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Group Insurance – An overview

Mohith Saradhy

Table of Contents

Executive Summary 4
About the Author 4
Introduction to Group Insurance 5
Features of Group Insurance 6
1.1. How is Group Insurance beneficial to the Individual? 6
Business Principles of Group Insurance 8
1.2. Group Insurance Contracts 8
1.3. Certificate of Insurance 8
1.4. Free Cover Limit or No Evidence Limit 9
1.5. Group Insurance Policy Provisions 9
1.5.1. Eligibility Requirements 9
1.5.2. Grace Period Provisions 10
1.5.3. Incontestability Provisions 10
1.5.4. Termination Provisions 11
Types of Coverage for Group Insurance 12
1.6. Life Cover 12
1.7. Accident Cover 12
1.8. Pension Cover 12
1.9. Medical Cover 13
1.9.1. Critical Illness 13
1.9.2. Hospital Cash & Mediclaim 13
Group Insurance Products 14
1.10. Group Term Life Insurance 14
1.11. Group Saving Linked Insurance 15
1.12. Group Credit Life Insurance 15
1.13. Group Health Insurance 16
1.14. Group Dental Insurance 16
1.15. Worldwide Travel Group Insurance 16
1.16. Group Term Disability Insurance 16
1.16.1. Group Short Term Disability Insurance 17
1.16.2. Group Long Term Disablity Insurance 17
Group Insurance Products in India 18
1.17. Group Leave Encashment Scheme 18
1.18. Group Insurance Scheme in lieu of EDLI 18
1.18.1. What is EDLI? 18
1.19. Social Security Scheme 19

1.20. Voluntary Retirement Scheme 19
1.21. Group Gratuity Scheme 19
1.22. Group Superannuation Scheme 20
1.22.1. Money Purchase Scheme 20
1.22.2. Benefit Purchase Scheme 20

Executive Summary

Group insurance involves providing insurance to a group of individuals, through a single policy contract. With group insurance plans, there is definitely strength in numbers. Group Insurance is insurance designed with businesses in mind.

Besides providing insurance coverage, insurance corporations design group insurance policies in a manner that employer specific liabilities such as funding of gratuities and payment of pensions are also minimized. It is also used as human resources tool by corporate employers to ensure employee loyalty. Insurance products in group insurance form are very attractive in premiums being more affordable and less administrative headaches.

There has been brisk activity in the group insurance business especially in the insurance industry in the past few years with the major private players fortifying their portfolios with new products and radical pricing strategies.

This paper looks gives an overview of group insurance business in general including the business principles of group insurance and the various types of coverages in group business and the more common group insurance products that are available in the market.

About the Author

Mohith Saradhy is currently working as Associate Consultant with Ibexi Solution Private Limited, a specialist consulting firm focusing exclusively on Insurance covering Business Intelligence, Data Warehousing, Program implementation of enterprise wide applications and Business Process Consulting.

Introduction to Group Insurance

Group insurance involves providing insurance to a group of individuals who share some common attribute, through a single policy contract. Group insurance policies offer life insurance protection to all types of groups such as:

a) Employer-employee groups
b) Professionals
c) Cooperatives
d) Weaker sections of society, etc

Insurance coverage is provided for people as long their occupations are approved and the rates of payable premium are fairly subsidised under social security group schemes.

The main difference between group and individual/conventional insurance is that in group schemes the whole group of persons is considered as a single unit for insurance purposes like underwriting and the same "**master policy**" is applicable to all members of the group. The (premium payor) will receive the master policy and the members will receive a Certificate of Insurance, which summarizes the coverage terms and explains the members' rights under the contract.

Group insurance plans may be of two types: contributory or non-contributory. The employer either pays the premiums, if the plan is non-contributory, or collects the funds through pay-roll deductions and advances the funds to the insurance company if the plan is a contributory plan. Where the employer pays the premiums for all employees (the non-contributory plan) it is assumed all employees will participate. If the employee contributes to the premiums (the contributory plan), some employees may not wish to participate because they do not feel they can afford the smaller paycheck or because they have coverage elsewhere.

A few of the key features why group insurance schemes are more advantageous are:

- Low rates of payable premium that are based upon the ages, combinations of members, occupations and working conditions.
- Simple insurability conditions such as employees not being absent from duty owing to ill health at the commencement of the policy period.
- Easy administration since a single master policy is issued to cover all the employee members.

The most important conditions for granting a group insurance policy that matter to the insurance corporation are a requisite minimum group size and a minimum participation number. As long as the "group" was not formed for the purpose of obtaining insurance, almost any kind of group qualifies for group coverage.

