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ESI contribution rates reduced

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Background:

The Employees' State Insurance Corporation (ESIC), a statutory body, is set up under the Employees' State Insurance (ESI) Act, 1948. The body administers the scheme of ESI and protects the interests of the employees thereunder and their immediate dependents who are entitled to medical facilities in unforeseen situations. The scheme also ensures cash benefits in the event of specified contingencies resulting in loss of wages or earning capacity. The insured women are entitled to maternity benefit for confinement.

The ESI Act, applies to following categories of factories and establishments in the implemented areas:

- ◆ Non-seasonal factories using power and employing 10 or more persons drawing a salary not more than Rs.21,000
- ◆ Non-seasonal and non-power using factories and establishments employing 20 or more persons drawing a salary not more than Rs.21,000

Reduction in rate:

A major decision was taken by the Union Government on 13th June, 2019 to reduce the rates of both employee's and employer's contribution towards ESI. This reduced rate of contribution will take effect from the **1st July 2019**.

The reduction in rate would be from the erstwhile 6.50% to 4%. The comparison of the rates existing currently and the new rates are as under:

Contribution Ratio	Old	Revised
Employer Contribution	4.75%	3.25%
Employee Contribution	1.75%	0.75%
Total	6.50%	4.00%

The move is aimed at formalizing India's informal workforce and expanding social security coverage. The move is also aimed to provide substantial relief to workers and business establishments and to facilitate further enrollment of workers under the ESI scheme and bring more and more workforce into the formal sector. It is also expected that such reduction might lead to the improved compliance of law and will also encourage other small & medium business organizations to comply under the ESIC laws.

Illustration:

A sample comparative working on how the reduced rate will work is provided below:

Particulars	Prior to 1 st July 2019	W.e.f. 1 st July, 2019
Basic Wage as per Minimum Wages Act, 1948 (assumed)	12,500	12,500
HRA	5,000	5,000
Gross Salary (A)	17,500	17,500

Less: Employee's Social Security Contribution:

Employee Contribution of EPF	1,500	1,500
Employee Contribution of ESI	306	131
Total Deduction (B)	1,806	1,631
Take Home Salary (C) = (A) - (B)	15,694	15,869

Employer's Social Security Contribution:

Employer Contribution - ESI	831	569
Employer Contribution - EPF	1,500	1,500
Total Social Security Contribution (D)	2,331	2,069
Cost to the employer (E) = (A) + (D)	19,831	19,569

As it can be observed in the above illustration, the take home salary of the employee increases by Rs.175 per month and the cost to the employer reduces by Rs.262 per month per employee.

Conclusion:

The Governments move of reduction of ESI contribution should encourage to improve compliance and coverage of the scheme in coming periods. According to Government estimates, it should benefit 36 million employees working in more than 1.3 million organizations, who are enrolled under ESIC and will encourage other small and medium business organizations to comply under the ESIC laws.

Further, overall cost of healthcare also reduces because the same facility available in the ESI enrolled hospitals will now be available at reduced cost for the employees covered under the ESIC scheme.

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