Executive summary

This is a follow up to our previous EY Alert dated 28 August 2014 on the amendments to the Indian social security schemes (Provident Fund Scheme, Pension Scheme and Deposit Linked Insurance Scheme). These amendments are effective 1 September 2014.

Under the amended Pension Scheme, an employee who is not an existing member of the Pension Scheme will not be eligible to become member of the Pension Scheme if his / her monthly salary exceeds INR 15,000 (USD 208).

This amendment is also applicable for International Workers.

Thus, an International Worker assigned to India on or after 1 September 2014 will only be required to become member of the Provident Fund Scheme and will not be required to become member of the Pension Scheme. For such an International Worker, the entire employer and employee share of contributions (24% of monthly salary) will be allocated to the Provident Fund Scheme.
Key changes for International Workers

1. Coverage under the Pension Scheme:
   a. A new International Worker who is not an existing member of the Pension Scheme as on 1 September 2014 (whose monthly salary exceed INR 15,000 (USD 250)) will only be required to become member of the Provident Fund Scheme and will not be required to become member of the Pension Scheme. Hence, for an International Worker assigned to India on or after 1 September 2014, the entire employer and employee share of contributions (24% of monthly salary) will be allocated to the Provident Fund Scheme.

   This is a beneficial provision as in most cases (where eligible service is less than 10 years), International Workers are not eligible to obtain benefit under the Pension Scheme and any allocation of monthly contribution to the Pension Scheme may be a sunk cost.

   b. For an International Worker who is an existing member of the Pension Scheme as on 1 September 2014, out of total 24% of monthly salary, 8.33% of monthly salary is still required to be allocated as employer’s contribution to the Pension Scheme.

2. Benefit under the Pension Scheme:

   For existing members of the Pension Scheme, the monthly pension benefit will be determined on a pro-rata basis at maximum pensionable salary of INR 6,500 (USD 108) up to 1 September 2014 and INR 15,000 (USD 250) afterwards.

   Earlier, International Workers were entitled to monthly pension benefit in eligible cases basis the full monthly salary.

3. Contribution under the Deposit Linked Insurance Scheme:

   Contribution under the Deposit Linked Insurance Scheme will be calculated on monthly salary of INR 15,000 (USD 250) per month (earlier limit was 6,500).

4. Benefit under the Deposit Linked Insurance Scheme:

   The lump-sum benefit available on the death of an employee has been increased by 20%.

Post amendment, the revised split of monthly contributions will be as follows:

<table>
<thead>
<tr>
<th>Contribution</th>
<th>International Worker who has joined on or after 1 September 2014</th>
<th>International Worker who has joined prior to 1 September 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee’s contribution to Provident Fund</td>
<td>12% of monthly salary</td>
<td>12% of monthly salary</td>
</tr>
<tr>
<td>Employer’s contribution to Provident Fund</td>
<td>12% of monthly salary</td>
<td>3.67% of monthly salary</td>
</tr>
<tr>
<td>Employer’s contribution to Pension Scheme</td>
<td>-</td>
<td>8.33% of monthly salary</td>
</tr>
<tr>
<td>Total</td>
<td>24% of monthly salary</td>
<td>24% of monthly salary</td>
</tr>
</tbody>
</table>

In addition to above, the employer is required to contribute to the Deposit Linked Insurance Scheme at the rate of 0.50% of 15,000 and admin charges as follows:

a. 1.10% of monthly salary to the Provident Fund;
b. 0.01% of INR 15,000 (USD 208) to the Deposit Linked Insurance Scheme.
Next Steps

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

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

► Cover International Workers on or after 1 September 2014 only under the Provident Fund Scheme and not under the Pension Scheme (not applicable for existing members).

► Review current payroll process to ensure correct deposit of contributions under the various schemes.

► Consider communications to International Workers affected by the changes.
Our offices

Ahmedabad
2nd floor, Shivalik Ishaan
Near. C.N. Vidhyalaya
Ambawadi,
Ahmedabad - 380 015
Tel: +91 79 6608 3800
Fax: +91 79 6608 3900

Bengaluru
6th, 12th & 13th floor
“U B City” Canberra Block
No.24, Vittal Mallya Road
Bengaluru - 560 001
Tel: +91 80 4027 5000
+91 80 6727 5000
Fax: +91 80 2210 6000
+91 80 2224 0695

Prestige Emerald, No. 4,
1st Floor, Madras Bank Road,
Lavelle Road Junction,
Bangalore - 560001

Chandigarh
1st Floor
SCO: 166-167
Sector 9-C, Madhya Marg
Chandigarh - 160 009
Tel: +91 172 677 7800
Fax: +91 172 677 7888

Chennai
Tidel Park,
6th & 7th Floor
A Block (Module 601,701-702)
No.4, Rajiv Gandhi Salai
Taramani
Chennai - 600 113
Tel: +91 44 6654 8100
Fax: +91 44 2254 0120

Chennai
Tidel Park,
6th & 7th Floor
A Block (Module 601,701-702)
No.4, Rajiv Gandhi Salai
Taramani
Chennai - 600 113
Tel: +91 44 6654 8100
Fax: +91 44 2254 0120

Hyderabad
Oval Office
18, iLabs Centre,
Hitech City, Madhapur,
Hyderabad - 500 081
Tel: +91 40 6736 2000
Fax: +91 40 6736 2200

Kochi
9th Floor “ABAD Nucleus”
NH-49, Maradu PO,
Kochi - 682 304
Tel: +91 484 304 4000
Fax: +91 484 270 5393

Kolkata
22, Camac Street
3rd Floor, Block C”
Kolkata - 700 016
Tel: +91 33 6615 3400
Fax: +91 33 2281 7750

Mumbai
14th Floor, The Ruby
29 Senapati Bapat Marg
Dadar (west)
Mumbai - 400 028
Tel: +91 22 6192 0000
Fax: +91 22 6192 1000

5th Floor Block B-2,
Nirlon Knowledge Park
Off. Western Express Highway
Goregaon (E)
Mumbai - 400 063
Tel: +91 22 6192 0000
Fax: +91 22 6192 3000

NCR
Golf View Corporate
Tower – B
Near DLF Golf Course,
Sector 42
Gurgaon - 122 002
Tel: +91 124 464 4000
Fax: +91 124 464 4050

6th floor, HT House
1B-20 Kasturba Gandhi Marg
New Delhi - 110 001
Tel: +91 11 4363 3000
Fax: +91 11 4363 3200

4th & 5th Floor, Plot No 2B,
Tower 2, Sector 126,
Noida - 201 304
Gautam Budh Nagar, U.P. India
Tel: +91 120 671 7000
Fax: +91 120 671 7171

Pune
C-401, 4th floor
Panchshili Tech Park
Yerwada (Near Don Bosco School)
Pune - 411 006
Tel: +91 20 6603 6000
Fax: +91 20 6601 5900

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