

India Pension Research Foundation  
Working paper series, No: 07/04

Employees' Deposit-Linked Insurance Scheme,  
1976

Surabhi Talwar\*

August 1, 2004

---

\*We thank Mr.Viswanathan and other officers of the EPFO for providing us with data and information. Comments of this paper should be mailed to [info@iief.com](mailto:info@iief.com)

CONTENTS

<b>1</b>	<b>Introduction</b>	<b>3</b>
<b>2</b>	<b>Legislation</b>	<b>3</b>
<b>3</b>	<b>Coverage</b>	<b>3</b>
<b>4</b>	<b>Operational framework of the EDLIS</b>	<b>4</b>
4.1	Contributions . . . . .	4
4.2	Administrative set-up . . . . .	5
4.3	Administration and Inspection charges . . . . .	8
4.4	Investment . . . . .	9
4.4.1	The EDLIS portfolio . . . . .	9
4.5	Benefits . . . . .	10
4.6	Earlier reforms . . . . .	11
4.6.1	Method of benefit payment . . . . .	12
4.7	Exemption . . . . .	12
<b>5</b>	<b>Defaults</b>	<b>13</b>
<b>6</b>	<b>Conclusion</b>	<b>14</b>

## 1 INTRODUCTION

The EPF&MP Act 1952 provided for a provident fund and a family pension scheme for employees from 1971 onwards. However it was felt that problems arising out of early death of the employee were left unaddressed. In view of this, the Act was amended to incorporate an insurance scheme, called the Employees Deposit Linked Insurance Scheme (EDLIS) in 1976. The objective of the scheme was to put in place a mechanism to provide employees' families with income security after the death of the member. It was funded through contributions by the employer and the central government with no contribution by the employee himself. The scheme has undergone several changes since its introduction. The government no longer contributes to the scheme and the rates of benefits have also been changed many times. The contributions thus come only from the employers. A comprehensive administrative framework was set-up to ensure smooth functioning of the scheme. This paper aims at giving a detailed explanation of the underlying rules and intricacies of the EDLIS. Section 2 talks about the legislation governing the scheme as well as the applicability of the scheme. Section 3 gives an estimate of the coverage of the EDLIS. Section 4 gives the details of the operational framework of the EDLIS. This section discusses details about the contributions, administrative framework, benefits, and funding of the EDLIS. Section 5 talks about the scheme experience with defaults by employers. Section 6 concludes.

## 2 LEGISLATION

The Employees' Provident Funds and Miscellaneous Provisions Act, 1952 (EPF&MP) provides the legislation for the EDLIS. The act was amended in 1976 to include a chapter on the EDLIS.

## 3 COVERAGE

EDLIS is applicable to all the factories and establishments to which the EPF&MP Act '52 applies. This includes both the exempt and unexempt establishments<sup>1</sup> covered by the Act. The provisions of the scheme are not

---

<sup>1</sup>Under the EPFO Act, establishments can seek an exemption from the EPFO w.r.t. administration and investment of the scheme. The establishments which obtain an exemption, set up their own trust funds and manage the investments of the contributions

Table 1: Coverage under the EDLIS		
Year	% increase in no.of establishments	% increase in number of members
1990	7.33	2.56
1991	6.17	7.11
1992	2.16	5.78
1993	5.74	4.19
1994	5.94	3.92
1995	5.97	4.08
1996	5.51	3.16
1997	4.8	5.04
1998	7.8	4.58
1999	6.43	8.95
2000	2.55	6.13
2001	4.13	7.19
2002	5.22	4.25
2003	-3.7	44.06

Source: EPFO Annual reports

applicable to factories in Jammu and Kashmir (as these are not covered by EPF) and in the state of Assam. As of 2003, there were a total of 344508 firms covered under the EPFO with a membership of about 395 lakhs. Table 1 shows the percent increase in the number of establishments and members covered by the EDLIS for the past decade.

#### 4 OPERATIONAL FRAMEWORK OF THE EDLIS

The EDLIS functions on the basis of the contributions received from the employers. The money is then invested and benefits are paid out from the EDLIS fund.

##### 4.1 Contributions

At the time of inception of EDLIS, contributions were made by both employer and the central government. The Act specified that the employer shall contribute not more than 1% of the aggregate of basic wages, dearness of their employees PFs. They are however still subject to all other regulations of the EPFO

allowance including cash value of food concession and retaining allowance. In 1977 it was decided that the employer would contribute 0.5% of the above mentioned aggregate pay, subject to a ceiling of Rs.6500. The central government contributed 0.25% of the pay in respect of the covered employees.

