



27th January 2026

To All Members,

A. Subject: Advisory on implementation of new Labor Codes (as notified by Government of India, dated 21st November 2025) for employee benefit valuations

B. Classification: Advisory

C. Legislation or Authority:

1. Indian Accounting standard 19 Issued by the Institute of Chartered Accountants of India - referred to herein as IND AS (19) and other relevant Accounting Standards issued in India or Internationally under Generally Accepted Accounting practices (e.g. IFRS, USGAAP, AS 15 R)
2. Actuarial Practice Standard 27 issued by the Institute of Actuaries of India - referred to herein as APS27
3. Professional Conduct Standards (PCS) Ver. 3.0 / 01.12.2009 issued by Institute of Actuaries of India.
4. Code on Social Security, 2020 (36 of 2020) - referred to herein as the SS Code.
5. The Occupational Safety, Health and Working Conditions Code, 2020 - referred to herein as the OSH Code
6. Income Tax Act, 1961 and Income Tax Rules, 1962

D. Author:

Advisory Group on Pension, Employee Benefits and Social Security (AGPEBSS)

E. Application:

This advisory applies to any actuary advising on actuarial valuation relating to Gratuity or Leave benefit prepared

1. As a requirement under accounting standards and / or at the request of a client who may be an employer or a trustee of the Gratuity fund.
2. By others who might be relied upon by a client/employer/insurer as a professional actuary giving professional advice.

F. Version: 1.0

A. Background

The Government of India has announced that the four Labor Codes—**Code on Wages, 2019**; **Industrial Relations Code, 2020**; [Code on Social Security, 2020](#); and [Occupational Safety, Health and Working Conditions Code, 2020](#) – will come into effect from **21 November 2025**.

Key changes impacting actuarial valuation of common employee benefits include:

1. **Revised Definition of Wages:** Both SS Code¹ and OSH Code² defines wages for the purpose of gratuity payments (for all employees³) and leave encashment benefit (for all workers⁴). For many organizations, this legislative change is expected to materially affect the benefit payments and accounting provisions.
2. **Eligibility for Fixed-Term Employees:** Gratuity becomes payable after completion of one year of continuous service (earlier five years) subject to expiration of fixed term period.

By nature, both Gratuity and Leave benefit are defined benefit plans, for which the timing and amount of future payments are uncertain. Accordingly, accounting standards such as INDAS 19 require entities to recognize liabilities and expenses based on actuarial valuations. **Periodic actuarial valuation** therefore remains essential.

B. General principles

In light of the changes introduced by the Labor Codes, actuaries are required to estimate liabilities and expenses for gratuity and leave benefits in accordance with the revised statutory framework, exercising appropriate professional judgement.

B.1. Impact of change

Gratuity and Leave benefits are defined benefit plan linked to final service and final salary of an employee. The changes introduced by the Labor Codes apply with effect from the notified date and can affect both the **cost** and the **liability** in respect of existing schemes. The magnitude of impact will vary across organizations depending on, inter alia:

1. **Current Salary Structure:** The proportion of basic pay, dearness allowance, and retaining allowance and other applicable components, if any, as per the new wage definition. The impact will depend on how the components included or excluded under the new wage definition compare with the existing definition.
2. **Current Gratuity Rules:** Organizations with higher maximum limits (e.g., above INR 2 million) or more generous schemes will see greater cost increases.

¹ SS Code, Chapter I, section 2, para 88

² OSH Code, Chapter I, section 2, para zzj

³ SS Code, Chapter V, section 53, para 2

⁴ OSH Code, Chapter VII, section 32, para 1 (vi)

3. **Actuarial assumptions:** Higher projected salary growth or lower attrition rates will amplify the impact. For Leave benefits, a higher leave availment assumption will restrict impact of wage changes.
4. **Scheme demographics:** Employees existing age and service with the company.

Actuaries should ensure that the estimated cost and liability appropriately reflect changes arising specifically from the revised definition of wages, in line with APS 27.

B.2. Accounting treatment of change

The changes introduced by the Labour Codes constitute a **plan amendment**. Accordingly, the resulting impact should generally be recognised as **past service cost** under Ind AS 19. This view is supported by the following considerations:

- **INDAS 19 paragraph 103** requires recognition of past service cost “when the plan amendment or curtailment occurs.”
- The Labor Codes amend the basis for gratuity payments from *Wages without stipulation of exclusion not exceeding 50%* (as per the Payment of Gratuity Act, 1972) to *wages with stipulation of exclusions not exceeding 50%*, thereby changing the level of future benefits attributable to both past and future service (in case the wages as per definition of payment of gratuity act is lower than the wages as defined under Labor Code). Note that the Labor codes do not mandate organizations to change their wage structure, but the amount of wage as defined needs to be paid.
- FAQs on key accounting implications arising from New Labor Codes (hereafter ‘ICAI ASB FAQs’) issued by Accounting Standards board, ICAI also suggest that “*Under AS 15/ Ind AS 19, the changes to gratuity benefit resulting from the New Labour Codes are plan amendments and they are required to be treated as past service costs.*”