Features of Group Insurance

The following are the unique features of the Group Insurance compared to other channels of distribution:

- There is a single policy contract that provides a cover to all members of the group who can change over a period of time. The coverage therefore is specific to the group and not the individual.
- The groups of people generally share an employer – employee relationship.
- The owner of the insurance is the employer in most of the cases. He is the person to whom the insurance policy is issued and he makes the premium payment for the same.
- Individuals can move in or out of the cover of this policy depending on their relation vis-a- vis the group as a whole. Therefore, when an employee leaves the organization, he will no longer be covered under the policy. On the other hand, a fresh recruit will be extended the coverage after the policy owner to the insurance company communicates his particulars. The group insurance process allows non-restrictive movement of members.
- Group business typically offers cheaper coverage to the insured compared to individual insurance. The insurance provider gains by reducing operating costs like:
  - Cost of issuing new contracts to individuals covered by the company.
  - Cost of underwriting in most of the cases as the products are usually structured in such a way that underwriting is not required as long as the individual sum assured is below a particular amount.
  - Cost of policy servicing like separate renewal billings, reminders, etc.

1.1. How is Group Insurance beneficial to the Individual?

Group insurance plans have low premiums. Such plans are particularly beneficial to those for whom other regular policies are a costlier proposition. Group insurance plans extend cover to large segments of the population including those who cannot afford individual insurance. As such the premia you need to pay is comparatively lower and at the same time you can avail of insurance benefits.

Insurers are able to provide relatively low-cost group coverage because of the expense savings inherent in the operation of group insurance policies. These savings result from the fact that the expenses an insurer incurs in administering a group insurance policy are much lower than those incurred in administering individual polices. Of course, the cost of administering one group insurance policy is usually higher than the cost of administering one individual policy, but the cost of administering one group insurance policy covering 50 people is lower than the cost of administering 50 individual policies. For example, underwriting and policy issue costs are generally lower for group insurance because the insurer usually underwrites the group as a whole rather than each individual member, and it issues a master policy rather than many individual policies. In addition, sales costs are much lower for one group policy than for a number of individual policies. Expenses are also lower because the group policyholder often handles many of the clerical duties that the insurer must perform for each individual policy.

Business Principles of Group Insurance

1.2. Group Insurance Contracts

Although individual insurance and group insurance are similar in many ways, the most obvious difference is that there is a single insurance contract, called a ***master group insurance contract.***

The parties to a master group insurance contract are the insurance company and the group policyholder, which is the person or the organisation that decides what types of group insurance coverage to purchase for the group members, negotiates that terms of the group insurance contract with the insurer, and purchases the group insurance coverage. The term policyholder is used because the group policyholder does not have the same ownership rights in the group insurance policy that a policy owner has in an individual life insurance policy. Instead, some of these rights are granted to the insured group members. For example, each group member insured under a group life insurance policy has the right to name the beneficiary who will receive the benefit payable upon that group member's death. By contrast, an individual life insurance policy grants that right to the policy owner, rather that to the insured.

When an insurance company and a group policyholder enter into a master group insurance contract, the insurer issues a policy that contains the terms of the contractual agreement. An important part of every group insurance policy is a description of each individual who are covered by the policy.

The policyholder is usually responsible for handling some of the administrative aspects of the group insurance plan. For example, the policyholder typically is responsible for enrolling new group members in the plan. The group policyholder also is responsible for making all premium payments to the insurer, although the policy may require that the insured group members contribute some or that entire premium amount. If insured group members are not required to contribute any part of the premium for the coverage, then the group insurance plan is non-contributory plan. If the group members must contribute some or the entire premium in order to be covered under the group insurance policy, then the plan is a contributory plan. A contributory group insurance policy issued to an employer to cover employees typically requires the covered employees to pay their portion f the premium through payroll deduction.

1.3. Certificate of Insurance

Insured group members are not parties to the master group insurance contract, do not participate in the formation of the contract, and do not receive individual copies of the contract. The insurer provides the group policyholder with written descriptions of the group insurance plan; the group policyholder then delivers a written description to each group insured. This document, known as the certificate of insurance, describes

a) The coverage the group insurance contract provides and
b) The group insured's rights under the contract.

As a result, an insured group member is often referred to as a certificate holder. Many policyholders describe the group insurance coverage in a special benefit booklet. In such a situation, the benefit booklet contains the information that would be included in a certificate, and the benefit booklet serves as the group insurance certificate.

