Course Name: Labour Welfare and Industrial Relations

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Hello learners, welcome back to the course on Labour Welfare and Industrial Relations. We move to the last lecture of module 6 where we look into specifically the Deposit Linked Insurance Schemes and that will be the last part of this EPF module.

I'm Dr. Abraham Cyril Issac, I'm a faculty at the School of Business, Indian Institute of Technology, Guwahati. So, when you look into the specific details about EPF which we have gone through in the previous few lectures, we will understand that it has been there for some time as part of a social security measure.

Now, let's look into another facet of that, another dimension of that, which is deposit linked insurance scheme. Very quickly, when you understand the significance of EPF and the deposit linked insurance scheme, EPF, and deposit-linked insurance scheme play a very crucial role in providing the financial security and insurance coverage to employees. So what are the benefits? Both the schemes offer benefits such as retirement savings, insurance protection, financial stability for employees and their families.

So we have already seen what EPFE is in greater detail. Apart from that, insurance added on to that, that makes it the deposit-linked insurance scheme and the benefit of that. The scope of coverage is significant. It gives a wide range of employees. It covers a wide range of employees in various sectors, ensuring financial stability and insurance protection.

When you typically look into the significance of EPF, I would like to mention three important things. One is it certainly promotes a culture of saving, promotes a saving culture. Second I would state that it acts as a safety net which I have tried to underscore in the previous lecture also. And finally it is an instrument of historically and presently instrument of financial stability. So these are the three important things or important significances of EPF and DLIS.

If you ask me when you look into the benefits, as I already mentioned, it has an element of retirement savings. It has an element of life insurance cover and it has certain tax benefits also associated to it. If you understand that in detail, when you look into the scope. Of coverage, there is nothing but a wider range of coverage of employees in various sectors, as I've already established in the previous lecture. When you look into the key features, the contribution structures.

interest rates and growth, withdrawal and withdrawal rules specifically. What I would like to mention here is when you understand the key features of EPF scheme, you'll see that there is a mandatory coverage, joint contribution when you are talking about mandatory coverage, the EPF Act mandates coverage for Most salaried people, joint contribution is there with equal contribution coming from both the employee and the employer. Tax benefits are there, government management, the inclusion or the involvement of government management is there. The contribution structure is with respect to employee contribution and employer contribution.

And if you look into the interest rate growth structure, There is certainly regular contributions coming in. The declared interest rate significantly impacts the growth of corpus. I've already mentioned how we tend to understand the power of compounding here. Higher interest rate leads to faster accumulation.

And the longer an employee contributes to the EPF scheme, the larger the corpus becomes due to the power of compounding. compounding certainly and this makes the life of a worker or an employee after retirement post retirement or during an emergency worthwhile when you look into the withdrawal rules we have rules related to full settlement employees are eligible for a full settlement partial withdrawal possibilities are also there with respect to the settlement and even premature withdrawals are also there withdrawing funds are from the account before the stipulated retirement age, but it has its own tax implication. Now, that is what we have generally overall seen with respect to EPF. Now, what about deposit linked insurance scheme?

We have understood this from an insurance angle. Let's understand it from a coverage angle or the eligibility for coverage. So when you look into the deposit linked insurance scheme, It acts as a safety net and it was established alongside the EPF Act of 1952. But when you look into the eligibility for coverage, there are certain critical factors which are coming as eligibility elements for this coverage.

One is typically the EPF membership. Second is employment status and employment. salary limit is also there so there is no upper limit on monthly salary but there is a salary limit the benefit amount is capped based on the employees average monthly wage so that is typically what is to be understood when you are looking into When you're looking into the benefit, there is specific benefit calculation. The DLIS benefit amount is calculated using a formula that I think considers the employee's average monthly salary in the preceding 12 months.

And the predefined limit set by the government. So breakdown would be something like, let's say the average monthly salary is there, which is calculated by dividing the total wages earned by the employee in the past year by 12. And then there is a government defined limit. So the government periodically revises the limit as on, let's say, as early as as recent as June 2024. I think the maximum benefit amount is capped at rupees seven lakhs.

So that is the government defined limit. So the benefit formula is something like the DLIS benefit is equal to minimum average monthly salary into 35% or 7,00,000. So this is what the DLIS benefits. So this formula actually ensures that the benefit amount is at least 35 times the average monthly salary if you understand this particular segment and it is subject to a maximum limit of 7,00,000.