In some cases, organizations may comply with the Labor Codes by restructuring wages components, for example by restructuring the basic salary to meet the compliance. A view may arise that, since the benefit formula remains unchanged, the resulting impact can represent an actuarial gain or loss (i.e. an experience adjustment) to be recognized through Other Comprehensive Income (OCI). In such cases, actuaries should apply their professional judgement carefully consider the following:

- Actuarial gains and losses are arising from experience differing from assumptions only (Actual vs Expected Wages Change) and not from legislative or regulatory changes.
- INDAS 19 defines experience adjustments⁵ as effect of differences between the previous actuarial assumptions and what has actually occurred. Prior to

⁵ INDAS 19 para 8 under header actuarial gains and losses.

notification of the Labor Codes, actuarial valuations would typically reflect only normal long-term wage escalation assumptions. Wage increases implemented specifically to comply with the Labor Codes would not have been anticipated in those assumptions had the organisation not contemplated meeting the published labor codes.

- Even where compliance with the revised Labour Code is implemented through wages restructuring (for example, increasing the wages), the substance of the change should be considered i.e. whether it is due to the statutory requirement or is on account of normal revision in the wages. This change may increase the benefit payable in respect of service already rendered and may not arise from normal wages growth or experience variation. Applying the principle of substance over form, the resulting increase in the defined benefit obligation may represent a **plan amendment** and should be recognized as **past service cost** in profit or loss in the period of change, in accordance with IND AS 19, rather than as an actuarial gain or loss through OCI.

B.3. Measurement and Reporting

As part of compliance with the Labor Codes, organizations may modify wage structures. Such changes would not have formed part of the actuarial assumptions underlying the previous period's obligation. Actuaries should therefore separately identify and measure the impact of these changes in the current reporting period.

IND AS 19 (paragraph 89) states that actuarial assumptions do not reflect future benefit changes that are not set out in the formal terms of the plan (or a constructive obligation) at the end of the reporting period. Such changes result in:

- Past service cost, to the extent that benefits for service before the change are affected; and
- Current service cost, to the extent that benefits for service after the change are affected.

Mid-year Implementation

As the Labor Codes become effective mid-year (21 November 2025), actuaries may, where appropriate, prepare financial information in two parts:

- From the beginning of the financial year to 21 November 2025, based on the pre-Code benefit structure; and
- From 21 November 2025 to the reporting date, based on the revised benefit structure.

For the first period, current service cost and interest cost should be determined on the pre-Code basis. Past service cost should be measured for employees active as at 21 November

2025, reflecting:

- The change in the present value of obligation arising from the revised wage definition; and
- Inclusion of fixed-term employees, where applicable.

For the second period, current service cost and interest cost should be determined using the revised basis.

Where complete data as at 21 November 2025 is not available, actuaries may use reasonable approximations and professional judgement (for example, using payroll data closest to the effective date), ensuring that the approach adopted is appropriate and clearly disclosed.

Where only year-end data is available, actuaries may need to separately estimate:

- Changes in the present value of obligation due to normal wage progression, recognised as actuarial gains or losses; and⁶
- Changes arising specifically from wage restructuring undertaken to comply with the Labour Codes, recognised as past service cost.

B.4. Data requirement

To assess the actuarial liability and the impact of the Labor Codes, additional data may be required from clients, including information necessary to determine wages under the revised definition. Recommended approaches include:

1. Direct collection of wage data (preferred) i.e. obtaining the applicable wages directly from the Company thereby ensuring ensures alignment between organization practice and valuation.
2. Derivation from detailed wage components - appropriate during initial periods where wage data may not be explicitly available, subject to materiality considerations and appropriate checks being undertaken.

In all cases, actuaries should clearly disclose the methodology adopted, specify any areas of reliance on data provided including highlighting aspects requiring confirmation by management and / or statutory auditors, and its implications for the valuation results.

B.5. Assumptions

Actuaries should discuss assumptions with clients to ensure their continued relevance and consistency. As the revised definition of wages links benefits more closely to total remuneration, future wage increases are expected to affect wages proportionately.

⁶ This should be consistent with recommendation in 'ICAI ASB FAQs' response for question 2.



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Accordingly, long-term wage escalation assumptions should continue to reflect the organization's overall remuneration growth outlook.

Useful references:

1. ICAI ASB FAQs - [link](#)
2. Code on Social Security, 2020 - [link](#)
3. Occupational Safety, Health and Working Conditions Code, 2020 - [link](#)