EPF is changing; here's what you should know about it

The Employee Provident Fund (EPF) has emerged as an important and reliable wealth creating benefit for the organised workforce. Any developments around EPF become a talking-point and can lead to strong reactions.

A case in point, the government had announced certain changes in EPF in 2015, prompting huge uproar from the working-class. The government had to yield to the popular sentiment and roll-back the proposed changes.

Though these types of events create headlines, it is more important for people to understand how the EPF is evolving so that their long-term financial plans can keep pace.

Here are a few things to note and remember:

Coverage

- EPF covers the organised sector. If you are embarking on a freelance career, be self-employed or own a business, then note that you will not be covered automatically.
- New employees into the workforce and never been part of the EPF before can opt out. However, this is not common and perhaps not advisable. Remember, by not participating, one loses out on the employer contribution and other benefits of the EPF.

Contributions

- The chart below is a summary of the main contributions of the EPF schemes. Remember that the EPFO is not just the EPF.

	PF Wages per month	
	=<15,000	**>15,000**
Employer EPS1995	0.0833	0*
Mandatory Employer EPF	0.0367	0
Mandatory Employee EPF	0.12	0
Voluntary Employer EPF	0	0.12
Employee EPF Match	0	0.12

*at the consent of employer and employee EPS contributions on the wages above the Rs15,000 can be done of 1.16% and this would be deducted from the employees 12% EPF contribution. However not many employees have used this facility.

- The employer also contributes towards Employees Deposit Linked Insurance Scheme.
- In addition to the contributions, your employer also pays expense charges to the EPFO. These have been reduced to 0.65% from 1 April 2017.
- The EPS1995 employer contributions DO NOT go into your EPF account. They are used to fund the EPS1995.
- Employer contributions typically will be included by your employer in your Cost to Company (CTC). The employee contributions will be deducted from your salary.
- Employer contributions are not considered taxable income for employees. Employee contributions are included in your annual section 80C allowance (currently a maximum of Rs. 1.5 lakhs).
- Employees can make voluntary contributions up to 88% of PF wages which can be a tax effective saving as the investment return is tax free and so are the eventual retirement benefits.

Investment Returns

- EPF returns have ranged from 8.5 to 8.8 per cent in the last five years. FY2016-17 was 8.65%.
- However, everyone should be ready for returns, which may possibly change in the future. The EPFO has had many long standing high yielding investments that it has used to stabilise returns. Once they reach maturity, the portfolio will have greater weight of lower yield bonds bought in the last 10-15 years. Furthermore, EPFO has started investing some of the new contributions in equities that should help long-term returns but over time may bring challenges of what to declare if underlying equity returns are volatile. The equity portfolio is still small so something to watch over the next 5 to 10 years.

Withdrawals

- EPFO has various opportunities for members to take loans or withdrawals. For certain financial life events, EPF funds can come in useful. A recent announcement was the option of members using up to 90% of their monies to fund new house/ land purchases, including regular withdrawals for EMI payments. These type of initiatives are important but members should be clearly advised and be aware of the impact on their long term financial plans and to make suitable arrangements in other ways.

Employee Services

- EPFO has embarked on several initiatives in the last couple of years to help members have better access and improve track requests.
- Take a look at the EPFO app, SMS notifications and online requests for withdrawals/ transfers. The UAN initiative was a game changer and will dramatically reduce the 'lost old PF accounts' syndrome and ensure members have better visibility of their various accounts from different employments across the country. By linking your UAN to Aadhaar number, the process of payments and services will be even faster.

Employees Pension Scheme 1995

- There is really a pension! At a summary level, one-seventieth of the PF wages (currently up to the maximum of 15,000 INR per month) for each year of service is the pension formula. There is a maximum of 50% of the PF wages and a minimum pension if 1,000 INR per month. One has to have at least 10 years of EPS contributions to qualify for a full pension at age 58. As the earnings threshold increases, so will the pension amount.

Many perceive the EPF as an important long term savings vehicle. With the EPFO and the benefits rapidly evolving, it is important that members actively monitor their EPF benefits in the future and the role it plays in their short and longer terms financial plans.

Note: *PF wages is typically applied as "basic salary plus DA" – however the actual definition legally is more complex and subject to ongoing legal interpretation.

**First published in MoneyControl*

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