Current Issues in Retirement Benefits
Hotel Sea Princess
29-30 August 2024

Gratuity Funding and Implications of Karnataka Gratuity Rules

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What is the notification

As shared by the Government of Karnataka

On 10 January 2024, in exercise of the powers conferred by **sub-section (4) of Section 4A of the Payment of Gratuity Act, 1972 (Central Act No. 39 of 1972)**, the Government of Karnataka has notified **The Karnataka Compulsory Gratuity Insurance Rules, 2024**

Karnataka is the third state, post Andhra Pradesh & Telangana, to notify these rules.

What does the notification say

Quick glance on the rules

Obtaining Insurance for Payment of Gratuity

Every new employer, within a period of thirty days from the date on which these rules becomes applicable to such establishment shall obtain valid insurance policy in the manner as prescribed under sub-section (4) of Section 4A of the Act for **his liability for payment towards the gratuity to all eligible employees under the Act from the Life Insurance Corporation of India or any other insurance company.**

Recovery of the amount of Gratuity

The Controlling Authority appointed under section 3 of the Act or any other officer notified for the purpose of implementation of these rules by the State Government, is authorized to recover the amount of the Gratuity payable to an employee

Registration of the Establishment

Every employer shall submit an application(Form-I) to get his establishment registered with the Controlling Authority of the area or any other officer notified for this purpose, by the State Government within thirty days from the date of obtaining insurance along with the list of its employees insured.

Exemption for Approved Gratuity Trust

Employers who have formed **approved Gratuity Trust** may continue to operate the trust provided such existing approved gratuity fund covers the entire liability of all the employees of the establishment under the provisions of the Act and the Trust is registered with appropriate authority

Accounting Standard

The gratuity trust shall adhere to the Indian Accounting Standards 15 (Employee Benefits) and any law applicable to the trust.

Irrevocable Trust

The Gratuity Trust & Fund should be irrevocable

What does it mean

Summary of actionable

	Categories	Action
1	Existing Employer with Gratuity Trust in existence	No need to obtain insurance, however the Gratuity Trust needs to be fully funded ,as per accounting standard AS 15
2	Existing Employer with less than 500 employees and not funded	Obtain insurance cover within sixty days (later changed to 6 months) from the date of commencement of these rules
3	Existing Employer with more than 500 employees and not funded	**Option 1**: Obtain insurance within sixty days (later changed to 6 months) from the date of commencement of these rules **Option 2**: Set up of Gratuity Trust
4	New Employer with less than 500 employees	Obtain insurance cover for Gratuity within 30 days of the Rules becoming applicable.
5	New Employer with more than 500 employees	Option 1: Set up Insurance cover within 30 days of the Rules being applicable. Option 2: Set up of Gratuity Trust

Some aspects that are being debated/discussed

1. Why was this notified in 2024 in Karnataka?
2. Who is it applicable to? What is the definition of appropriate government?
3. What does "obtaining insurance" imply?
4. How much to fund?
   - Employers who have formed **approved Gratuity Trust** may continue to operate the trust provided such existing approved gratuity fund **covers the entire liability of all the employees of the establishment** under the provisions of the Act and the Trust is registered with appropriate authority
   - What about those who buy insurance? How much do they give to the insurance company? Notification says "**his liability for payment towards the gratuity to all eligible employees under the Act from the Life Insurance Corporation of India or any other insurance company"**
5. What is the purpose of the "more than 500 headcount rule"
6. What have we seen in Andhra and Telanagana? Any experience sharing?