



## news flash

September 2014



### SIGNIFICANT AMENDMENTS TO PROVIDENT FUND LAWS

The Ministry of Labour & Employment has issued four notifications in August 2014 amending the provisions of the following the schemes framed under Employees' Provident Funds and Miscellaneous Provisions Act, 1952 ("**EPF Act**"):

- (i) The Employees' Provident Funds Scheme, 1952 ("**PF Scheme**");
- (ii) The Employees' Pension Scheme 1995 ("**Pension Scheme**"); and
- (iii) The Employees' Deposit-Linked Insurance Scheme, 1976 ("**EDLI Scheme**")

The amendments have come into force with effect from 1 September 2014. Some of the relevant amendments are summarised below.

### INCREASE IN MINIMUM PAY FROM Rs. 6,500 TO Rs. 15,000

- The existing wage limit on which provident fund ("**PF**") contributions are payable by the employer and employee on the employee's pay has been increased from Rs. 6,500 to Rs. 15,000.
- Accordingly, the PF contribution payable by an employee, and in respect of him, by the employer, is now limited to 12% of the employee's monthly pay<sup>1</sup> of Rs. 15,000.
- An employee whose pay exceeds Rs. 15,000 per month shall be considered to be an '*excluded employee*'.
- Consequently, an employer would now be required to make mandatory PF contributions in respect of all employees whose pay is Rs. 15,000 or less (as opposed to Rs. 6,500 or less). This amendment has widened the ambit of employees who would now be covered under the EPF Act.
- Corresponding changes have been made to the Pension Scheme and EDLI scheme whereby the references to the monthly pay of Rs. 6,500 have been increased to Rs. 15,000.

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<sup>1</sup> Pay includes basic wages with dearness allowance, retaining allowance, if any, and cash value of food concessions admissible thereon.

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## **MINIMUM AMOUNT OF PENSION PAYABLE**

- The Pension Scheme has been amended to provide that the minimum pension or relief payable to any existing or future member or, in case of the member's death, to his widow, shall not be less than Rs. 1,000 per month for the financial year 2014-15.
- The minimum 'monthly children pension' (payable in case of death of the member) for each child has been increased from Rs. 150 to Rs. 250 for the financial year 2014-15.
- A minimum 'monthly orphan pension' which is payable where a deceased member is not survived by any widow or where the pension is not payable to the widow (e.g. in case of her remarriage), has also been increased from Rs. 250 to Rs. 750 for the financial year 2014-15.

## **COMPUTATION OF PENSIONABLE SALARY & PENSION FUND CONTRIBUTIONS**

- The Pension Scheme has been further amended to provide that pensionable salary (i.e. the salary based on which pension is to be computed) will be the average monthly pay drawn during the contributory period of service in the span of 60 months (originally 12 months) preceding the date of the exit from membership of the pension fund.
- The pensionable salary shall be determined on a pro-rata basis for the pensionable service up to 1 September 2014, subject to a maximum of Rs. 6,500 per month and for the period thereafter subject to the maximum of Rs. 15,000 per month.
- Existing members as on 1 September 2014 who (at the option of the employer and employee) had been contributing to the pension fund on salary exceeding Rs. 6,500 may continue to contribute on salary exceeding Rs. 15,000 if the employer and employee jointly exercise an option to do so. This option is to be exercised within 6 months from 1 September 2014 failing which it will be deemed that such member has opted not to contribute over the wage ceiling and the contributions to the pension fund made over the wage ceiling shall be diverted to the provident fund account of such member along with interest as declared under the PF Scheme from time to time.

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## **AMENDMENT TO THE EDLI SCHEME**

- Under the EDLI in case of death of an employee (in respect of whom PF contributions have been made), persons entitled to receive PF accumulations of the deceased are also entitled to receive an additional amount under the EDLI Scheme ("**Benefit**") equal to the higher of the average balance in the account of the deceased in the preceding 12 months or during the period of his membership<sup>2</sup>. The EDL Scheme has now been amended to provide that the Benefit is to be increased by 20%.

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<sup>2</sup> Provided that where the average balance exceeds Rs. 50,000 the Benefit shall be Rs. 50,000 + 40% of the amount in excess of Rs. 50,000, subject to a ceiling of Rs.100,000.