Group insurance policies have come to be recognized as an important perquisite offered by employers. Such policies offer a significant advantage in negotiating better premium and policy terms. This article highlights the important aspects and advantages of various group insurance policies.

Employers Group Insurance Policies - An Employees Benefits Perspective

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Group insurance is one of the most important elements of perquisites offered by employers today in corporate sector. Employers with even as less as 100 employees have seen value in offering group policies. Group policies offer a significant advantage in negotiating better premium and terms in a policy, and often come with lot of waivers on eligibility of coverage as compared to individual policies.

Employers could take group cover policies for varying needs, the popular ones being:

- Group Mediclaim (Hospitalization) Policy
- Group Personal Accident Cover
- Group Gratuity Policy
- Group Life Insurance
- Group Life (in lieu EDLI benefits under The PF Act) Insurance Policy
- Group Superannuation (Pension) Policy

The key benefits of a group policy are:

- Reduced per person premium, e.g. a life cover for Rupees one lakh may cost Rs 100 p.a. in a group policy, while the same cover could cost Rs 300 p.a. even for a person of age of 30
- Waivers like no waiting period for commencement of a cover, age restrictions, etc...
- All employees being automatically eligible instead of individually being evaluated for eligibility for insurance
- Better and easier policy servicing through employer
- Premium payment through payroll deductions, wherever employee contributes/participates in premium
- Insurance cover to all employees for times of need, irrespective of whether they have a personal policy, leading to better care of employee needs

This article proposes to highlight some of the advantages of the various group policies, best practices and emerging trends in managing these benefit policies. There is also an opportunity for professionals like Company Secretaries to join hands with HR function in organizations in driving the design and management of these benefit policies, and thereby delivering increased value to our organizations. Corporate law professionals are always involved in drafting of Gratuity Schemes and related Trust documentation, however, there are opportunities to participate and contribute in other areas like Mediclaim cover, life cover, etc.

**Group Life (in lieu of EDLI cover under the PF Act)**

Group Life (in lieu of EDLI cover) Policy is a policy which does not cost any thing extra to an employer considering the charges being paid to PF authorities under the PF Act. The PF Act has a provision for Employees Deposit Linked Insurance (EDLI) cover for all members of PF, administered by Employees Provident Fund Organization (EPFO). Every employer who maintains PF with EPFO is required to contribute 0.5% of basic salary every month towards EDLI benefits. This remittance is made along with monthly PF deposits. The basic salary for this purpose is capped at Rs 6500 p.m. This means that an employer is required to contribute a maximum of Rs. 390 p.a. (calculated as Rs 6500 x 12 months x 0.5%) towards EDLI benefits.

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1. Views expressed by the author are his personal and not necessarily those of his employer.
The life cover benefit offered by PF Act under EDLI is a sum of Rs 60,000 in the event of death of a member of PF.

Under the PF Act, there is a provision for exemption from EDLI contribution in case employer can demonstrate that they have in place an equivalent or a better life cover benefit for their employees. Also, majority of employees consent to alternate life cover benefit in lieu of EDLI benefit is insisted upon by PF Authorities. An employer who can demonstrate better benefits and employees consent to same, can then apply for an exemption from compliance with EDLI stipulations under PF Act. Documentation in the form of alternate life cover scheme, and employees consent is required to be filed with application to Regional EPFO authorities.

Most life insurance companies have a specially tailored life cover (in lieu of EDLI) product and can provide all the guidance to implement this policy.

The extent of life cover that can be provided under a policy with a life insurance company, based on age profile and number of employees in a company, with same amount that would have been otherwise paid to EPFO, can vary from 2 lakhs- 4 lakhs. This is for the simple reason that an annual contribution of Rs 390 will provide a life cover of only Rs 60,000 with PF authorities, whereas, a life insurance company can provide cover of anywhere from 2 lakhs- 4 lakhs for same amount.

Number of employers are choosing this product to provide a better life cover at same cost. The administrative effort in securing employees consent (a signature campaign) is worth the effort. EPFO do not normally reject the applications under this provision, and an advance intimation and discussion with EPFO authorities could help in making sure that proper roll out is carried out of this benefit.

**Group Life Insurance**

It is quite obvious that earning individuals with dependant family members or financial liabilities should have adequate life insurance cover; however, it is very rare that people take adequate life insurance cover. One should revisit the level of life cover based on life events like marriage, birth of a child, etc., to ensure that growing family needs will be met in case of an unfortunate event.

Employers can demonstrate that they care for their employees by taking adequate life cover on their employee’s life, for the benefit of families/dependants. In India, often families look towards employer for financial assistance in case of death of an employee, and an adequate life insurance benefit could exactly meet this need. Although, some employees may take adequate life cover, it is quite certain that in any given group of employees, most would not have an adequate cover, and a thoughtful act by employer of providing life insurance cover would be a valuable perk.

The key advantages of an employer provided cover could be:

1. Employees are often not required to undergo a medical test to determine the premium individually.
2. Premium is quoted based on group data on age, and applies uniformly to all employees. The premium quoted on group basis, is often much lower than the premium quoted on personal basis even in the age group of 25-30 years, it is even more beneficial for employees in the higher age group.
3. The level of cover provided is also higher than what an employee would go for an individual basis. Life insurance companies would often provide cover up to certain multiple of annual earnings of an employee.

