Employee benefits in India: An introduction

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India is a unique conundrum. With employment opportunities galore and an open war for talent, employers are trying to find innovative ways to win over the 60% of the population that is under the age of 25.

Indian companies historically have provided employee benefits such as health coverage, leave benefits and statutory retirement programmes. These were provided by *old economy* sectors dominated by manufacturing firms, engineering companies, government-owned enterprises and others. They were targeted towards a generation who believed and adhered to the concept of *lifelong* employment. However, as the economy grew, people became mobile and new employment avenues opened. HR managers started developing newer employee benefits to attract and retain employees. A few of the employee benefits that are commonly offered in India are listed below:[1]

1. **Retirement programmes**

   a. **Employees' Provident Fund** – A statutory, hybrid, interest guarantee retirement plan administered and supervised by a government entity called the Employees' Provident Fund Organization (EPFO). The defined contribution portion of the plan allows for employee and employer contributions. Employees contribute up to 12% of basic salary with an option of paying an additional 12% contribution. Employers also pay 12% of basic salary, out of which 8.33% is used to fund the pension portion of the provident fund, called the Employee Pension Scheme. The remaining 3.67% is deposited into the employee's Provident Fund account. Interest is credited at a rate that is announced by EPFO each year in consultation with the government. Employers pay an additional 1.61% to EPFO partly as an administration charge and partly to buy life insurance for the employees.

   The general view of the market is that EPFO has not provided a satisfactory service to its members. Consequently, companies, certain classes of employee and even specific employees are trying to take advantage of a clause in the governing legislation to opt out of the plan. However, such applications must be approved by EPFO, and this is a very cumbersome process. In the event that a company does overcome the administrative obstacles and opts out through a private retirement trust, the trust must match the annual interest provided by EPFO. It must be noted that the interest credited by the EPFO is gross of charges and the employer pays those charges through an additional 1.61% levy. In a trust fund, the investment management fees will reduce the interest that can be credited to employee balances. This makes the interest credited by the private trust very difficult to achieve without taking investment risk that the employer will have to underwrite. These conspire as major deterrents for employers setting up private provident fund trusts.

   b. **Private plans** – There are several types of retirement plans available in India, depending on benefits offered:

      i. ***Private provident funds***: The difficulty of opting out of the EPFO has been discussed above. Some companies do take on the administrative burden and guarantee the interest rate at the same rate offered by the EPFO. They are, however, a small group compared to the overall membership of the EPFO.

      ii. ***Superannuation plans***: Superannuation plans are *optional* retirement plans which are often offered to selected employees. They can be defined benefit or defined contribution in nature. However, they are not very popular with rank and file employees because they are not portable, have a very long vesting period and the funds cannot be withdrawn before a certain age. Indian companies use this product as a *long-term incentive* benefit for middle and senior management. Funding for these products is usually through insurance products, and the insurance companies take care of the administration, compliance and investment management. Recently, the insurance regulator issued instructions as a result of which new members may not be admitted until the regulator has announced new regulations governing the plans. Once those regulations are released, the insurers will need to restructure their products to be in compliance before the employers can offer the benefits to new employees.[2]

      iii. ***Pension plans***: Legacy pension plans in India are limited to certain industries (like banks, mines, plantation, railways and others) or were created in other cases as a result of union pressures. Very few private companies sponsor pension plans in India.

1 There are several social security programs that are run by the government which have not been listed in the article but may be applicable and pertinent to a particular situation.

2 IRDA has issued new guidelines in March 2013, and insurance companies are working towards adhering to them and opening the superannuation plans for new members after the changes.

iv. ***Gratuity*** – This is a defined benefit plan, mandated by law (Payment of Gratuity Act) that provides a minimum lump-sum payment of 15 days for each year of service. It is applicable to all employers with more than 10 employees. The benefit is tax free up to Rs 1,000,000.