When you look into the DLIS, the Deposit Linked Insurance Scheme, It is having certain differences with respect to EPF. EPF focuses on retirement savings, please understand that, with guaranteed returns, while DLIS provides insurance coverage in case of employee's demise. So this is the significant difference when it comes to both the schemes. There are certain complementary benefits.

EPF and DLIS together offer a comprehensive financial safety net addressing both the retirement needs and financial protection. There is no doubt about it. There is certain combined coverage scenarios. Employers can tailor contributions to maximize benefits strategically. But I have to critically mention that when it comes to the EPF and the DLIS, you have to understand this particular key difference associated with both the specific schemes.

So this is what is the takeaway from the EPF versus DLIS. There is a lot of Other aspects including tax coverage, combined coverage scenarios, etc. But on a basic level, you have to understand the key difference of EPF and DLIS as this. Now, more details, you know, if required, will be uploaded in the document portal of NPTEL.

You can go through that because this is more of the act. And my intention here is to give you a clear cut generic perspective about the act. When you look into the contribution structure, specifically, we'll see that there is an employer contribution, which is statutory mandate. Employers are legally required to contribute the required percentage. There's a partial diversion possibility, a portion of the employer contribution.

Let's say currently, I think it's a 0.33% is diverted to employees pension scheme to provide pension benefits upon retirement. Now, this is applicable to the people who are still under the scheme. Please note that. Then the remaining contribution, portion of the employer's contribution, which in this case would be 3.67% is deposited into employee's EPF account alongside the employee's own contribution. When you're looking into the employee contribution part specifically,

employee contribution there is a statutory contribution they are mandated to contribute that and specifically the DA also into the EPF account so there is no employee contribution significant towards DLIS so there is a matching criteria for Unlike DLIS, EPF has this matching criterion. Please note that the employer contributes a portion that matches the employee's contribution, essentially doubling the amount going into the employee's EPF corpus. So this is employer matching, however, not mandatory across the board. So the matching limit, there is no upper limit.

Please note that on the employee's contribution. However, the employer's matching contribution, I think, is capped at 12% of the employee's basic wages and DA. There are certain industry variations which I should specifically mention here. Certain sectors or industries may have different matching contributions. So when you look into both these schemes, let's understand the benefits and payouts of EPF and the deposit link insurance scheme, which is DLIS.

When you look into the retirement benefits. the primary benefit of epf is accumulated corpus paid out upon retirement this corpus comprises the employees typical contributions employers matching contributions which we have already seen and the interest accrued over the employment period so it provides certainly a financial security after an employee leaves the work now when you look into the full settlement Employees are eligible for a full settlement at their retirement. When you look into DLIS, for instance, insurance coverage is there. DLIS acts as a life insurance scheme for EPF members in the unfortunate event of an employee's death while in service.

We also have to understand in insurance coverage that there is a benefit calculation. As I've already mentioned, there is a specific formula associated with that. Again, nomination policies are also that both EPF and DLIS require employees to designate a nominee, the individual who will receive the accumulated or the total corpus or benefit amount in case of the employee's death. There could be multiple nominees also. Please note, employees can designate more than one nominee, specifying the percentage contribution, the share that will go to each of them.

So this allows for a planned distribution of the benefit among dependents. So maybe you can give the spouse and your parents or something like that. So that planned contribution of the planned distribution of the benefit among the dependents is also possible. Also, there is a possibility to update nominations also. When you look into the benefits and payout analysis, we have to also understand the tax implications of both the scheme EPF and DLIS.

Very quickly, tax deduction when it comes to EPF, the contributions made by both employers and employees towards an employee's EPF account qualify for tax deductions under Section 80C of the Income Tax Act 1961. Please note. This incentivizes the participation and reduces the employee's taxable income. When you look into the taxation of interest specifically, the interest earned on EPF corpus is generally tax exempt up to a specific limit set by the government, which has to be again seen from the recent budget. When you are looking into the DILS, there is a tax exempt benefit.

The DILS benefit received by the nominated beneficiary upon the employee's death is is generally exempt from income tax. Please note that this typically ensures the financial assistance actually reaches the family without any tax burden. So when you consider the exemptions of both the scheme, age of withdrawal, like withdrawal before five years of continuous service for medical emergencies, a portion of EPF corpus may be taxable. When you are looking into the interest on excess contributions, if the employee's specific contribution to EPF exceeds the statutory limit, there could be such cases also.

