

# EMPLOYER-EMPLOYEE INSURANCE



An Employer has Insurable Interest in the life of an Employee and vice-versa.  
(Insurance Act 1938 as amended up to date)

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# What is Employer-Employee Insurance?

An insurance under Employer-Employee concept is the love and concern given by an employer to his/her employee who works hard with sheer dedication for the achievement of various goals of the organization effectively and efficiently.

Under this, the company buys an insurance policy where an employee is a beneficiary. In today's times, it's very hard to retain a productive employee. This concept acts as a reward programme for the employee which motivates employees to work in the organization for a long time. Such a concept runs under the principle that the employer has an insurable interest in his/her employees & vice-versa.

Generally, many find this concept only for the betterment of the employees but it benefits both employer and the employees.

It is seen that some people do malpractices to save income tax. Sometimes, they come under the scrutiny of income tax department and are liable to pay heavy penalties.

**But, under Employer-Employee Insurance a businessman can save unlimited tax u/s 37(1) of the Income Tax Act 1961.**

## Benefits to EMPLOYER

- Increase in loyalty of the Employee.
- To minimize Employee attrition rates which hurt business. (Like the expenses of recruiting and training of new employees are very high).
- Enjoy Tax Rebates u/s 37(1) on the premium paid.
- An attractive incentive to retain TALENT.

## Benefits to EMPLOYEE

- Provides Employee with long term and short term security against premature death, illness, accident/disablement.
- In addition to benefits from the company on retirement, the employee gets Maturity, Claim or Pension for lifelong.
- The employee need not bother about buying and administering the policy.
- The employee will enjoy all benefits as tax-free u/s 10(10)d.

An employer can also get a policy under the scheme and can avail all its benefits.

Let's know How!

If an employer himself/herself is on the salaried basis like there are directors, chairman, principals employed on the salaried basis with a shareholding in the organization can get themselves benefitted under this scheme.

## Tax Implications

- Premium paid by Employer is taken as a business expense and is a deductible expense U/s 37(1) of IT act.
- Premium paid by the employer is considered as 'perquisite' in the hands of the employee and hence will become a part of 'income chargeable to income-tax for the employee, u/s 17(2)(V) of IT act.
- Premium paid by the employer can be claimed for IT Rebate U/s 80C by the employee.

## Eligibility

- The proposal will be treated as an individual proposal from the employee concerned.
- The medical examination/special reports will be decided on the basis of SUC for the individual life proposed (employee).
- The maximum eligible insurance for the employee will be based on his/her individual income.

## Condition on Beneficial Ownership

- Total shareholding of the Employee, his/her spouse and minor children in the Company should be less than 71 %
- Total shareholding of the Employee in the Company should be less than 51 %

## Conditions/Restrictions referred to the Scheme

Initially, the employer is the Proposer and employee is the life assured. A specified period is decided generally a period of 3 to 5 years during which the Employer will be the policyholder and will pay premiums. The Employer can continue to pay premiums for the Employee even after the 'Specified Period' also.

The Employer should undertake to assign the policy to the Employee absolutely upon the Employee continuing to remain in employment with the Company for a period specified by the Employer.

If the Employee quits the job within the specified period, the Employer can either surrender the policy for its surrender value to the insurance company or absolutely assign the policy to the employee as a part of the terminal benefits.

No withdrawals (surrenders/loan) are generally permitted to be made by the Employee without the consent of Employer.

# Requirements

- **Proposal form 300 or 340. If 340 submitted, then details of Assignment also to be submitted [If an employer is a proponent, the policy shall be assigned to the life assured (employee) as per an agreement between the Employer and Employee].**
- **The proposal should be signed by a person authorized by resolution.**
- **Book of Accounts or IT orders for the last 3 years of the company to check the profitability of the company as the premium liability lies with the company.**
- **Copy of the Board resolution- employer to obtain approval from the board or the sources authorized to act for and on behalf of the company for starting the Employer-Employee Scheme**
- **A separate letter shall be obtained from the Employer stating the object of Insurance.**
- **The restrictions he desires to impose in respect of surrender, loan etc of the policy (normally these should not go beyond 5 years from the date of policy ).**