Employees net salary to fall after govt raises cap on ESIC

Employees with a salary entailing a monthly cost to company or CTC of up to Rs 30,000 may be faced with a cut in take-home pay, following a government decision to enhance the ceiling for mandatory health insurance coverage through the Employees' State Insurance Corporation (ESIC).

Employers will have to deduct 6.5% of workers' earning up to Rs 25,000 in gross salary towards ESIC, up from the earlier ceiling of Rs 15,000 that was set in 2010. A decision to raise the salary ceiling was taken at a meeting of the corporation chaired by labour and employment minister Sis Ram Ola last Thursday.

Experts said the raised ESIC ceiling will hit the take-home income components of those earning over Rs 15,000 per month and up to Rs 30,000 per month on a CTC basis. The corporation, which covers around 1.5 crore employees, reckons that the move will bring nearly 45 lakh new workers within its fold, while boosting annual revenue through statutory contributions by Rs 4,200 crore.

The ESIC Act of 1948 was the first social security legislation of independent India and offers medical care to workers and their dependents along with unemployment benefits in case of disablement or occupational accidents, including fatal ones. It mandates employers to contribute 4.75% of an employees' gross salary with a 1.75% matching premium payment from employees. In return, members get access to ESIC's dispensaries and hospitals around the country.

"Since ESIC contributions are linked to gross salary, a lot of younger people in new-age jobs like BPOs and IT services would be drawn into its fold under the new ceiling," said Rituparna Chakraborty, senior vice president and cofounder of TeamLease Services. "This is bizarre since the law was aimed at protecting the weakest industrial workers, not those who can afford to buy their own healthcare insurance."

While the government cited a rise in wages and high inflation in the period since 2010 as the reason for raising the ceiling, employer representatives attending the ESIC meeting submitted a dissent note on the decision. When the idea was originally mooted in June 2012, employers had stressed that the revision in the ceiling must not be considered in isolation.

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