The interest earned on that excess amount may be taxable. So these are some of the critical aspects when you are looking into both the schemes. When you look into the investment options, this may act as a debt instrument. EPF typically invests in low risk debt instruments. So basically that is the beauty of EPF.

providing a stable return. The moment it is low risk debt, it certainly provides stable returns and capital preservation is there for the contributions made by the employees and employers. When you look into some EPF investments and equity options, they may include the exposure to equity markets aiming for a higher returns over the long term, but with associated market risk. The risk profiles employees can choose, as I've already mentioned, with respect to the amendment, the investment options based on the risk profiles, balancing between the safe debt instruments and potentially higher yielding equity options within the EPF. So these are some of the critical aspects when you're looking into the investment options, be it debt instruments in the form of FDs, government bonds, debentures, or equity options, which may be individual stocks or mutual funds for that matter, or even ETFs, exchange traded funds are also possible. Like, you know, they track a specific index or sector, if you don't know ETFs, providing a diversified portfolio with potentially lower fees compared to actively managed individual mutual funds. And you're looking into the risk profile. Investment goals is critical. Time horizon is critical.

And specifically, always, always remember that the risk profile is directly correlated with the financial situation of the individual. When you look into the regulatory compliance, regulatory compliance is undoubtedly a critical element of a well-functioning market. It ensures businesses operate within established rules and protects consumers from different unfair practices. So when you look into the regulatory guidelines, the rule book is there. Regulatory bodies like, let's say, the government agencies or the industry associations establish guidelines outlining the specific rules and expectations businesses must follow.

certainly adhere to so these guidelines can encompass various aspects such as say product safety let's say financial reporting environmental standards and even data privacy etc so there are certain factors of you know being updated or keeping up with time staying informed regular updates and amendments to EPF and DLIS regulations are introduced to align with changing financial landscapes and typically they cater to the evolving needs of employees and employers so please note when you look into the enforcement mechanism enforcement mechanisms are certainly in place there are critical audits and inspections there are reporting requirements and Not to forget, there are penalties and sanctions also. So noncompliance can lead to a range of penalties, including fines, license suspensions or even criminal charges. So the severity of the penalty certainly will depend on the nature and severity of the crime.

When you look into the benefits and process of DLIS specifically, the claim process is subtle. DLIS offers a streamlined and efficient claim process for beneficiaries, ensuring prompt disbursement of these insurance benefits in case of the employee's demise. When you're looking into the claim process, you have different steps which are pretty much similar to the other insurance processes. tools or instruments initiating the claim required documents would be the death certificate of the deceased EPF member maybe nominee declaration bank account details of the nominee for the claim disbursement and any other documents as specified by the concerned authorities and when you look into the processing and disbursement the employer will forward the claim application and supporting documents to the relevant authorities for processing.

So upon verification and approval, the claim amount will be disbursed to the nominated beneficiary or beneficiaries. The nominee benefits will get tax exemption and there will be an expeditious claim process that is guaranteed. So when you look into the claim amount, the claim amount for DLIS is calculated based on employees' contributions specifically. and the coverage amount specified in the scheme so offering a predefined financial support mechanism for the employees as you can see there's average monthly wage and there is a government defined limit uh which was seven lakh so it again uh is working around in the same formula but the dlis benefit amount would be uh the formula would be average monthly wage into 12 into government defined limit so the financial assistance provided by dlis coupled with relatively quick Claim process and tax exemption for nominees can offer some solace and financial support during difficult time.

So what we understand here is that through our journey in the welfare process specifically, we try to understand the PF in detail, the provident fund, the logic behind that, the evolution, the timeline, the benefits, the hassles, the impacts, the challenges, all those aspects together. We looked into certain health care schemes associated or related to those, you know, EPF regulations and acts. We now look into the DLIS schemes also. So please note EPF was more about the people, you know, within when they are alive, there's an emergency or there is something which is coming in. They need a certain larger amount.

It comes for their help. But when you look into a scheme like DLIS, it gives a level of certainty. you know, assurance that something bad happens. unfortunate but it it may happen because this is life life is uncertain anything can happen anytime any day if something bad happens still the employer the authorities of the day are there to take care of me and this is through a contributory mechanism i am contributing something my employer is equally contributing something that actually gives me again a sense of involvement a sense of ownership a sense of collective responsibility and this is what acts as the cornerstone of labor welfare.

Thank you for listening to me patiently. See you with more details in another module. Till then take care. Bye-bye.