The employers could provide an optional additional life cover on premium participation basis by employees. A life cover of 2-4 times of annual earnings is considered as an ideal cover than an employer could provide. Some employers may choose to provide uniform cover to all employees at a certain HR level (called as graded cover). E.g. Rs 5 lakhs to entry level employees, going up as per their grade in the Company.

Group life insurance cover combined with EDLI substitute policy can ensure adequate life cover to employees.

The cover would be available as long as an employee is employed with the Organization.

**Group Gratuity Scheme**

Group gratuity scheme is more an employer convenience scheme than employees. A Gratuity Trust formed to invest the provision made for gratuity can ensure that the employer’s future liability for gratuity is funded. It removes uncertainty in cash flows of employer, and also secures employees future rights. The amount contributed to a Trust is tax deductible, as against just a provision in accounts. The new AS-15 requires very detailed disclosures on employee benefits like gratuity. Brief highlights of some aspects are outlined here under:

1. Appropriate valuation of gratuity liability is a starting point for adequate funding. It is important that the assumptions for gratuity valuation are discussed with actuaries carrying out the valuation. Some of the key assumptions are employee attrition rate, annual salary revision rate, and investment return on investments. Employee attrition and salary revision rate are some assumptions on which actuaries should look at company’s historical data, and also discuss about future expectations in this regard of the employer. Actuaries are interested in real long run expectations, as against next few years’ expectations only.

   E.g. traditionally in manufacturing industry an attrition rate of employees at 4% p.a. and salary revision rate of 4-6% is considered appropriate, however, whether such rates would be good for some new economy sectors like software/BPO, etc. is doubtful, and possibly higher % assumptions in this regard would be more appropriate. An inappropriate assumption could mean both inadequate
provision for gratuity liability in accounts and hence inadequate funding to the Trust.

2. Historically companies in India have invested their gratuity funds with LIC in conventional fund management schemes, and LIC has delivered returns in the range of 9-12% p.a. depending on their fund management performance each year. In the last couple of years, the new private life insurance companies have been promoting Unit Linked (UL) investment schemes for gratuity funds, under which depending on the financial markets performance, the returns could be either higher or lower. The Trustees could also choose the mix of debt/equity and change same from time to time, depending on their expectations of market performance. The advantage of UL product could be that if the returns from investment are better than investment return assumed in gratuity liability valuation, then future contributions required could be lower. On the other side, the conventional investment scheme could provide a minimal guaranteed return, and thus ensuring that corpus once set apart for gratuity funding is never depleted. In today’s matured financial markets, UL looks like the way to go, and LIC has also now introduced UL investment option for Gratuity Schemes. If one life company does not deliver good performance over a time, one could also switch the investments to a different life company. If in-house investment skills are available, large organizations could manage investments on their own too.

3. If funds are invested with a life insurance company, under a gratuity policy, Employers could provide for gratuity benefits on future service also, as gratuity payable on death of an employee. The liability under the Gratuity Act is for past service only, however, keeping this additional provision in gratuity policy could provide additional benefit to employees, and par takes the nature of a life cover.

GROUP MEDICLAIM (HOSPITALIZATION) POLICY

Group hospitalization policy is to take care of hospitalization needs of an employee and his dependants. The premiums of such policies have gone up significantly in the last two years due to losses being incurred by insurance companies on these policies. This is perhaps the most valuable of the perks an employer could offer. Some of the valuable innovations in the hospitalization policy are features like: -

(a) Cashless admission, wherein insured employee and family members can be admitted to any hospital in the network of the insurance company without need to pay the cost of treatment, and the bills are sent to insurance company for settlement. A card is issued to all members insured, and hospital would admit on the basis of the card issued by insurance companies. The entire administration is often done by specialized intermediaries called Third Party Administrators (TPA) appointed by the insurance companies.

(b) Floater covers, wherein the employee and his family members are collectively covered for a sum assured. The amount of cover available could be used for needs of any family member instead of individually allocating the sum assured.

(c) Pre-existing diseases cover: Normally individual insurance policies do not cover pre-existing diseases. However, group policies are often issued with waiver of this condition, whereby hospitalization required for even known medical conditions of a patient at the time of admission to policy are covered for treatment.

Some of these innovations have also led to increase in claims cost and hence the premiums. Hospitals are often accused of carrying out unwanted tests or prolonging treatment to inflate the cost, while patients also do not realize since they have cashless admission. Pre-existing diseases cover is valuable particularly for elderly parents; however, it does lead to overall increase in claims level for a group policy, and hence higher premiums in subsequent years.

The companies are taking various measures to restrict the overall cost like: -

(a) Restricting the number of family members that can be enrolled. Some employers provide cover to only employee, his/her spouse and up to two children and do not extend cover to parents. The latest innovation is not giving cover to parents under the age of 60, since they may be earning members and not really dependant on employees. Some employers are capping the amount that can be used by parents in the overall floater cover. E.g. if the floater cover is Rs 2 lakhs, the cover available for parents could be limited to Rs 1 lakh.

