India

Major changes to Indian social security schemes

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

These proposals were ratified on 22 August 2014 and came into force from 1 September 2014.

The enhanced statutory wage ceiling increases the number of local employees who must be covered under the Indian social security schemes. Also, the minimum level of contributions required to be made by the employers and employees rises.

However, an International Worker assigned to India on or after 1 September 2014 is only required to become a member of the Indian Provident Fund Scheme and will not be required to become member of the Indian Pension Scheme.

Key changes
International Workers

Coverage under the Indian Pension Scheme
A new International Worker who was not an existing member of the Indian Pension Scheme on 1 September 2014 (whose monthly wages exceed INR 15,000 (USD 250)) is only required to become a member of the Indian Provident Fund Scheme and is not required to become a member of the Indian 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 wage) will be allocated to the Indian 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 Indian Pension Scheme and any allocation of monthly contribution to the Indian Pension Scheme may be a sunk cost.

For an International Worker who is an existing member of the Indian Pension Scheme on 1 September 2014, out of the total contribution of 24% of monthly wages, 8.33% of monthly wages must still be allocated as the employer’s contribution to
Benefits under the Indian Pension Scheme
For existing members of the Indian Pension Scheme, the monthly pension benefit will be determined on a pro-rata basis on the maximum pensionable wage of INR 6,500 (USD 108) up to 1 September 2014 and INR 15,000 (USD 250) afterwards. Previously, International Workers were entitled to a monthly pension benefit in eligible cases based on the full monthly wage. Hence for a small pool of relevant International Workers, this change may significantly affect their Indian pension entitlement.

Local employees
Indian Provident Fund Scheme
Going forward, if an employee’s monthly wages are less than or equal to INR 15,000 (USD 250), it is mandatory for the employee to become a member of the Indian Provident Fund Scheme. The contributions due will be calculated based on the employee’s monthly wages.

If an employee’s monthly wages exceed INR 15,000 (USD 250), it is possible to opt for voluntary membership. In this case, the contributions due will be calculated on wages of INR 15,000 (USD 250) per month, unless an option to contribute on a higher wage is exercised.

Indian Pension Scheme
Where an employee’s monthly wages are less than or equal to INR 15,000 (USD 250), it is mandatory for the employee to become a member of the Indian Pension Scheme. The contributions due will be calculated based on the employee’s monthly wages.

If an employee’s monthly wages exceed INR 15,000 (USD 250):
- A new employee who is not an existing member of the Indian Pension Scheme will not be eligible for membership. In such cases, the entire employer and employee share of contributions will be allocated to the Indian Provident Fund Scheme.
- Existing members of the Indian Pension Scheme will be able to continue their membership and the contributions will be calculated on wages of INR 15,000 (USD 250) per month.
- For existing members, if an option to contribute on wages exceeding INR 15,000 (USD 250) is to be exercised:
  - A joint request must be filed by both the employer and employee by 28 February 2015. The Provident Fund officer may extend this time-limit up to 31 August 2015 where sufficient cause is provided.
  - An additional contribution will be required to be allocated to the Indian Pension Scheme out of the employee’s share of contributions to the Indian Provident Fund Scheme. This contribution will be at the rate of 1.16% of wages exceeding INR 15,000 (USD 250) per month.

Deposit Linked Insurance Scheme
If an employee’s monthly wages are less than or equal to INR 15,000 (USD 250), the employee must become a member of the Deposit Linked Insurance Scheme. The contributions due will be calculated based on the employee’s monthly wages.

If an employee’s monthly wages exceed INR 15,000 (USD 250), it is only mandatory for the employee to become a member of the Deposit Linked Insurance Scheme if he/she is also a member of Indian Provident Fund Scheme. For such employees, the contributions due will be calculated on wages of INR 15,000 (USD 250) per month.

Other changes
Pensionable wages for calculation of pension benefit
Under the amended Pension Scheme, the limit for “pensionable wages” on which the monthly pension benefit is calculated has been capped at INR 15,000 (USD 250).

There is currently no clarity on the additional benefit to which an employee (who is an existing member of the Indian Pension Scheme on 1 September 2014) will be entitled if he/she opts to contribute towards Pension Scheme on wages in excess of INR 15,000 (USD 250) per month.

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

Additional benefit under Deposit Linked Insurance Scheme
Under the amended Deposit Linked Insurance Scheme, the lump-sum benefit available on the 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 with effect from 1 September 2014.

In particular, employers registered under the Provident Fund law should:
- Review their employee population and enrol all employees with monthly wages up to INR 15,000 (USD 250) as members of the Indian Provident Fund Scheme.
- Review current payroll processes to ensure the correct withholding and deposit of contributions under the various
schemes (for both International Workers and local employees).

- Consider communications to employees affected by the changes.
- Review the coverage of all employees for whom contributions towards the Indian Pension Scheme are made on monthly wages exceeding INR 15,000 (USD 250).
- Factor the additional social security costs, where applicable, as well as the administrative efforts in running payrolls under the revised rates, into ongoing budgets for employees.

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