Amendments introduced in Indian social security schemes – statutory wage ceiling increased from INR 6,500 to INR 15,000 per month

September 2, 2014

In brief

The Finance Minister in his budget speech had announced the increase of the statutory wage ceiling from the existing level of INR 6,500/ month to INR 15,000/ month as well as the payment of a minimum pension of INR 1,000/ month for all members of the pension scheme. Recently, the Ministry of Labour & Employment, Government of India (MLE) has issued notifications and made amendments to the Employees' Provident Fund Scheme, 1952 (EPF), Employees' Pension Scheme, 1995 (EPS) and Employees' Deposit Linked Insurance Scheme, 1976 (EDLI) effective from September 1, 2014. The key amendments are as below:

- The statutory wage ceiling under the EPF, EPS and EDLI has been increased from INR 6,500 to INR 15,000 per month.
- For the financial year 2014-15, the minimum pension is fixed at INR 1,000/ month for the members of the EPS or their nominee/ widow, etc.
- Effective September, 1, 2014, all new EPF members shall not become a member of EPS, if their pay is more than INR 15,000/ month at the time of joining. In other words, no allocation towards pension fund will be made for such new members and the entire employee and employer contribution will go to the provident fund account.
- The insurance benefit under the EDLI has been increased by 20% in addition to the existing admissible benefits.

In detail

The amendments[1] in EPF, EPS and EDLI are summarised below -

EPF

- The definition of 'excluded employee' has been amended. Now, employees drawing pay greater than INR 15,000/ month will qualify as excluded employees. Earlier the ceiling was INR 6,500/ month.
- Employees drawing a salary up to INR 15,000/ month are now mandatorily required to get enrolled as members of the EPF. Therefore, those employees who were earlier drawing a salary exceeding INR 6,500/ month and not contributing to the provident fund (PF) shall have to be enrolled under the EPF effective September 1, 2014 (salary capped at INR 15,000/ month).

EPS

- New EPF members enrolled on or after September 1, 2014 and having salary of more than INR 15,000/ month at the time of joining, will not become members of the EPS. Accordingly, the entire contribution of 24% (from the employee and employer) will go to the provident fund account of the employee. These

[1] http://epfindia.com/Circulars/Y2014-15/Coord_SchemeAmendment_13637.pdf

members are also not eligible for pension benefits under the scheme.

- The amount of contribution by the Central Government to the pension fund has been increased to a maximum of INR 174/ month (1.16 % of INR 15,000). Earlier it was calculated at INR 6,500/ month.
- With effect from September 1, 2014, wherever the employer and employees have opted to contribute on a salary exceeding INR 6,500/ month, such an employer and employee will have to exercise a fresh option (within 6 months or such an extended period by the authorities) to contribute on a salary exceeding INR 15,000/ month, subject to the conditions that such a member would have to contribute the Central Government's share of contribution at 1.16% on the salary exceeding INR 15,000/ month from his/ her share of contribution. In case of failure, contribution to the EPS will be limited to 8.33% of INR 15,000/ month effective September 1, 2014.
- To determine the pensionable salary on or after September 1, 2014, the period for calculating the average monthly pay has been increased from 12 months to 60 months. Similarly, the pensionable salary would be calculated on a *pro-rata* basis separately for the period up to August 31, 2014 and for the subsequent period, using the wage ceiling of INR 6,500 and INR 15,000/ month, respectively.
- The minimum pension for members of the EPS and widow (er)/ nominee/ dependent parent has been fixed at INR 1,000/ month for the financial year 2014-15.
- The withdrawal benefit under Table D (non-completion of eligible service period by the employee) should be now calculated on the weighted average of the wages at the end of every wage ceiling period.

EDLI

In all cases of EDLI claims, where the death of the member occurs on or after September 1, 2014, the benefit shall be calculated on the enhanced wage limit of INR 15,000/ month and the amount will be further increased by 20% to determine the total benefit under the scheme.

The takeaway

The increase in the wage limit is a welcome step and has been pending for a long time. This may not only increase the overall pension benefits but also increase the insurance coverage in the event of the death of a member during service. Having a minimum guaranteed pension will help low-earning employees in their old age from a social security perspective.

As new employees (joining on or after September 1, 2014) having a salary of INR 15,000/ month or more are excluded from the EPS, this will encourage them to go for alternative pension plans, e.g. the National Pension System, for their pension needs.

Employers having employees earning a salary between INR 6,500/ month and INR 15,000/ month (where contributions were being made on INR 6,500/ month) now have to contribute more to EPF/ EPS. The net take-home pay of employees will be also impacted due to the higher contribution.

It may be noted that the wage ceilings under the EPF and EPS are not applicable for international workers, as they are governed by special provisions of these schemes. Therefore, the above changes have very limited impact on international workers who are working in India with covered establishments.

Let's talk

For a deeper discussion of how this issue might affect your business, please contact:

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