consists of three main elements as follows:-

Counseling: Counseling is the basic pre-requisite of the rehabilitation programmed of the separated employee. The separated employee needs psychological counseling to absorb the trauma of loss of assured livelihood and to face the new challenges both for himself and for the members of his family who may continue to depend upon him. He particularly needs support to plan his compensation amount and other financial benefits he receives from the CPSE due to his separation, so that his limited funds are managed prudently and not wasted on immediate consumption or non-productive expenditure. Thirdly he needs to be made aware of the new environment of market opportunities so that he may, depending upon his aptitude and expertise, take up economic activities and continue to be in the production process.

Retraining: The objective of such training is to help the rationalized employees for rehabilitation. The trainees will be helped to acquire necessary skills/expertise/ orientation to start new avocations and re-enter the productive process after loss of their jobs. These training programmes will be short duration programmes ranging between 30/45/60 days according to the trade or activity as decided.

Redeployment: It will be the endeavor to redeploy such rationalized employees in the production process through the counseling and retraining efforts. At the end of the programs VRS optess should be able to engage themselves in alternate vocations of self-employment. Although there cannot be any guarantee that the rationalized employee will be assured of alternate employment, yet possible help from the identified nodal training agencies as well as from the concerned CPSEs would be extended to them for starting new avocations. Depending upon the choice of the trainee the nodal agency / CPSE will also sponsor their applications for seeking financial assistance from commercial banks and other institutions under various schemes of self-employment.

STATUS OF IMPLEMENTATION OF VRS: Many Indian companies' public and private had offered VRS and employees had opted VRS because of many reasons ill health, family problem, and urge to start one's own business. On the other hand management if offering VRS because of business recession Industrial sickness, technological advancement and labour redundancy (Guha,1996) In India companies like DTC and MFI could not achieve the objective of downsizing surplus manpower to some extent and there by reducing labour cost by implementing VRS, the enterprise like ECIL and

NFDC could not reduce much of surplus manpower because of poor response from the workers. The units like MMTC and MECON found that VRS adversely affected the performance of the enterprise because it helped their trained executive and skilled personnel to leave the organization and take up lucrative jobs elsewhere. In some companies policy was opposed as trade union believes that policy is not voluntary. Few large companies provided counseling facilities to their workers and evoked good response for seeking voluntary retirement; Companies like SAIL and HIL had to withdraw VRS because of considerable exodus of talented and skilled employees. So the policy had obtained a mix response from the industrial and employees sector.

MOBILIZATION OF FUNDS FOR VRS: Government had setup a National Renewal Fund (NRF) in February, 1992 as a safety net for workers affected by re-structuring arising out of the new industrial policy. The objective of NRF was to provide funds, where necessary, for continuation of employees affected by restructuring or closure of industrial units both in the public and private sector and to provide funds for employment generation schemes both in the organized and unorganized sectors in order to provide social safety net. Counseling, Retraining and Redeployment of rationalized employees formed a part of NRF. NRF had been meeting expenses towards voluntary retirement of employees of CPSEs as also for rehabilitation of employees of the organized sector consisting of CPSEs, State PSEs and private sector.

The Voluntary Retirement Scheme (VRS) for employees of central PSEs was revised in May 2000. With the revision of VRS Scheme, the NRF being administered by the Department of Industrial Policy & Promotion ceased to exist and the activities of counseling, retraining and redeployment provided to separated employees from CPSEs and the organized sector under NRF converged under the Scheme of Counseling, Retraining and Redeployment (CRR) for the rationalized employees of Central Public Sector Enterprises under implementation by Department of Public Enterprises since 2001-02.

As very few companies could get fund from NRF for financing VRS many of the enterprise had to face problem of financial constraint private companies are not covered under NRF. As NRF not able to provide budgetary support companies has to think of alternative means of finance.

- Creation of a fixed Deposit Scheme in the undertaking by making partial payment of retirement dues and keeping the balance in fixed deposit yielding attractive interests.
- Launching of Annuity Scheme offering annual payment with interest instead of lump sum payment on retirement.
- Opening of a VRS fund by earmarking one percent of the gross profit or by the disposal of permanent assets of the undertaking.