The employer can either book reserve for the benefit or establish a fund. In the event that it is funded, the employer can claim contributions as allowable deductions against taxable income, subject to certain overall limits. Funding can be arranged using a trust or an insurance policy. Most employers prefer insurance policies; the administration and documentation are simpler than establishing a trust. Around 60% of employers in India fund the gratuity obligation.

2. **Health benefits**
These are one of the most common and usually the most expensive employee benefits that an employer can provide to its employees. They range from the usual group health insurance coverage to reimbursement of pharmacy and outpatient bills, on-site doctor on call or discount arrangements with healthcare providers. There is a gradual shift from the traditional all-expenses-paid inpatient indemnity health cover to alternate methods of risk or cost sharing like co-pay health insurance plans or high-deductible plans.

Most employers fund hospitalisation cover via an insurance policy which is primarily an indemnity product. The health coverage may cover just the employee or spouse and children. Some firms cover employee's parents as well. The sum assured varies amongst employers but usually a minimum sum assured is above Rs 200,000 to each employee. Some corporates keep a provision for a corporate buffer amount for discretionary coverage if an employee exhausts the sum assured. Various combinations of benefit limits and privileges in room types are included in the benefit design at various levels of staff.

With rising medical inflation, improved access to healthcare and rich coverage in benefits, claim costs have been rising steadily. Premiums are very competitive and have been driven more by prior year premiums rather than claims experience. As a result, employers have had a fairly good ride, as they were able to pass the risk to insurance companies and enjoyed a great range of benefits. Insurance companies have been facing claim ratios of more than 100%.[3] As the majority of coverage is indemnity, insurers have tried to control costs through applying sub-limits, restricting networks or enhancing fraud checks and investigation. Increasingly, there is a growing realisation that a broader focus on managed indemnity care where the insurers can manage the healthcare delivery is the need of the hour.

With the unavoidable rise in premiums in near the future, employers must explore alternate strategies. These strategies may include high deductibles, stop-loss arrangements or introduction of waiting periods for pre-existing diseases, etc. (benefits restriction). However, due to employers' inability to communicate these health benefits clearly, these strategies are perceived negatively by employees. Consequently, employers either simply bear the cost of increased premium year after year or face the risk of diminished employee satisfaction. There is an urgent need to develop long-term measures and metrics which would help in containing costs and ensuring effective management of health benefits.

Indian tax laws also contain a provision for tax-free cash reimbursement for personal expenses for certain hospitalisation, drugs and outpatient treatments up to Rs 15,000. Once bills for services are provided by the employees to the employers, the taxable income of the employee is reduced by the total value of bills or Rs 15,000 (whichever is less).

3. **Wellness programmes**
Wellness programmes present a more holistic approach towards employee health. As companies understand the impact of chronic diseases on their employees and then on their businesses, they acknowledge the need for healthy employees. They are beginning to understand the need to move from *disease management* to *health management*. Companies have started to identify their individual needs and wellness requirements. They may offer the usual benefits like preventive health check-ups, health risk assessments and gym memberships. Some wellness programmes also provide additional benefits that are not normally covered under health insurance plans like *curative services* (e.g., vaccination, yoga and meditation classes) and rehabilitative healthcare services (e.g., physiotherapy, pre- and post-natal care, etc.)

Funding of these wellness programmes usually take one of three routes:

- Full funding by the employer.
- Partial funding by the employer and the remainder by the employee.
- Employer contracts with various providers emphasizing the benefit of scale to get discounts, which are then passed to the employee. In this case, the employee bears all the costs but enjoys the benefit of the lower negotiated charges.

An important aspect that employers need to understand as they develop strategies around wellness initiatives is the quality of service provided by the service providers. Unfortunately, most employers either use their internal staff to perform these vendor evaluations or use other providers like insurance brokers to identify vendors and provide services to their employees. They lack the specialised skill to understand these medical services or how to measure the quality of service provided by them.