1.4. Free Cover Limit or No Evidence Limit

Group products are generally simplified and structured in such a way that no medical check up is needed for insurance until a specified amount. This amount is known as the "No Evidence Limit (NEL)" or "Free Cover Limit (FCL)" which varies from group to group based on contract terms. The limit is usually a per person figure that applies to all members in the group.

1.5. Group Insurance Policy Provisions

Certain provisions are included in every group insurance policy, whether it provides life or health insurance coverage. These standard policy provisions define which group members are eligible for group insurance coverage, identify the policy's grace period, establish when the policy and a group member's coverage become incontestable, and govern when the group insurance policy terminates and when a group insured's coverage terminates.

1.5.1. Eligibility Requirements

Group insurance policies are permitted by law to define eligible employees as those employees in a specified class or those in specified classes. These classes must be defined by requirements that are related to conditions of employment, such as salary, occupation, or length of employment.

Some group insurance policies provide coverage both for group members and for the dependents of covered group members. Group insureds who are covered a dependents typically do not have the same rights as do group insureds who are covered as employees.

Provisions in many group insurance policies contain requirements that new group members must meet in order to be eligible for coverage. The most common of these eligibility provisions are the actively-at-work provision and the probationary period.

An actively-at-work provision requires that in order to be eligible for coverage, an employee must be actively at work – rather than ill or on leave – on the day the insurance coverage is to take effect. If the employee is not actively at work on the day the coverage is to take effect then the employee is not covered by the group insurance policy until she returns to work.

A probationary period is the length of time – typically, from one to six months- that a new group member must wait before becoming eligible to enroll in the group insurance plan.
A probationary period requirement can reduce a plans administrative cost when new employees work for only a short period before terminating their employment. Under a non-contributory group insurance plan, a new employee who has met all other eligibility requirements is automatically covered at the end of the probationary period. By contrast, if the plans is a contributory, then the probationary period is typically followed by an eligibility periods. The eligibility period, which is also called the enrolment period, usually extends for 31 days and is the time during which a new group member may first enrol for group insurance coverage. As part of the enrolment process, the employee must sign a written authorization allowing the employer t make payroll deductions from her salary to cover the amount of her premium contributions.

1.5.2. Grace Period Provisions

Group life and health insurance policies typically contain a 31-day grace period provision. As in the case of an individual insurance policy, the insurance coverage provided by a group insurance policy remains in force during the grace period. If the group policyholder does not pay the premium by the end of this period, the group policy will terminate. Unlike the grace period provision in an individual insurance policy, the grace period provision in a group insurance policy specifies that if the policy terminates for non-payment of premiums, then the group policyholder be legally obligated to pay the premium for the coverage provided during the grace period.

1.5.3. Incontestability Provisions

Some insurance laws require group insurance policies- like individual insurance policies- Provision that limits the period during which an insurance company may use statements I the group insurance application to contest the validity of the master group insurance contract. Generally, the incontestability provision in a group insurance policy limits the period during which the insurer may contest the contract to two years from the date of issue.

The incontestability provision also allows an insurance company to contest an individual group member's coverage without contesting the validity of the master group contract itself. Individuals' insured under a group insurance policy usually are not required to provide evidence of insurability in order to be eligible for group coverage. Sometimes, however, group insureds are required to provide such evidence. If a group insured makes material misrepresentations about his insurability in a written application, then the incontestable clause allows the insurer to contest the group insured's coverage on the ground of material misrepresentation in the application. The period during which the insurer has the right to contest the validity of a group insured's coverage is usually one or two years after the date of that group insured's application.

1.5.4. Termination Provisions

The coverage an individual insurance policy provides is effective as long as the individual insurance policy is in force; coverage terminates when the individual policy terminates. Similarly, under many types of group insurance contract, a group member's coverage terminates when the master group policy terminates. However, a group insured's coverage also may terminate even though the group insurance policy remains in effect.

According to the terms of most group insurance policies, the group policyholder may terminate the policy at any time by notifying the insurer in writing that it has decided to terminate the policy. If certain condition are met, the insurance company also has the right to terminate the group insurance policy on any premium due date. The terms of the policy state the conditions that must be met in order for the insurer to terminate the policy.

Group insurance policies contain provisions that describe when a group insured's coverage terminates. Most group insurance policies provide that a group insured's coverage will terminate if the group insured (1) ceases to be a member of a class of persons eligible for coverage, (2) terminates her employment or group membership. Or (3) fails to make a required contribution to the premium.