RETIREMENT UNDER VRS: There are numerable reasons /issues/causes for opting VRS by employees (Bhat, 2005). Few reasons were specific to individuals and others are general. Previous studies show that major reasons for opting VRS is commercial with the hope of getting handsome amount of terminal benefits and to earn extra income in the market. Next major reasons are fear of transfer, disciplinary action, fear of over work during post VRS period and deprivation of promotions. Retirement under VRS is theoretically voluntary but in many industries it is also forced on employees.

IMPACT OF VRS ON ECONOMIC STATUS OF EMPLOYEES: opting of VRS and coming out of formal employment could check the receipt of regular income and have financial implications to the optees. Employees being better paid accustomed to secured income might have faced a sort of mental agony with retirement on accepting VRS which have affected the economic wellbeing. But for many, retirements on VRS could have implications and reduced their disposable income and those who have family based economic activity losses are compensated by VRS money.

LIFE AFTER VRS: (Datta, 2000) focused on the post Voluntary retirement phase that the employees been able to retain or maintain their standards of living not only in terms their economic status but also their social status in the society and it is found that it's easy to cope with the sudden changes in the economic status but difficult to cope with the social changes as later these changes effect on physical fitness.

LEGAL CHALLENGES IN VRS: The government can, by a judicious mix of various strategies –amongst others offering a normal voluntary retirement scheme and a special golden hand shake scheme, achieve its

objective of rightsizing the government machinery within a reasonable time –frame .The Hon`ble Supreme court of India clearly supports the recommendations of the Fifth Central Pay Commission that has proposed the following strategies for rightsizing of government.

- Abolition of vacant post
- Freeze on recruitment
- Across the board cut
- Statutory control on creation of new posts
- Voluntary retirement
- Compulsory retirement

The present research paper critically examined that in the year 2000 very few employees opt for it as the policy is new employees are less aware about its benefits and losses. But later management took various steps to make policy successful by persuading employees to opt for the policy willingly or forcefully and in year 2001. I this period employees opted for VRS which is the highest percentage of employees opted for VRS as the policy. Later in the year 2003 only 18% employees opted for VRS as by this time trade union understood management tactic to force employees to opt for VRS. Again in later years the percentages of the employees opted for VRS improved and in the year 2003 (24.5 %) employees opted for VRS and in the year 2004 (22.5%) employees opted for VRS this improved percentages of VRS opted employees is because of many reasons.

It was found during the literature review that the reasons for opting VRS can be broadly divided in two parts first part deals with the reasons were employees willingly opt for VRS and in this section of reasons it was found that most of the employees opted for VRS as they required lump sum money study presents the result that why employees need money as the family structure of respondents is nuclear which means that they are only in charge of family financial requirements which can be sometimes shared in joint family system. Later in this section study reveals that employees willingly opted for VRS as they have their own medical reasons and they don't find themselves comfortable with the work.

The research paper also reveals that the reasons which emerge as the willing reasons of the employees are basically the results of the management policy where they had forced employees to opt for VRS. This can be supported by the reasons where employees opted for VRS because of management pressure. Employees reported that they opted for VRS because of irregularities in the salary as company don't have any new assignment they are running into losses. In few cases it was found that employees opted for VRS as they are threaten by the management on the sake of transfer or disciplinary actions. Management followed all these techniques generally on trade union leaders who act as an obstacle in the success of the policy. Employees also reported that management forced them to opt for VRS by forcing them to verify their age this method is basically used for the lower level employees of the organization but now company don't have work for them. Other reasons of forcing employees to opt for VRS are not very significant.

The paper also presents the perception of the employees related to voluntary retirement scheme. It was found that most of the employees strongly perceives VRS as retrenchment without tears which itself is the basic idea behind VRS policy higher percentage to this variable clearly signifies that VRS is implemented according to the policies of the government. Findings clearly indicate that all employees have proper knowledge about the VRS policy

To sum up, it can be said that the paper also throws light upon VRS policy, its impacts on the employees and the organization in terms of the benefit. It was found that employees felt that VRS policy is only good for the company but not for the employee. This impact of VRS on is because of their education, age and grade before opting VRS. Study also projects the expectations of the employees in terms of benefits as in most of the cases employees who had already opted VRS, suggested that company should continue medical facility even the employee had availed VRS because medical reason it is one of the important reason for which employees availed VRS. Children's marriage, repayment of loans and family circumstances also emerged as one of the prominent reasons for the need of money in Indian society.

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