4. **Other benefits**
There are various other benefits that are offered to employees. Some are listed below:

a. **Paid time off/leave encashment programmes**
The second-most-common employee benefit programme in India is paid time off/leave encashment programmes. All employers in India have a leave policy where they either allow employees to carry forward their untaken leave to the next financial year or encash the value at the end of the year.

3 Per IRDA annual report the claims ratio in the health insurance market was 100.08% during 2010-11 down from 111.13% in the financial year 2009-10 (Page 301 of the 2010-11 annual report).

Under either option, many employers forget that there is a tangible element involved either in the form of cash or the value of the paid time off. Usually this benefit is non-funded or paid from usual business operations but there are insurance products available to fund this benefit.

b. **Food coupons** – Traditionally, large Indian companies provide lunch for their workers through a canteen on site. More recently they have been providing employee food coupons as an alternative. Under current income tax rules, coupons are non-taxable up to Rs 50 per meal. Hence, assuming 22 working days in a month and one meal per day, an employee can claim Rs 1,100 as non-taxable income and the employer can claim the same as business expenses.

c. **Flextime** – This benefit is one of the most appreciated by employees but under-utilised by employers. It is a more recent development and primarily provided by large employers specialising in information technology or information technology enabled industries (IT-ITES). Flextime is offered only to employees who have spent a certain amount of time with the organisation and is offered under strict and mutually acceptable policies.

   Companies are finding that flextime is a strategic business tool that improves productivity and quality of life for employees. Its popularity means that more companies are creating formal guidelines to ensure success. However, as flextime grows in popularity, companies are realising that informal schedule changes can create communication problems and hostility among employees. To combat this problem, more organisations are implementing formal policies that require workers to present solid business cases for flextime, including how it will benefit their clients and how they plan to manage workflows with team members and supervisors.

d. **Transportation benefits**

   i. ***Company car lease policy*** – A company car lease policy is a tax-efficient method of managing an employee's salary structure. This benefit is typically only provided to senior management at pre-determined salary/band levels. This benefit can be treated as a *taxable perk* in the hands of the employee.

   ii. ***Cab/shuttle service for employees*** – With an international business model evolving where company workforce work across time zones and to provide 24/7 support and services to customers, companies want to ensure that employees have the ability to reach the office at any time, perhaps seven days a week. To facilitate this, companies are paying for shared cabs or carpooling.

   However, as fuel costs rise and the number of employees increases, the budget allocation of this benefit has correspondingly increased. Hence, finance and HR are revisiting the way this benefit is being offered. Companies have now developed different transportation arrangements for employees in day and evening shifts. They have also started using buses instead of cabs and started enforcing point-to-point service rather than door-to-door service.

   Meanwhile, the development of metro services in many large cities makes commuting easier than a few years ago. Companies might now only provide pickup/drop services to the metro station nearest to the office.

e. **Financial education** – As people near their retirement age, they understand the need for a plan which can help them overcome the financial anxiety of retirement. Unfortunately, by that time it is usually too late. As financial awareness increases among the general public, people understand the need to save early and the power of compound interest.

   In order to help its employees overcome this retirement anxiety and to provide them piece of mind, there are examples of a few companies in India that have started to conduct financial education seminars to help employees manage money more responsibly.

FUTURE TRENDS

As companies look ahead in the context of the benefits that should be offered to their employees, there is one item that is high on the agenda for employers to think about and a number of other initiatives that they might consider to differentiate themselves:

1. **Retirement benefits** – One of the significant changes that is taking place in relation to retirement benefits is the introduction of the National Pension Scheme. NPS is a universal defined contribution retirement scheme, funded by employee contributions only. However, the NPS regulator has announced an option described as *payroll deduction*, whereby the employer can make contributions on behalf of employees and claim them as a business expense. Meanwhile, the employee may also claim a personal tax exemption for contribution made by employer on his behalf. The deduction is available only up to a certain limit specified by the income tax authorities.

   Employers should examine their strategy carefully for a coordinated or integrated set of retirement-related benefits.