Types of Coverage for Group Insurance

A number of group insurance schemes have been designed for various groups. These include employer-employee groups, associations of professionals (such as doctors, lawyers, chartered accountants etc.), and members of cooperative banks, welfare funds, credit societies and weaker sections of society.

There are four basic types of coverage provided for Group Business:

1. Life cover
2. Pension cover
3. Medical cover
4. Disability cover

1.6. Life Cover

Group life insurance covers the life of each individual within the insured group. A single policy is issued for the entire group and the premium collected is from the group owner. Therefore, though each individual is not serviced separately, relevant data has to be maintained in the system for each individual to regulate and service the group as a whole.

1.7. Accident Cover

The insurance cover may also cover for accidents, which is in the form of a rider that is attached to the base life plan at the policy contract level. This means that the riders are the same for everyone in the group as chosen initially in the contract.
There are four types of coverage possible in insurance against accidents:

a. Death by accident.
b. Permanent partial disability.
c. Permanent total disability
d. Dismemberment.

Temporary and permanent disabilities could be due to medical reasons. However such cases are not currently insured in India.

1.8. Pension Cover

An organization today, has not only to man the various positions with competent and trained personnel but also has to create an environment wherein they can give their best and derive a sense of well-being, a sense of fulfilment and security and take pride in their continued association with the organization. Provision of pension may be an attraction for such persons to continue in the organization and give their best to the organization, as with continuous improvement in longevity a regular income even after retirement has become a necessity.

In this segment, the products fall in the following categories:

a. Provident fund.
b. Gratuity.
c. Superannuation

1.9. Medical Cover

This segment has the following categories:

1.9.1. Critical Illness

This is a rider for critical illness that can be coupled along with the Life insurance cover for the group. This insurance provides cover for dreaded diseases listed by the company.

1.9.2. Hospital Cash & Mediclaim

Hospitalisation for illness, disease or accident, whether including surgery or not, imposes heavy financial burden on individuals, families, especially employers and welfare bodies. The policy provides the following benefits:

a. Reimbursement of hospitalisation expenses, which are reasonably and necessarily incurred
b. Reimbursement of domiciliary hospitalisation, which would in the normal course require treatment at a hospital, but is actually taken at home because of the critical condition of the patient or non-availability of bed in a hospital. Certain named diseases are excluded under this head.
c. Premium paid for the policy are exempt from Income Tax
d. Cumulative Bonus - Benefits payable will be increased by 5%, each claim free year, up to a maximum of 50% for continuous policy periods only.
e. Cost of Health Check Up - Reimbursement of cost of medical check-up once at the end of a block of every four continuous policy years, which are, claim free.

The most important exclusion relates to pre-existing illness. If the insuring person had a health condition, existing prior to taking the policy, which required medical treatment, the same gets automatically excluded in the policy.

Group Insurance Products

This is a general description of the types of insurance schemes available in India and abroad. The key group insurance-related benefits of these schemes available to many employees today on either a contributory or non-contributory basis is:

- Group life insurance plans may be available with or without medical examinations for any standard form of life insurance. However, the most popular and prevalent plan is group term life insurance.
- Another group insurance benefit available to employees is accidental death insurance that in the event of accidental death provides an additional benefit in the same amount as the basic group life insurance. This coverage, known as a double accident feature, is also common in individual insurance.

- Group disability income protection provides for the partial replacement of earnings lost during disability caused by accident or sickness. Benefits are determined by the income earner's normal rate of pay. Monthly payments are provided and income benefits start after a fixed minimum period of absence from work and continue during disability up to a maximum time limit.

The standard group insurance products generally offered by Life insurance companies are:

- Group Term Life Insurance Schemes
- Group Savings Linked Insurance Schemes (GSLI)
- Group Credit Life Insurance and
- Group Health Insurance
- Group Dental Insurance
- Worldwide Travel Group Insurance
- Group Short Term Disability Insurance
- Group Long Term Disability Insurance

1.10. Group Term Life Insurance

Group (Term) Insurance Scheme provides life insurance protection to groups of people. Administration of the scheme is on group basis and cost is very low. Under Group (Term) Insurance Scheme, life insurance cover is allowed to all the members of a group subject to some simple insurability conditions without insisting upon any medical evidence. Employer-employee groups are usually offered group insurance schemes that provide insurance cover at a fairly uniform yet graded level.

Group insurance schemes that provide uniform cover can also be granted to associations of professionals such as Doctors, Lawyers, and Chartered Accountants etc. Members of cooperative banks, welfare funds, credit societies and weaker sections of society are also eligible for group insurance schemes.

