HR Law Hotline

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MANDATORY INSURANCE COVERAGE FOR ELIGIBLE EMPLOYEES IN INDIA: REDUCED RATES OF CONTRIBUTIONS

- The monthly ESI contribution rate has been reduced to 4% with effect from July 1, 2019.
- While the employer's monthly contribution has been reduced to 3.25% from 4.75%, the employee's monthly contribution has been reduced to 0.75% from 1.75%.
- Besides extending the social security coverage net, the revised contribution rates are expected to pave way for increased compliance with the law.

INTRODUCTION

The monthly rate of contribution under the Employees' State Insurance Act, 1948 (**"ESI Act"**) has been reduced to 4% from 6.5%. While the employer's share of contribution has been reduced from 4.75% to 3.25%, the employee's share of contribution has been reduced from 1.75% to 0.75% of the employee's monthly wages[1].

The revised contribution rates have been introduced *vide* amendments[2] to the Employees State Insurance (Central) Rules, 1950. The revised contribution rates shall become effective from July 01, 2019.

BACKGROUND

The ESI Act along with the schemes framed thereunder is one of India's social security legislations enacted with the objective of protecting the interests of workers in contingencies resulting in the loss of wages or earning capacity, such as sickness, maternity, temporary or permanent disablement, or employment injury.

The ESI Act applies to all factories and specified establishments employing at least 10 persons ("**Covered Establishments**"). Covered Establishments are required to provide benefits envisaged under the ESI Act to all employees who draw 'wages' up to INR 21,000 per month (approx. USD 300). The ESI Act is administered by the Employees' State Insurance Corporation ("**ESIC**"). The monthly contribution payable to the ESIC with respect to each employee comprises of both the employer's contribution as well as the employee's contribution. Previously, employers were required to make monthly ESI contributions at the rate of 6.5% of the employee's monthly wages, which comprised of 4.75% of the employer's contribution and 1.75% of the employee's contribution.

On February 15, 2019, the Ministry of Labour and Employment had released draft rules proposing to reduce the monthly contribution rate to 5% of the employee's monthly wages (4% contribution for the employer and 1% contribution for the employee). Based on due consideration of the suggestions and objections received from the stakeholders involved, the Employee's State Insurance (Central) Amendment Rules, 2019 were published on June 13, 2019 revising the monthly rate of ESI contribution to 4% instead of the proposed 5%[3].

ANALYSIS

The government's initiatives to enhance the ease of doing business in India is taking greater strides this year. While the wage threshold under the ESI Act has been revised from time to time, it is interesting to note that the ESI contribution rates have been revised after almost two decades[4]. The objective behind the revision in contribution rates is to *inter alia* enhance the social security coverage, increase compliance of law and facilitate enrollment of more workers under the ESI Scheme[5]. Although the revision in the ESI contribution rates may appear to be small, it is expected to have a huge impact on the economy. As per government estimates, the revised rates are likely to benefit around 3.6 crore employees and 12.85 lakh employers across India[6]. The reduced contribution rates would also ensure a greater take home pay for covered employees and reduced costs for employers.

In 2017, the Government had increased the wage ceiling under the ESI Act from INR 15,000 per month to INR 21,000 per month[7] and had also taken certain other measures such as introduction of an amnesty scheme[8] to extend the coverage of the ESI Scheme to a larger pool of employees. While the government's efforts are aimed at covering a wider section of the employee population under the social security umbrella, the government will need to simultaneously adopt necessary steps to ensure that ESIC managed hospitals/dispensaries are able to deliver prompt and superior medical facilities in order to achieve the larger goal of ensuring employee welfare.

– Srinivas Raman & Preetha S
You can direct your queries or comments to the authors

[1] The definition of 'wages' is provided under Section 2(22) of the ESI Act.
[2] The Employee's State Insurance (Central) Amendment Rules, 2019
[3] Notification number G.S.R. 423 (E), dated June 13, 2019 available at https://cdn.caclub.in/wp-content/uploads/mole-goi-notification-dt-13-june-2019-revised-esi-contribution-rates-employer-3-25-employee-0-75.pdf
[4] http://pib.nic.in/newsite/PrintRelease.aspx?relid=190452
[5] *Ibid.*
[6] *Ibid.*
[7] Notification number G.S.R. 1166(E), dated December 22, 2016 available at https://gt-stacowiki3.s3.amazonaws.com/media/filer_public/3a/81/3a81b6be-6688-4f8e-9c11-bf7393f3160e/esic_notification_on_21k_limit.pdf
[8] http://coachieveindia.com/regdocs/uploads/Scheme%20To%20Promote%20Registration%20Of%20Employers%20OR%20Employees%20(SPREE)%20Date%20Extended.pdf

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