

Does interest rate increase make EPF an attractive investment option?

The board of the Employees' Provident Fund Organisation (EPFO) has [raised the interest rate](#) on employee provident fund account to 8.65 percent for FY19. This will benefit six crore subscribers. The rate of interest for the previous year was at 8.55 percent. The table below captures the interest rates on offer for the past few years.

Year	Rate of interest on EPF balance (%)
2017-2018	8.55
2016-2017	8.65
2015-2016	8.8
2014-2015	8.75
2013-2014	8.75
2012-2013	8.5

The decision to raise the interest rate on EPF by 10 basis points further widens the gap between the rate offered by EPF and that of Public Provident Fund (PPF) that currently offers an 8 percent interest rate. Both these instruments are used primarily to save for retirement planning and long term saving. A point to note is investments in both these avenues earn taxfree interest.

“The taxfree nature of returns on EPF, makes it an attractive option for individuals looking to save for their retirement over the long term,” said Vishal Dhawan, Founder and Chief Financial Planner of Plan Ahead Wealth Managers. Conservative investors looking to invest in fixed income option with a sovereign guarantee for the long term can also look at a voluntary contribution to EPF.

An employee contributes 12 percent of his basic salary and dearness allowance every month to EPF. The maximum contribution allowed is up to 100 percent of the basic salary and dearness allowance.

In its monetary policy earlier this month, the Reserve Bank of India cut the repo rate by 25 basis points indicating interest rates in the economy are on their way down. However, the EPFO choose to hike the interest rates by 10 basis points. “This dichotomy won’t last for a long period of time,” Dhawan said. Individuals should take note of the same while contributing to EPF, he said.

The EPF interest rate is reviewed every year and is applicable to the accumulated corpus as well as contributions in that year.

Individuals nearing their superannuation/retirement age (with two to three years left to retirement) can also consider aggressively investing in EPF. Such individuals can opt for a voluntary contribution to EPF by writing to their employers to that effect. Such money can earn taxfree interest until they retire and help boost their retirement corpus. This will help them earn more on investments compared to bank fixed deposits that offer interest rates of 7-8 percent for a similar tenure and are taxable at the marginal rate of tax.

However, a word of caution here. “Taxfree rate of return on EPF is definitely attractive. However, investors must take into account their risk profile, investment needs, ability to hold on to their investments and their asset allocation while investing aggressively into EPF,” says Suresh Sadagopan, Founder of Mumbai based Ladder 7 Financial Advisories.