1.11. Group Saving Linked Insurance

The Group Savings Linked Insurance Scheme (GSLI) offers insurance cover along with an element of savings. The contributions under this scheme are deducted from the monthly salary of the members.
This scheme is allowed only to selected Employer-Employee groups such as

- Quasi-government bodies
- Public sector corporations
- Reputed public sector firms
- Reputed private sector companies which maintain accurate records and files of their employees

Under the Group Savings Linked Insurance Scheme, a portion of the insurance cover is utilised for the cover provided for insurance and the balance, based on the contribution of savings, is accumulated until the exit of the policy at an attractive rate of interest

The amount allocated from the monthly contributions towards insurance premium is determined on these factors

- Nature of the group
- Occupation of the group
- Age
- Composition of members, etc

The savings contribution is reimbursed with interest at the time of retirement or exiting of the policy in any other mode.
In case of death during the service period of the employee, the amount for which the member was covered at the time of the unplanned contingency is paid along with the accumulated savings.

1.12. Group Credit Life Insurance

The Group Credit Life Insurance plan provides life cover for a group of employees who are borrowers from the same employer, (or some credit institution, bank, finance provider etc) by paying a lump sum towards repayment of loan amount on the death of employee.

The plan can be structured in a way that either the original loan amount or the outstanding value of the loan can be covered, as per data provided by the employer. The premiums can be adjusted every year according to the reducing principal amount.
Creditor and Debtor groups can also be the recipient of group credit life insurance schemes to cover their outstanding loans in event of death or permanently disabling contingencies.

Groups of members of housing societies, borrowers granted loans by institutional agencies in Public / Joint sectors for housing purposes as well as borrowing members of cooperative societies and banks formed by employees of the same employer are the most appropriate contenders to avail of group insurance

Currently, Group Credit Life offers insurance against the following:

- Mortgage Loans
- Personal Loans
- Credit Cards

1.13. Group Health Insurance

All of the individual types of plans can be purchased on a group basis. Only full time employees may participate in these plans, as determined by the insurance company. (Usually 25 hours per week is considered full time.) It is generally required that the employers pay a percentage of at least the employee portion of the premium. This ensures adequate participation for the insurance companies so as to avoid adverse selection. (Meaning- they don't want your sick employees only)

1.14. Group Dental Insurance

Coverage is generally provided for preventive services, (cleanings, x-rays, and exams), minor restorative services (fillings), and major restorative services (crowns, bridges, root canals). These may include annual recall exams; cement restorations; crowns and fixed bridges; dentures; extraction of teeth and other surgical services; fillings; fluoride treatments; scaling and polishing; major repairs and restorations; root canal therapy and X-rays. Sometimes and optionally, orthodontia is covered.

1.15. Worldwide Travel Group Insurance

Worldwide Travel insurance include travel assistance for medical emergencies and coverage including: ambulance services; dental services; diagnostic services; hospital accommodation; meals and accommodation; medical appliances; physicians, surgeons and other practitioners; prescriptions; nursing; referrals outside of the country; return home as a result of illness; return of deceased; transportation to visit the covered person and vehicle return.

1.16. Group Term Disability Insurance

There are basically two types of Term disability Insurance: Short Term Disability Insurance and Long Term Disability Insurance.

1.16.1. Group Short Term Disability Insurance

For short term coverage is generally provided upon the first day of an accident, or upon the eighth day of an illness for a period of 13,26, or 52 weeks. Usually benefits are for 66 2/3% of salary, but different benefit percentages are available with different companies and in different situations. Definitions of disability vary with different insurance companies.

1.16.2. Group Long Term Disablity Insurance

For this insurance coverage is provided for longer periods of time than with Short Term Disability, typically two years, five years, to age 65 or for life. Elimination periods (also called waiting periods) are longer generally than with STD. This is the time one must wait once disabled before benefits begin. Disability definitions are critical in evaluating these plans.

Group Insurance Products in India

1.17. Group Leave Encashment Scheme

As per the Accounting Standard (AS-15) of January 1995 and the amended Section 209(3) of the Companies Act, 1957, it has become necessary for the employers to provide for the liability of Leave Encashment facility available to all the employees in the books of final accounts.
The Group Leave Encashment Scheme (GLES) has been designed to provide funding for these liabilities of all employers. A group insurance cover by way of a flat sum assured is also provided for the employees.
The scheme is to be administered by the employer. And the funding is arranged on the lines of Gratuity Funding under the Cash Accumulation Plan. The rate of interest allowed is the same as per the Cash Accumulation Plans.

