EMPLOYER EMPLOYEE INSURANCE

A Necessity of Modern Business Organization

What is Employer Employee Insurance?

In today's world of professional management success of a company solely depends on the Individual Talents of employees, whose Skill, Integrity and other capabilities are essential for the future progress and prosperity of the company.

Exit of an employee due to resignation will result in immediate financial loss to company, as the Employer has to spend considerable amount of time and money to recruit and train the new employee and moreover upon exit of an employee, the employer may loose some of the trade secrets. Than question arises, how does a company retain the Employees?

The company on the lives of Employees purchases Life Insurance, which will provide money to their family members in event of their premature death and also makes provision for their old age. These additional benefits will act as sufficient inducement to continue with the present Employer.

Eligibility of companies:

There is no restriction for companies/ firm proposing on the lives of the Employees. However Employer has to assign the policy in favour of Employee within reasonable time.

However the shareholding of the employee should be less than 51% and family holding (i.e. his/her spouse and minor children) should be less than 71% in the employer company. (Ref: CO/U & R / CJP/11-12/104 dated 06/08/2011.
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How the amount of Insurance is arrived at?

The maximum Insurance allowed will depend upon the Age and Income of the Employee. The premiums payable by the employer will also be considered as Income for purpose of maximum Insurance.

Plans Allowed:
All plans allowed to employees under individual insurance are allowed. (Cir: Actl./2062/4 dated 11th March 2006)

Procedure to Complete the Proposal:

a) The proposals will be treated as individual proposals from the employees concerned irrespective of whether the proponent is an employer or an employee.
b) The minimum sum assured shall be determined in terms of the rules relating to financial underwriting for individual assurance taking into account the existing life assurance on the life of the individual.

c) If the employer is the proponent, the policy shall be assigned to the life assured at the earliest as per agreement between employee and employer. **A separate letter from the employer** stating the object of insurance, the restrictions in respect of surrender, loan etc, to be imposed and the condition, timing etc. of assigning the policy to the life assured, should be obtained with an under taking that the letter will form the basis of the contract.

d) The proposal should be signed by a person authorised by resolution preferably by one of the directors of a public or private company. The seal of the person signing may be affixed on the proposal form.

   The restrictions imposed by the employer should be reasonable. Normally, these should not go beyond five years from the date of policy in any case.

e) Moral Hazard is a critical area and that needs thorough examination before proposals are finally accepted. To avoid the possible element of Moral Hazard, the following steps may be taken.

   i. We are to be satisfied that the Sum Assured is within financial restriction applicable to individual assurance.
   ii. Form No. 340 has to be used for the purpose. However, cover may be restricted to salary including premium payable by the employer and income derived from other sources.
   iii. We may satisfy ourselves that employer is a well known reputed commercial organization.
   iv. The wording of assignment may be prepared by the employer in consultation with his own legal adviser.
   v. In some instances, employer may like to finance loan towards payment of premium to the employee, proposal form No. 300 may have to be used in such cases. The policy issued may be assigned to employer as a collateral security and re – assigned to the policyholder on redemption of debt.

<u>Tax Benefits of Employer Employee Insurance:</u>

- Premiums paid by company will qualify as eligible business expenses under Sec.37 (1) of the Income Tax Act..

- Premiums paid by the company are treated as perquisite in the hands of the Employee under Sec.17 (2) (V) of the Income Tax Act..
- Employee is entitled to claim tax rebate u/s 80C for the premiums paid by the employer.
- Maturity proceeds are tax free u/s 10(10D) in the hands of employee.

<u>How Employer Employee Insurance is bonanza for corporate sector?</u>

- Employee will consider the premiums paid by Employer as one of the additional service benefits.
- It will act as sufficient Inducement for the employees to continue with the same employer, which saves lot of money required to recruit and train the new employee.
- It will act as welfare measure for the Employee, as it provides Income to their Families in event of their premature death and also take care of their old age.

<u>Other reasons for Employer Employee Insurance:</u>

1. For the benefit of Employees for better relationships.
2. To fulfill the employment contract between Employer and Employee.

3. For the benefits under labour laws to create funds.
4. To provide for Gratuity.

1. **<u>For the benefit of Employees for better relationships:</u>**

a) An enlightened employer may like to make provision for the dependents of the employee in case of employee's untimely and premature demise and also for old age provision for employee himself, as a welfare measure through Life Insurance policy. This may be considered as one of the service benefits.

b) An employer may hold the life insurance as sufficient inducement or encouragement for the employee to continue with him, since the employer has to spend considerable amount of time and money to train a new employee and moreover on the exit of such employee, employer may loose some of the company's trade secrets.

c) An employer may desire to give certain additional benefit to his select band of employees as a reward of good services, those could not other wise, be compensated.

d) An employer may also like to insure his select band of employees as they may be traveling frequently.

2. **<u>To fulfill the employment contract between Employer and Employee</u>**
Please refer separate document "Employee Retention Scheme", given subsequently.

3. **<u>For the benefits under labour laws to create funds:</u>**

Employees are entitled to certain benefits like provident fund (PF) and family pension (FP). There are two types of companies:

1. Companies which are compulsorily liable to pay these benefits.
2. Companies desire to pay above benefits voluntarily.

In both cases company can create funds through purchase of Life insurance policies. Employers under first category have to take permission of PF authorities to purchase life Insurance policy in lieu of PF contribution.

Those employers who want to pay above benefits voluntarily can purchase the Life Insurance policy, the rules applicable will be as under:

1. The company can decide to pay the benefit to select employees only and take life insurance policy to create fund for such employees only.
2. The company doesn't require permission of PF authority.
3. The premiums paid are allowable expenses under heading REMUNERATION AND BENEFIT to EMPLOYEE under section 32 of Income Tax Act. The expenses under this scheme are genuine expenses and don't come under discretionary power of Income Tax Officer.

4. **<u>To provide for Gratuity:</u>**

Gratuity is a statutory benefit payable under gratuity act. Today government plans for welfare of senior citizens. Gratuity by private and small company is also step in direction of welfare of senior citizens.

The company requires big amount to pay gratuity at the time of retirement of the employee. This amount has to be created during the service period of employee by providing reasonable amount every year. The amount provided every year for Gratuity can be invested in LIC Policy through **EMPLOYER EMPLOYEE INSURANCE SCHEME.** The premiums paid every year are allowable expenses under the heading "Remuneration and Benefit of employee".

If the Gratuity payable to a particular employee is less than the maturity value of the policy proceeds, then the company can add the required amount from their Profit & Loss account.

Please note that Employer must take maturity before the payment of Gratuity of respective employee. This is the provision of the labour laws and income tax, which indirectly applies for gratuity purpose.

To pay gratuity through insurance policy Jeevan Saral is the best-suited policy as the employer can decide maturity as per the retirement or the premature retirement of an employee.