

EMPLOYER - EMPLOYEE SCHEME

“Employee have an insurable interest in their employees and vice- versa. On the primary consideration alone, provided we are able to satisfy ourselves about the total absence of the moral hazard element in any given proposal, we would be justified in granting an insurance cover on employee’s life. There can be various reasons for employed to have his employees lives covered. The main reasons are given here under- .

- i) An enlightened employers may like to make provision as a welfare measure through life insurance for the dependants of the employee in case of employee’s early and premature demised and old age provision for the employee himself. This may consider one of the services benefits.
- ii) An employer may hold the life insurance policy as a sufficient inducement or encouragement for the employee to continue with him since the employer has to spend considerable amount of money and time to train a new employee and moreover upon exit of such an existing employee the employer may loose some of his trade secrets.
- iii) An employer may desire to give certain additional benefits to his select band of employees as a reward of good services and who could not otherwise be compensated keeping in view the above objectives we consider proposals form employers on lives of employees provided the following are condition are fulfilled.
 - a) The proposals will be treated as individual proposal form the employees concerned irrespective of whether the proponent is an employer or an employee.
 - b) The minimum sum assured shall be determined in terms of the rules relating top financial underwriting for individual assurance taking into account the existing life of the individual.
 - c) If the employer is the proponent, the policy shall be assigned to the life assured at the earliest as per agreement between the employer and employer. A separate letter from the employer, stating the object of insurance, the restrictions in respect of surrender, loan etc., to be imposed and condition, timing etc. of assigning the policy to the life assured should be obtained with an undertaking that the letter will form the basis of the contract.
 - d) The Proposal should be signed by the person authorised by resolution preferably by one of the directors of a public or private company the seal of the persons signing may be affixed on the proposal form.

The restrictions imposed by the employer should be reasonable. Normally these should not beyond 5 yrs. From the date of the policy in any case.

- e) Moral Hazard is a critical area and that needs thorough examination before proposals are finally accepted. To avoid the possible element of moral Hazard, the following steps may be taken: -
 - i) We are to be satisfied that the sum assured is within financial restriction applicable to individual assurance.
 - ii) Form No. 340 has to be used for the purpose. However, cover may be restricted to salary including premium payable by the employer and income derived from other sources.
 - iii) We may satisfy ourselves that employer is a well-known reputed commercial organisation.
 - iv) The Wordings of assignment may be prepared by the employer in consultation with his own legal adviser.

- v) In some instance employer may like to finance loan towards payments of premiums to the employee, proposal form No 300 may have to be used in such cases. The policy issued may be assigned to employer as collateral security and re - assigned to the policyholder on redemption of debt.

(Ref : C.O Circular Actl/1637/4 dt. 2/3/98)

The following options to be executed by the employer-

Option 1

- a) The Employee is asked to propose for a policy on his own life and his proposal will be sent together with a letter from the employer that the premium under the policy is paid by the employer.
- b) If this option is exercised then no further assignment or any action on the part of employer is required expected to remit the premium as and when due under the policy.
- c) At the end of the year, employer has to give a certificate to the employee of the amount of premium paid by him out of his salary to claim tax rebate.

Option 2

- a. The management of the company informs the employee the provision of the life cover to be taken on his life as part of the terms and conditions of his employment.
- b. An officer of the company is duly authorised by the company to sign the proposal form take such action as may be necessary to enter into a contract of life insurance with the corporation on the life of the employee as well as to assign the policy in favour of the employee later.
- c. Once the Policy is assigned to the employee the employee will own the rights of the policy.

Requirements

1. Proposal May be submitted either in form No. 300 or 340.
2. The medical examination, special reports will be decided on the basis of SUS for individual life proposed.
3. The Maximum S. A. Shall be determined in terms of the rules relating to financial underwriting for individual insurance taking into account the existing life insurance of the proposed.
4. If the employer is the proposer, i.e if proposal is submitted in F No 340, a separate letter shall be obtained from the employer, stating:-
 - a. The object of insurance.
 - b. The restrictions he desires to impose in respect of surrender.
 - c. That he would assign the policy to the life assured immediately after the issue of policy
 - d. That the later should form part of the proposal.
5. It is not necessary that all the insurable employer be covered under the scheme.

(Ref : C.O Circular Actl/217 dt. 2/11/83)

Taxation

As per section 17(2) (v) of the Income Tax/Act 1961, any sum payable by the employer whether directly or through a funds other than a recognised provident fund or an

approval superannuation. Fund to effect an assurance on the life of the assessee or to effect a contract for an annuity for the benefits of an employee will be treated as a perquisite in the hands of such employee. If the premiums are so treated as perquisite the employee will be entitled to claim income tax rebate under sec 88 of the said Act.

It means that if the employers pay or arrange for payment of the insurance premium on the life of the employee, it can be treated as a taxable perquisite in the hands of the employee. The Employee can claim as a permissible income - tax rebate in his personal returns under section 88 of the I. T. Act. The employer can also show as an expenditure incurred during the year and claim tax rebate under section 37 of Income Tax Act, 1961 and Section 17 (2)(v) Provides that the employer informs the employee that he is being insured of his benefit and the premium paid by the employee that the premium paid by the employer shall be a taxable perquisite in the hands of the employee.

The Provisions of the Income Tax Act cited above do not specially prescribe that such perquisites should have been payable to a 'Class of Employee'. It would suffice if the employee is aware that a provision is being for the payment of such perquisites on which he has to pay tax.