What is Dearness allowance?

- DA is an allowance that every government employee gets and is calculated as a proportion of the basic salary. Increases in the allowance is usually announced every six months with effect from January 1 for the January-June period and from July 1 for the June-December period.
- The announcement of the hike in DA and the payout is usually done in March (for January-June) and September (for July-December). The DA is calculated based on a percentage of the basic salary and is part of the other allowances that a government or a government-owned company’s employee gets. The DA is calculated based on the All-India Consumer Price Index (AICPI) for the past 12 months.
- The DA portion of salary or pension is frequently merged with the basic amount when it crosses a threshold. This has the effect of the DA being calculated at a higher proportion of the basic salary or pension.
- Dearness Allowance is paid by the government to its employees as well as a pensioner to offset the impact of inflation. The effective salary of government employees requires constant enhancement to help them cope up with the increasing prices.
- Despite several measures by the government to control the rate of inflation, only partial success has been achieved because the prices move according to the market. It, therefore, becomes essential for the government to shield its employees from the adverse effects of inflation.
- As the impact of inflation varies according to the location of the employee, dearness allowance is calculated accordingly. Thus, DA varies from employee to employee based on their presence in the urban, semi-urban or rural sector.

Types of Dearness Allowance

For calculation, DA is divided into two separate categories: Industrial Dearness Allowance and Variable Dearness Allowance.

1. **Industrial Dearness Allowance (IDA)** applies to the **Public sector employees** of Central Government. The Industrial Dearness Allowance for public sector employees undergoes quarterly revision depending on the Consumer Price Index to help offset the impact of rising levels of inflation.

2. **Variable Dearness Allowance (VDA)** applies to the **employees of the Central Government**. It is revised every six months according to the Consumer Price Index to help offset the impact of rising levels of inflation. VDA in itself is dependant on three different components as given below.

- **Base Index** – remains fixed for a particular period.
- **Consumer Price Index** – impacts VDA as it changes every month.

Variable DA amount that has been fixed by the Government remains fixed unless the government revises the basic minimum wages.

Role of Pay Commissions in the calculation of Dearness Allowance

- The pay commission must evaluate and change the salaries of public sector employees based on the various components that make up the final salary of an employee. Therefore, DA is also considered by the Pay Commissions while preparing the subsequent
pay commission report.

- It is the responsibility of the pay commissions to take into account every factor that helps with the calculation of the salaries. This also includes the periodic reviewing and updating the multiplication factor for calculation of DA.

**Dearness Allowance for Pensioners**

- Pensioners, in this case, are those retired employees of the central government who are eligible for either the individual or family pension from the government. Every time the Pay Commission rolls out a new salary structure, the change is also reflected in the pension of the retired employee. Likewise, if the Dearness Allowance is changed by a particular percentage, the pension of the retired personnel is revised accordingly.

**Changes in DA during COVID-19**

- The Union government announced a hike of four per cent in dearness allowance (DA). The DA has been hiked from 17 per cent to 21 per cent on March 13, 2020. The decision will be effective from January 1, 2020.
- In view of the crisis arising out of Covid-19, it has been decided that the additional installment of dearness allowance (DA) payable to central government employees and dearness relief (DR) to central government pensioners, due from 1st January, 2020 shall not be paid. Additional installments of DA & DR from 1 July 2020 & 1 Jan 2021 shall also not be paid.
- However, dearness allowance and dearness relief at current rates will continue to be paid.
- As and when the decision to release the future installment of DA and DR due from July 2021 is taken by the government, the rates will be restored prospectively and will be subsumed in the cumulative revised rate effective 1st July 2021. The government will not pay any arrears for the period in between 1st January 2020 and 30th June 2021.