In 1996, an amendment was passed which ended the government's contributions with respect to covered employees. The government stopped contributing in 1998. The employers' continued to contribute at the rate of 0.5% of pay. The time limit for the employer to remit his contributions to the Deposit-Linked Insurance Fund is within fifteen days of the close of every month. The central government must credit its contributions to the Fund as soon as possible after the close of every financial year.

Table 2 gives the total contributions per annum.

## 4.2 Administrative set-up

The employer sends in the contributions and administration and inspection charges within 15 days of the close of every month. These are sent by a separate bank draft or cheque or by remittance in cash. There are two different funds to deal with the money. These are the

1. Insurance fund central administration account.
2. Deposit linked insurance fund account.

The *Insurance Fund Central Administration Account* receives the administration and inspection charges paid by the employer and earlier by the central government too. Expenditures involved in making investments, keeping accounts and other procedures involved in the running of the scheme are met from this fund. This fund is not used to pay benefits.

The *Deposit-Linked Insurance Fund Account* meets the expenditure of providing benefits. This fund receives the contributions made by the employers with respect to the basic wages of their employees. Funds in this account were kept in deposit with the Central government in the Public Account before 1997. From 1998 onwards, the new funds were invested according to a pattern specified by the Ministry of Finance.

Table 3 shows the total income and expenditure of the EDLIS from 1979 to 1995. Data for separate income and expenditure was not available beyond 1995. At the outset, the EDLIS fund seems to be showing positive profits.

---

Table 2: Contributions collected by the EDLIS

---

Year	Total contributions (Rs. in crores)
1977	11.97
1978	22.65
1979	24.97
1980	23.70
1981	26.53
1982	27.71
1983	29.99
1984	33.90
1985	36.58
1986	42.47
1987	48.03
1988	50.74
1989	40.52
1990	46.43
1991	61.21
1992	72.47
1993	78.57
1994	101.12
1995	81.45
1996	120.15
1997	92.12
1998	103.96
1999	114.66
2000	129.46
2001	139.36
2002	153.47
2003	158.62

---

Source: EPFO Annual report, 2002-03

---

A *Central Board* was constituted under section 5-A of the EPF&MP Act' 52. The administration of the scheme including management of these funds is done by the Central Board. The Board consists of the following members

1. Chairman and Vice-Chairman.
2. Not more than five people appointed by the Central government from amongst its officials.

---

Table 3: Income and expenditure of the EDLIS

---

Year	Income	Expenditure
1979	532.66	25.34
1980	558.48	33.59
1981	664.50	41.62
1982	695.60	49.93
1983	822.00	61.06
1984	895.95	63.57
1985	1496.31	71.01
1986	2014.54	118.11
1987	1845.10	112.33
1988	1525.06	124.09
1989	1658.31	159.41
1990	2964.91	65.78
1991	1538.68	72.30
1992	2723.26	76.68
1993	5552.49	95.22
1994	528.76	113.91
1995	7017.97	154.56

Source: EPFO Annual reports

---

3. Not more than fifteen people representing governments of states which the central government may specify.
4. Ten people representing employers of the establishments to which the scheme applies.
5. Ten people representing employees of the establishments to which the scheme applies.

The Central Board maintains its accounts of income and expenditure and these are audited annually by the Comptroller and Auditor-General of India. The Board also submits an annual report of its work and activities.

Various *Regional Committees* were established in the states under Paragraph 4 of the EPF&MP Act '52. These are in place till the time that State Boards are constituted. They function under the control of the Central Board and consist of the following members:

1. A chairman.
2. Two people recommended by the State government.

Table 4: Total charges collected by the EPFO	
Year	Total charges (Rs. in crores)
1990	3.57
1991	3.26
1992	6.18
1993	6.62
1994	5.14
1995	4.52
1996	5.52
1997	5.49
1998	5.20
1999	7.24
2000	10.27
2001	7.84
2002	7.61
2003	7.84

Source: EPFO Annual reports

3. Two people representing employers of the establishments to which the scheme applies.
4. Two people representing employees of the establishments to which the scheme applies.
5. The non-official members of the Central Board ordinarily resident in the state.

The committees advise the Central Board on issues such as the progress of recovery of Provident Fund contributions and other charges, expeditious disposal of prosecutions, speedy settlements of claims, annual rendering of accounts and speedy sanction of advances. The Regional committees will be dissolved as soon as State Boards are constituted.

