EXPRESS Money
The Indian EXPRESS
www.expressmoney.in

REFORMS

# Craving for change

## Despite being the biggest and formal retirement saving scheme for people in the country, the Employees Provident Fund hasn't kept up with the times


ILLUSTRATION: C R SASIKUMAR

SUNEETI AHUJA KOHLI

PRIYANKA Chugh, 24, works as a senior BPO executive in Gurgaon, Haryana. In the last four years, she has changed three companies and has neither bothered to withdraw nor transfer her money lying in three EPF accounts. “It is quite a hassle. I tried to withdraw money from my first company but the process is so cumbersome. Instead of wasting my time, effort and fuel, it is better to forget about the little money that I've accumulated,” says Priyanka.

While EPF can be one of the potent tools for saving for the sunset years, archaic structure of the organisation is acting as a major bottleneck. Priyanka is just one of the many account holders whose money is lying unclaimed with the EPFO (Employee Provident Fund Organisation). A lot of paperwork and a non-transparent system that governs the country's provident fund system, till date, refrains people from attempting to withdraw money. It is about time that the government takes some steps and makes the system more investor friendly.

With the effect of compounding, contributions made by you every month can amass great wealth by the time you retire. Take this for instance. A 25-year-old, with a basic salary of Rs 6,000 can aggregate more than Rs 1 crore if he works till 58 years of in service.

According to the information available on the EPFO website, the total financial corpus managed by the EPFO is in excess of Rs 2,00,000 crore ($50 billion). There are a total of about 40 million contributing and non-contributing members in about 450,000 covered establishments.

### CHANGES THAT SYSTEM NEEDS

**Centralise the database.** EPFO manages money of more than 4 crore people working in the private sector in the country. Still there is no central database maintained by the organisation, which makes it very difficult for an employee to check the running balance and other details. “In an era of very high level of mobility and contractulisation, EPFO should have a central database. It has rather moved away from that and computerised its branches. Each account is maintained in one place, whereas in a country like India, we should have a central database,” said Ajai Singh, former chief executive officer, EPF India.

Adds Veer Sardesai, a Pune-based financial planner: “It is good to have 8.5 per cent tax-free return from the investments made in EPF account. However, the inability to keep a track of the investment and accumulated wealth sometimes discourages investors from withdrawing the money when they move to different organisations. If the whole system is computerised, it wil make the process smooth and more efficient.”

**Make the return market-linked.** Although an assured tax-free return of 8.5 per cent looks good when we are planning for retirement, it is certainly a liability on part of the government and makes the scheme economically unviable. “Pension schemes usually offer either guaranteed contribution or guaranteed returns. However, EPFO offers both. We are offering guarantee on benefit regardless of inflation and returns generated through investments. This should be changed,” says Singh.

**Limited withdrawals.** Unlike the New Pension Scheme, EPFO allows partial withdrawals in case of 43 cases. According to experts, this should be limited to a few. “Potentially if you are working for 45 years, you can actually withdraw money from your EPF account 43 times, once in a year, citing one of the reasons that are allowed by the EPFO. This defeats the purpose of savings for retirement. EPFO should allow withdrawals only a few times,” said a senior EPF official on the condition of anonymity.

**Differential tax treatment.** As of now, EPFO has EEE tax treatment. This means, you get a tax exemption at the time of contribution, tax benefit at the time of investment and no tax liability at the time of withdrawal. “Ideally, this scheme was made for blue-collared workers that earn Rs 6,500 per month. It was optional for others. However, over the years, white-collared workers have made the maximum benefit out of this scheme. It should be changed and people that earn more than Rs 6,500 per month should pay tax at the time of withdrawal,” says Singh.

**Unique identification number.** While plans were initiated in the early 2000s to introduce a social security number for every EPF account holder, nothing has been done yet. Reinventing EPF India, a program by EPFO that wanted to usher in administrative changes fell flat and nothing took place. “There should be a common account number like in the case of NPS. This will make the system more user-friendly and portable,” said Vishal Dhawan, a Mumbai-based financial planner.

**Greater flexibility in investments.** Even though EPFO has appointed pension fund managers, contributors do not have the flexibility to choose their own investment options. “Equities are by far the best vehicles to accumulate a nest egg. And EPFO offer a very potent tool for retirement. However, the restrictions on the investment choice is a major hindrance. The government should offer freedom to the investors in terms of choosing funds and pension fund managers,” said Dhawan.

While the government deliberates on these changes, make sure you integrate your account with the new one whenever you change your job. ◆

suneeti.ahuja@expressindia.com

### IMPORTANT FORMS

**Form-19 :** To claim final settlement of Provident Fund by a member.
**Form-20 :** To claim Provident Fund by nominee or legal heir on death of the member.
**Form-10-D :** To claim pension
**Form-10-C :** To claim withdrawal benefit or scheme certificate under Employees' Pension Scheme '95.
**Form-5IF :** To claim assurance benefit under Employees' Deposit Linked Insurance '76 by nominee/legal heir of a member.
**Form-31 :** To claim temporary withdrawal or advance under Employees' Provident Fund scheme '52.
**Form-13 :** To effect transfer of Provident Fund/Pension from one A/C to another.

### Decode your PF statement

After the end of every financial year, every organisation that contributes to the EPFO submits a statement to the organisation. And subsequently, EPFO sends in an annual statement of record. Every year, your employer hands over this EPF slip to you. However, most of the times we do not pay attention to this slip and tuck it nicely in our record file.

This time, take a look and read it to find our how much have you accumulated so far. After all, it is your retirement money.

#### Accumulation

Every month your employer deducts 12 per cent of your salary (basic plus dearness allowance and retaining allowance, if any), contributes an equal amount and invests it in EPFO on your behalf. Of the employer's contribution, 8.33 per cent goes into the Employees' Pension Scheme, which offers you pension for life starting at the age of 58 years. The remaining 3.67 per cent goes towards your PF. Currently, this kitty earns 8.5 per cent yearly, and is tax-free.

#### How to read the statement?

Account number. It's an alphanumeric code. The first two letters indicate the state from which money is contributed. The next five digits are the employer's code, followed by the employee's code.

**Opening balance.** This is the amount that is carried forward from previous financial years. It is divided into two sub-heads - employee's and employer's contribution. These subheads mention the amount contributed by the employer and the employee and the interest accrued.

**Interest.** Gives you detail of the interest accumulated on the entire corpus.

**Contributions.** Payments made by you and your employer during the financial year.

**Refund of withdrawals.** This reflects the amount you repaid, in case you took any advances.

**Withdrawals.** This gives details of any partial withdrawals or advances

**Closing balance.** Sum of contributions made by the employer and the employee for the previous and the current year.

**Non-contributory period.** This column tells you about the period in which contributions were not made.