

HR Law Hotline

November 21, 2006

THE REACH OF EMPLOYEE STATE INSURANCE BENEFIT EXPANDED

In the exercise of its powers under the Employee State Insurance Act, 1948 ("Act"), the Ministry of Labour and Employment has increased the wage limit for coverage of employees from INR 7,500 per month to INR 10,000 per month. This change came into force from October 1, 2006. The daily rates of benefit, which are used for the computation of the social security benefits available to the employees under the Act, have also been amended.

Under the Act, the Employees State Insurance Scheme of India ("ESI Scheme") provides protection and benefits to employees and their dependents in contingencies such as sickness, maternity, death and disablement due to an injury during performance of employment or occupational disease. This Act thus requires employers to contribute towards one of the few statutory social security benefits to employees.

In the first instance, the Act is applicable to all factories. However the Act empowers the State Governments to extend the provisions of the Act to any other establishments or class of establishments, industrial, commercial, agricultural or otherwise. Previously, the State Governments had, by notification, extended the provisions of the Act to certain establishments which employ 20 or more employees, each of whom drew wages of less than INR 7,500.

Under the Act, the employer and the employee are required to make the respective contributions only in respect of the employees eligible for such insurance cover, i.e., employees whose wages are within the threshold limit which is now increased to INR 10,000. The employer is required to contribute 4.75% of the wages of the employee towards the ESI Scheme, while the employee's contribution is 1.75% of wages. Insured employees earning upto INR 50 per day are exempted from making the contribution, however, the employer's share of contribution is payable.

While the amendment has been effected to keep up with the wage increases in most sectors of the Indian economy, employees in several sectors, especially the IT sector where the wage levels are higher, will continue to be excluded from the applicability of the Act. In such cases, the employers may continue to provide non-statutory private medical insurance benefits as a good human resources measure.

- Sangeeta Rana & Rina Kamath

Source: Ministry of Labour and Employment(E) dated September 22, 2006

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