### 4.3 Administration and Inspection charges

The contributions towards administration and inspection charges have changed over the years through reforms. At the time of inception, the employer paid 0.1% while the government contributed 0.05% of pay. In 1980 a proposal was passed which put in place inspection charges for employers of exempt establishments. This charge was 0.02% of pay.

In 1988, administration charges were reduced from 0.1% to 0.01% for employers, and from 0.05% to 0.005% for the government. These charges

were then subject to a minimum of Rs.2 per month for the employer, and Rs.1 per month for the government. The scheme is currently following this pattern of charges but the government stopped contributing towards administration charges after 1998. As of the year 2000 employers of exempt establishments must pay inspection charges of 0.005% instead of the earlier 0.02%. These payments are deposited in the Insurance Fund Central Administration Account and are used to fund the expenditures involved in the running of the scheme.

Table 4 shows the total administration charges collected from the employers and the central government by the EDLIS.

#### 4.4 Investment

Before 1997, the corpus of the Deposit-Linked Insurance Fund was deposited with the Central government in the public account. It earned an interest of 7.5% before 1989. In 1989 the interest rate was increased to 8.5%. After 1997, the corpus already in the Fund was left in the public account, and new contributions were invested according to a specified pattern. (See Table 5)

---

Table 5: Investment pattern of the ELDIS

---

Investment category	Percentage invested
Central Government Securities	Not less than 25%
State Government Securities and guaranteed securities	Not less than 25%
7-Year National Savings Certificates or Post Office Time Deposits	Not exceeding 30%
Special Deposits	Not exceeding 20%

---

Source: EPFO Annual report, 2002-03

---

Table 6 shows the total investments corpus of the EDLIS for the past decade.

##### 4.4.1 The EDLIS portfolio

While the total EDLIS investment corpus stands at Rs.3485 crores as of 2002-03, an analysis of the portfolio reveals several investments which have the possibility of yielding negative returns. Table 7 shows the exposure of

---

Table 6: Investment corpus of the EDLIS

---

Year	Corpus (Rs.crore)
1994	1172.07
1995	1328.57
1996	1533.73
1997	1730.77
1998	2189.96
1999	NA
2000	2465.88
2001	2782.96
2002	3124.8
2003	3485.22

---

Source: EPFO Annual reports

---

EDLIS funds on securities of some state governments. While these are a small fraction of the total EDLIS corpus, many of these states are known to have fiscal problems and if they default on their bonds, it means that the EDLIS fund could run into problems.

#### 4.5 Benefits

On the death of an employee who is a member of the Provident Fund, the selected nominee will get the existent accumulations in the PF account of the employee as well as an additional amount. This additional amount is equal to the average balance in the account of the deceased during the preceding twelve months or during the period of membership, whichever is less. Where the average balance exceeds Rs.35,000, the amount payable is Rs.35,000 plus 25% of the amount in excess of this figure. This total amount is subject to a ceiling of Rs.60,000.

The benefits that accrue from the EDLIS scheme seem to be lower than those accrued by buying a group insurance policy from the market. For example, an unexempt firm pays 0.5% of wages as contributions as well as an additional 0.01% of wages as administrative charges to the EPFO. For a member with a salary of say Rs.6500 this amounts to a premium of Rs.33.15 as a monthly premium or about Rs.399 as yearly premium. This buys him a maximum cover of Rs.60,000. Term insurance in the market is roughly sold at Rs.3 per Rs.1000 of cover. So for Rs.399, one could get a cover of Rs.1,33,000. The EDLIS thus is a very expensive proposition for its members.

---

Table 7: Exposure of the EDLIS fund on securities of state governments

---

State	Total (in Rs.crore)
Andhra Pradesh	19.00
Bihar	6.33
Chattisgarh	1.2
Goa	2.00
Gujarat	11.29
Haryana	7.15
Karnataka	7.17
Kerala	15.60
Madhya Pradesh	2.33
Maharashtra	8.36
Orissa	5.87
Punjab	1.44
Rajasthan	7.13
Tamil Nadu	6.64
Uttar Pradesh	2.38
West Bengal	2.37

---

Source: EPFO Annual report, 2002-03

---

What is also not clear is the actuarial soundness of the benefits. Any insurance scheme benefits are a function of the mortality of the group and the interest on investments made by the provider. The EPFO does not mention the provision of benefits on the basis of mortality estimations of its members. There has also not been a study about the mortality experience in the EDLIS scheme and a revision of benefits accordingly. The question of whether EDLIS is an over-funded scheme should be answered by the EPFO.

