

INDIA - AN OVERVIEW OF EMPLOYEE BENEFITS

State and Mandatory Benefits	There is no state pension system apart from means-tested national assistance. Employers with more than 20 employees are required to provide provident fund benefits for employees' earnings up to INR 6,500 a month in accordance with plans operated by the Employees' Provident Fund Organisation (EPFO). Other employers can participate voluntarily if employees agree. The EPFO operates the Employees' Pension Scheme (EPS), the Employees' Provident Fund Scheme (EPFS) and the Employees' Deposit Linked Insurance Scheme (EDLIS). The EPS provides a defined benefit pension, with a normal retirement age of 58 and the option to take part of the pension as a cash lump sum. The EPFS provides a defined contribution lump sum on retirement, on ill-health or for house purchase. The EDLIS provides a life insurance benefit. Medical care is provided only for employees earning up to INR 6,500 a month in areas covered by the Employees' State Insurance Act (ESI).
Typical New Pension Plan	Employers can opt out of the EPFO plans if they have their own provident funds which are at least as good. Some employers use private provident funds to supplement the benefits from the EPFS and long-term gratuities. They may also provide benefits for employees earning more than INR 6,500 a month through superannuation funds, typically a defined contribution plan providing a pension and lump sum on retirement between 55 and 65. Employees also have the option of making voluntary contributions to the New Pension Scheme (NPS), a defined contribution scheme for public sector employees which was extended to all Indian citizens on a voluntary basis (Tier-II) from December 2009. Most employees are provided with medical care and group personal accident insurance. Group life insurance of two to three times annual earnings may also be provided.
Typical Costs	Employers and employees each contribute 12% of earnings up to INR 6,500 a month, which includes contributions to the EPS and EPFS. In addition, employers contribute 0.5% of earnings to provide life insurance benefits under the EDLIS. Contributions to private plans for higher-paid employees may be in the range of 10% to 15% of earnings, paid by the employer. The maximum contribution is 15%.
Tax Implications	Employer contributions to provident funds and superannuation funds are tax-deductible. Long-service gratuities are tax-free for employees up to INR 350,000. Employee contributions are tax-deductible. Lump sum benefits are tax free but pensions are taxable.
Labour Law Issues	Employers are required to provide long-service gratuities for employees with more than five years' service, calculated as 15 days earnings for each year of service, up to a maximum of INR 350,000.
Pooling Potential	Insured benefits can be included in multinational pooling arrangements.
International Financial Reporting	For listed companies, there are plans to adopt International Financial Reporting Standards from 2011. For unlisted companies, the use of IFRSs is not permitted.
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