2. **Retirement education** – Currently there are not many employer-sponsored retirement plans. Hence, employees are left on their own for planning their retirement financial needs. Offering this benefit would be extremely beneficial to all employees, from a new graduate who can learn the benefit of saving early to a 40-plus-year-old mid-career manager who can plan for his retirement and his family needs to an employee who is nearing retirement and must start making immediate plans.

   Employers that provide retirement benefits should consider developing a communications strategy to raise awareness of the benefits and their value.

3. **Health benefits** – The future of offered group health benefits lies squarely on the ability to control costs, in terms of premiums for insured employers and claims for self-insured companies.

   India, like other modern economies, appears to be moving towards a defined contribution healthcare system with individual accounts. The current tax laws and the insurance regulator are not yet positioned for such a move, although the insurance companies are lobbying for it. There is already a shift towards copayments and coinsurance. Employers are already including copayments as a method to reduce the number of claims, as the majority of claims are for relatively small amounts. Meanwhile, the service providers and insurance companies are developing their internal practices to meet global norms. By enforcing utilisation management and clinical review processes, services providers are trying to control costs for themselves as well as patients. Similarly, insurance companies are developing their underwriting rules so that they can manage the covered population better.

In India, many employers offer an indemnity-based hospitalisation cover without analysing the needs of the employees being covered. Disease management is likely the last thing on the mind of a young employee in his 20s, whereas an employee in his mid-40s would be very much interested in indemnity-based insurance. A young employee would gain more from health management and wellness initiatives. Employers must develop this kind of understanding of the employee demographics and of the need for the communication of this difference.

Employers can take a lead in this area through internal surveys of employees' concerns, needs and values. The results of those surveys will help employers focus their intention and budgets in the right places both for their employees and their shareholders. Meanwhile, whatever healthcare benefit intentions are in place, employers would be wise to review the actual costs being incurred and whether claims processing both in terms or entitlement and delivery are optimal.

4. **Flex benefits** – Flexible benefits have few advantages:

   i. The employer derives good value from the financial commitment to a mix of benefits that the employee has controlled and therefore appreciates.

   ii. Recruitment and retention rates should improve as a result of higher levels of employee satisfaction, tax efficiency and commercial advantages.

   The tax efficiency arises in general both to the employee and the employer. Neither would expect to be worse off as a result of the new structure, and in many cases they may see tax advantages. There are potential commercial implications for the company in the eyes of its customers; being seen as a modern and forward-thinking employer may raise interest in its products therefore lead to a rise in its revenues.

   Companies should consider a flexible benefits strategy and the kind of structure that would be most appropriate in the context of employee satisfaction, expense control and revenue growth.

In this article, we have a look at the most common benefits that are currently being offered, explored and developed in India. As the search and retention of talent becomes more prominent, it is expected that companies follow the lead of their global counterparts and implement tools and strategies developed by the head office, as they are tried and tested. However, India is a unique puzzle which has its own peculiarities; there is a huge variation in population demographics, their understanding of the world around them and their expectation levels. In the major metro areas where there are global influences and increased awareness, more individuals are starting to understand the responsibility associated with defined contribution plans, which may be DC-based retirement plan systems such as the National Pension Scheme or the health saving account mechanism currently under consideration. However, there still are employees who adhere to the concept of *lifelong* employment and employers who have developed benefit strategies that cater to them. Wellness initiatives would be more effective when directed towards a younger population, as they are more technology-savvy and would be expected to understand the impact of a healthy lifestyle.

Companies and their decision makers need to understand that there is no single solution–the concept of *one-size-fits-all* cannot work. Employers need to be flexible enough to adapt their policies as per the needs of their employees depending on various factors like age, location and understanding of issues. Otherwise, employees might not prefer or assign the same value to certain benefits. Strategic reviews and analysis of benefits can be used to help confirm the appropriateness of a particular initiative or indicate the need for an adjustment before any decision is taken and an expensive mistake is made.

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