(b) Requiring employees to co-pay part of the cost of hospitalization. This ensures financial participation by employee and hence more consciousness in controlling over all cost of treatment. Some policies, have deductibles like Rs 5,000, wherein the employee has to himself bear the cost of hospitalization up to this amount, or this much amount will not be paid by insurance if cost exceeds this amount.

(c) Requiring employees to use only network hospitals. These are hospitals which are in the panel of insurance company and with whom insurance company might have negotiated corporate terms.

(d) Requiring employees to take prior authorization for treatment, say 24 to 48 hours before actual admission for an identified treatment. Prior authorization ensures that insurance company can have an opportunity to ensure that
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only treatment which is required for the patient is proposed to be provided. Prior authorization will of course be not possible for emergency admissions.

(e) Restricting the amount that can be spent on certain diseases. E.g. limiting the amount for a cataract operation to Rs 15,000. Insurance companies have now identified many treatments which can be done as a day care procedure without need for admission or over night stay.

(f) Restricting room type that can be availed for treatment. Private hospitals offer variety of rooms like semi-private, private, deluxe, etc…for admission. Apart from the cost of room varying, the cost of rest of the treatment also varies depending on the room type. For e.g., the cost of a heart by-pass surgery could be Rs 1.5 lakh with admission in a semi-private room, whereas the same operation could cost Rs 2.5 lakh with admission in a deluxe room.

The above forms of managing insurance costs are also called as ‘Managed Healthcare’, wherein employer, TPA, and insurance company are actively attempting to manage healthcare costs. The emerging trend now is ‘Consumer Driven Health Care’ wherein the focus is more on Consumers, and hence on Prevention, Health Promotion & Condition Management. So, for instance, the focus on medical costs and even co-pays may continue, however, co-pay will be nil or reduced, if employee pro-actively takes initiative for prevention, and participates in managing conditions like diabetes/asthma, etc.

Group Personal Accident Policy

Accidents could happen in the course of employment or otherwise. A group personal accident policy can provide an employer ability to meet statutory responsibilities that an employer may have in case of an accident in the course of employment. These policies provide financial compensation due to hardships caused due to an accident. The full value of cover is paid in case of death due to an accident. The cover provides for compensation in case of loss of limb, eye sight or hearing capacity, permanent and temporary incapacitation. The % of sum assured paid varies for partial disablement, and full sum assured is paid on total disablement. In case of total temporary disablement, wherein an employee is unable to come to work and, hence, could be on loss of pay, the insurance policy pays a compensation for every week of disablement. E.g., it could be 1% of sum assured for every week of disablement, capped at 100 weeks.

The disablement related benefits are not as sophisticated in India yet, as they are in US and Europe. However, with growth of insurance sectors, and entry of insurance companies focused on health care, we could expect more sophisticated products in this segment in the coming years.

Group Superannuation (Pension) Policy

Group pension policies are for accumulating funds for pension benefits for employees. Life insurance companies offer this product. Under Income Tax Act, up to 27% of employees basic salary contributed towards provident fund and superannuation benefits is exempt from personal taxation in the hands of the employees. Since, PF is normally 12% of basic salary; another 15% could be contributed towards superannuation scheme. However, in the recent year Fringe Benefit Tax is attracted for contribution beyond Rs 1 lakh per annum towards an individual employee. Nevertheless, from an employee’s immediate tax free perquisite and future pension benefits perspective, contribution towards superannuation by employer can be a significant benefit that can be extended to employees.

This benefit is often extended to more senior level employees, and can be introduced as an optional benefit also, wherein, employees can choose whether they would like to receive the equivalent compensation now, or would like to have deferred benefits in the form of pension, by contribution of an amount towards super annuation. Similar to Gratuity, a superannuation Trust would be required to be formed, and approved by tax authorities for the contribution being deductible for employer. The investment of funds can be either managed by the Trust or managed by life insurance companies.

The key benefits are savings for future of employees in addition to PF contributions, and secondly the amount being not taxable in the hands of employees, subject to limit of 15% of basic salary.

Summing Up

Group policies offer an immense opportunity to employers to provide significant benefits to their employees and family members for their various insurance needs. The cost/premium is also often lower with added benefits of waivers. The premium incurred is not considered as a perquisite in the hands of employees and hence not taxable to the employees. However, the introduction of fringe benefit tax (FBT) since 2005 has been some dampener and leading to some employers reducing their expenditure on group policies. The cost of hospitalization policy has seen significant increase due to growing cost of healthcare and lifestyle habits of employees. Employers need to step up their engagement in better health for employees, for both promoting employees’ health care and managing health care costs. Employers who pay EDLI charges along with PF deposits, have an opportunity to offer better life insurance cover to their employees by opting for life cover with insurance companies, and must make use of same. In the long run, employers who provide better insurance benefits will have more employee loyalty, and will score on this basis with prospective employees too. Internationally, the better employers are distinguished by the amount and nature of insurance benefits offered by employers, and the same is being seen in India also now.