#### 4.6 Earlier reforms

The quantum of benefits have also undergone various reforms. At the time of inception, the scheme offered a benefit equal to the accumulations plus an average balance of the members account in the last three years subject to a maximum of Rs.10,000. The balance in the account must not have dropped below Rs.1,000 during those three years.

In 1990 the benefit was changed to the accumulation plus an average of the account balance in the preceding 12 months if the balance was below Rs.15,000. For a balance greater than Rs.15,000 an additional 25% of the

excess amount was given as benefit subject to a maximum of Rs.25,000. The condition of minimum balance throughout the 12 months in question was reduced from Rs.1,000 to Rs.500.

In 1993 the amount in addition of the existent accumulation was an average balance of the account during the previous 12 months as long as the balance was less than Rs.25,000. If the balance exceeded Rs.25,000, an extra 25% of the excess amount was given subject to a maximum of Rs.35,000. The condition for minimum balance of Rs.500 was deleted. There was no stipulation about the balance in the account at any point of time. In 2000, the current benefit scheme was put in place.

#### 4.6.1 Method of benefit payment

Benefits are paid after a beneficiary has made a claim and submitted it to the Commissioner of the Central Board. Once the claim has been submitted in complete form, the claim must be settled within thirty days from the date of receipt. If the Commissioner fails to settle the claim completely within this period, without sufficient cause, he will be required to pay penal interest at the rate of 12% per annum on the benefit amount. The same may also be deducted from the salary of the Commissioner.

Payment of benefit may be made by postal money order for an amount less than Rs.2000. It may be deposited in the payee's bank account in any Scheduled Bank, Co-operative Bank or Post Office. It may also be deposited in the payee's name in the form of an annuity or term deposit scheme.

#### 4.7 Exemption

Provisions for exemption from the EDLIS are under Section 17 of the EPF&MP Act 1952 along with Section 28(1) of EDLIS. An exemption from EDLIS is granted where the employees receive an insurance benefit without making any separate contribution or paying premium. It is necessary that this insurance benefit be greater than the insurance benefit provided under the EDLIS. An establishment exempted from the operation of the EDLIS is required to submit a monthly return to the RPFC. The establishment is also liable to pay inspection charges at the rate of 0.005% of the basic wages and dearness allowance, subject to a minimum of Re.1 per month. It does not have to pay any administration charges.

State	No of cases
Madhya Pradesh	1707
West Bengal	1640
Maharashtra	1479
Bihar	1319
Karnataka	1241

Source: EPFO Annual report, 2002-03

## 5 DEFAULTS

Where an employer makes a default in the payment of any contribution or charges, the Central Provident Fund Commissioner may recover penalty from the employer at varying rates depending on the period of default. The penalty rates are as follows

Less than 2 months default period	17%
Between 2 to 4 months default period	22%
Between 4 to 6 months default period	27%
6 months and above default period	37%

These damages may be waived or reduced subject to some terms. If the management changes, or there is a merger or amalgamation, the damages may be waived off completely. If the Board for Industrial and Financial Reconstruction recommends a waiver, a waiver up to 100% may be granted. In other cases, depending on the merit of the claims for waiver, upto 50% of damages may be reduced.

If an employer deducts or attempts to deduct contributions from the employee's remuneration, fails to submit a return, obstructs an official in the discharge of duty or fails to produce records for inspection, he is punishable with imprisonment upto one year, or a fine of upto Rs.4000, or both.

In 2003, of a total of 16177 prosecution cases, only 1126 cases were disposed while the remaining 15051 cases were still pending. Table 8 shows the top five states where defaults w.r.t. EDLIS occurred.

## 6 CONCLUSION

The EDLIS seems to be the most well performing of all the schemes run by the EPFO. Though it provides for an insurance cover in the event of premature death of a member, the quantum of benefits provided is not high. The EDLIS also proves to be more expensive than the insurance available in the market. It would indeed be very useful, if effort could be undertaken to bring the benefits under EDLIS upto those available in the market. The EPFO could start with a comparison of the mortality experience of the LIC insurance schemes and its own and estimate the degree of overfunding, if any, in the EDLIS. Further the EPFO could modify the cover provided under the scheme in accordance with the mortality experience and in tune with what is provided in the market.