Increase in statutory salary ceiling from INR 6,500 to INR 15,000 per month for coverage and contributions for local employees under the Indian social security schemes

Executive summary

On 10 July 2014, while presenting the Budget 2014, the Finance Minister of India proposed to increase the statutory salary ceiling from INR 6,500 (USD 108) to INR 15,000 (USD 250) per month under the Indian social security schemes (Provident Fund Scheme, Pension Scheme and Deposit Linked Insurance Scheme) and fix minimum monthly pension benefit at INR 1,000 (USD 17).

On 22 August 2014, these proposals have been notified and will come into force from 1 September 2014.

The enhanced statutory salary ceiling will increase the number of employees mandatorily required to be covered under the Indian social security schemes. Also, the minimum contributions required to be made by the employers and employees will increase due to increase in the statutory salary ceiling from INR 6,500 (USD 108) to INR 15,000 (USD 250) per month.

These changes are applicable for local employees and do not apply to International Workers.
Key changes

1. Changes in Provident Fund Scheme

   Effective 1 September 2014:
   
   a. If an employee's monthly salary is less than or equal to INR 15,000 (USD 250), the employee is mandatorily required to become a member. For such employee, contribution is required to be made on the employee's monthly salary.

   b. If an employee's monthly salary exceeds INR 15,000 (USD 250), the employee may opt for voluntary membership (unless already a member). For such employee, the contribution is required to be made on INR 15,000 (USD 250) per month unless an option to contribute on a higher salary is exercised.

   Prior to 1 September 2014, instead of INR 15,000 (USD 250), limit of INR 6,500 (USD 108) is applicable.

2. Changes in Pension Scheme

   Effective 1 September 2014:
   
   a. If an employee's monthly salary is less than or equal to INR 15,000 (USD 250), the employee is mandatorily required to become a member. For such employee, the contribution is required to be made on the employee's monthly salary.

   b. If an employee's monthly salary exceeds INR 15,000 (USD 250):
      
      i. For an employee who is not an existing member, the employee will not be eligible for membership under the Pension Scheme. For such employee, the entire employer and employee share of contribution will be allocated to the Provident Fund Scheme.

      ii. For an existing member, if an option to contribute on monthly salary exceeding INR 15,000 (USD 250) is to be exercised:
         
         i. A joint request needs to be made by the employer and employee by 28 February 2015. Provident Fund officer may extend this time-limit up to 31 August 2015 for sufficient cause.

         ii. Additional contribution will be required to be allocated to the Pension Scheme out of employee's share of contribution to the Provident Fund Scheme. Such additional contribution will be at the rate of 1.16% of salary exceeding INR 15,000 (USD 250) per month.

   Prior to 1 September 2014:
   
   a. Instead of INR 15,000 (USD 250), limit of INR 6,500 (USD 108) is applicable.

   b. Mandatory membership under the Pension Scheme is required if the employee is a member of the Provident Fund Scheme (irrespective of employee's salary).

   c. No additional contribution to the Pension Scheme is required to be made by the employee.

3. Changes in Deposit Linked Insurance Scheme

   Effective 1 September 2014:
   
   a. If an employee's monthly salary is less than or equal to INR 15,000 (USD 250), the employee is mandatorily required to become a member. For such employee, contribution is required to be made on INR 15,000 (USD 250) per month unless an option to contribute on a higher salary is exercised.
b. If an employee’s monthly salary exceeds INR 15,000 (USD 250), the employee is mandatorily required to become a member if he/she is a member of the Provident Fund Scheme. For such employee, contribution is required to be made on INR 15,000 (USD 250) per month.

Prior to 1 September 2014, instead of INR 15,000 (USD 250), limit of INR 6,500 (USD 108) is applicable.

4. Other changes

a. Pensionable salary for calculation of pension benefit:

Under the amended Pension Scheme, the limit for ‘pensionable salary’ basis which the monthly pension benefit is calculated has been capped to INR 15,000 (USD 250) (earlier limit: INR 6,500 (USD 108))

There seems to be no clarity as of now on the benefit that the employee (who is an existing member of the Pension Scheme as on 1 September 2014) will be entitled to if he/she so opts to contribute towards the Pension Scheme on salary exceeding INR 15,000 (USD 250) per month.

b. Minimum monthly pension benefit:

For the Financial Year 2014-15, the limit of minimum monthly pension benefit has been fixed at INR 1,000 (USD 17).

c. Additional benefit under Deposit Linked Insurance Scheme:

Under the amended Deposit Linked Insurance Scheme, the lump-sum benefit available on death of an employee has been increased by 20%.

Next Steps

It is essential that employers take a note of these changes and implement them effective 1 September 2014.

In particular, employers registered under the Provident Fund law should:

► Review their employee population and cover all employees with monthly salary upto INR 15,000 (USD 250) as members of the Provident Fund Scheme.

► Review current payroll process to ensure correct withholding and deposit of contributions under various schemes effective 1 September 2014.

► Consider any communication to employees affected by the changes to various schemes.

► Review coverage of all employees for whom contribution towards Pension Scheme is made on monthly salary exceeding INR 15,000 (USD 250).
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