1.18. Group Insurance Scheme in lieu of EDLI

1.18.1. What is EDLI?

All employees to whom the Employee's Provident Fund and Miscellaneous Provision Act, 1952 applies, have a Statutory liability to subscribe to Employee's Deposit Linked Insurance Scheme, 1976 to provide for the benefit of Life insurance to all their employees. Under the scheme as amended with effect from 24th June, 2000 the insurance benefit is equal to the average balance to the credit of the deceased employee in the Provident Fund during the last 12 months, provided that where such balance exceeds Rs.35, 000, insurance cover would be equal to Rs.35, 000 plus 25% of the amount in excess of Rs.35, 000 subject to a maximum of Rs.60, 000. Thus if the length of service is not adequate and/ or the salary is low the average balance may be substantially less and such the benefit to the employee's family is either inadequate or non-existent.
The contribution @ 0.50% of each employee's salary is payable by the Employer to the Provident Fund Authorities.
However, under Sec. 17(2A) of the act, the employer may be exempted from consulting to this scheme, if he/she has provided for better insurance benefits through alternative scheme. Group Insurance Scheme in lieu of EDLI has been accepted as one such better alternative. The premium depends upon a few key factors, namely

- Average age
- Occupations of the members
- Size of the group

1.19. Social Security Scheme

According to the directives of the Central government, a social security fund was created in the fiscal year 1998-99. This fund was conceived by LIC with a view to extend insurance benefits to the economically weaker sections of society that are normally employed by the unorganised sector.
LIC maintains half the premium amount drawn from the Social Security Fund while the balance 50 percent is collected from a designated nodal agency. This nodal agency receives contributions from the State government and / or its beneficiaries.
Insurance cover of up to Rs.5, 000/- can be granted under these social security schemes. However in case of death or a permanent disability due to an accident, a sum of Rs.25, 000/- (for loss of both eyes or two limbs), a sum of Rs.12, 500/- (for loss of one eye or one limb) is payable. This compensation is provided irrespective of the basic insurance cover.
The Indian government has approved of 24 occupations for extending the benefits of the Social Security Group Insurance Scheme.

1.20. Voluntary Retirement Scheme

The Voluntary Retirement Scheme (VRS) is designed to provide for payment of annuity, depending upon the salary and the length of the service period of the insured employee. The scheme ceases at the normal retirement age. There are different plans by which the Voluntary Retirement Scheme requirements of the employers can be taken care of.

1.21. Group Gratuity Scheme

Gratuity is one of the statutory liabilities incurred by almost all employers and accrued to their employees. Gratuity is calculated by the number of years of service rendered by the employee for his employer.
Since this liability accrues on an annual basis, from the point of view of sound accounting practice, it is desirable to provide for this liability before the profits are determined.
Based on actuarial principles, the Group Gratuity Scheme provides a highly scientific method for funding gratuity liability incurred by the employer towards his employees.
From the point of view of sound accounting practice, it is desirable to provide for this liability before the profits or losses are determined for the annual balance sheet at the end of the financial accounting year.
The most attractive feature of the Group Gratuity Scheme is that the insurance cover due to every employee, in event of his or her premature death, to his or her dependants becomes substantially higher and they (the dependants) are entitled to significantly higher benefits.

Funding of the gratuity benefits can also be made on the basis of Cash Accumulation, under which the fund is accumulated at an attractive rate of interest. Attractive tax advantages are also available to employers as well as their employees.

1.22. Group Superannuation Scheme

The Group Superannuation Scheme is designed as a pension scheme to the employees after their retirement from active service. The employer alone or jointly arranged with the employees can finance this scheme.
A decreasing group insurance cover that is in direct conjunction with superannuation benefits can also be provided under the scheme. Group Superannuation schemes are of two types:

1.22.1. Money Purchase Scheme

The contributions under the Money Purchase Scheme are based generally on a percentage of the salary. The accumulated value of such contributions is utilised to purchase the pension benefits.

1.22.2. Benefit Purchase Scheme

The employer fixes the amount of pension in advance. And the amount is generally related the amount of salary drawn by the employee at the time of exit. The insurance company determines the contributions payable for the funding of pension benefits.
The different types of pensions available are pensions payable for life. These are guarantees for periods of 5 or 10 or 15 or even 20 years and thereafter for life or in a joint life form for the last survivor. The pension payable for life includes return of purchase price on the death of the pensioner.