Employee Provident Fund Scheme (EPFS) - Relook & Modification for the Digital Era

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Introduction

Employee's Provident Fund Scheme (EPFS) is one of the Employee Social Security Schemes (ESSS) existing in India for the working-class employees of production-oriented establishment's employees who also can be considered as Non-Pensionable Employees (NPE). For Pensionable Employees (PE), both the State Governments (SG) and/or Central Government (CG) pays the pension amount, these employees generally are of the nature of service oriented & non production oriented establishments like Education, defense, health, judiciary, etc., Under the EPFS, superannuated employees (retired employees) will be paid the lump sum amount at the time of the exit of the organization at which they were working. For those employees who are all resigned from the organization, the Provident Fund Amount (PFA) will be transferred to the new organization to which employees join.

The quantum of amount payable to the employees is based on the monthly PF contribution from both the employee and employer to the Employee Provident Fund Trust (EPFT) and the interest amount declared by the EPFT. This annual interest rate on the accrued balance amount will be declared every year by the EPFT and **this interest rate is neither fixed nor guaranteed and interest rate is declining from the past several years. As on the financial year 2023-2024 this interest rate is 8.15%, which is declined from the highest interest rate of 12% during the years 1989 – 2000.**

History

The EPF amount payable to the Superannuated Employees (SE) is, as their one of the Retirement Life benefits. EPFS is maintaining by the Employee's Provident Fund Organization (EPFO). EPFS is introduced in India in the year 1952 by an act called Employee's Provident Fund Act 1952. The mode of operating of EPFS is simple. From the employee's monthly salary a fixed percentage of amount will be deducted by the employer and deposit it in the EPFT along with the equal amount deposted by the employer as employer contribution. For this deducted total amount (Employee contribution + Employer Contribution) a fixed annual interest amount will be paid by the EPFO to the employees & invest it back in to the EPF. This fixed interest rate, every year may or may not changes depending on the fund collection, interest gained by EPFO by investing the EPF amount in the other avenues, amount disbursed etc., every year this interest rate is announced by the EPFO. Such interest rate which was about 12% till the financial years 1989 - 2000 went on declining to 8.15% for the financial year 2023-24.

Scenario of India (SOI) during 1952 - Manual Era (ME)

The scenario of India (SOI) during the year 1952 when the EPF Act introduced is as follows:

Type of government policies & decisions were based on Socialism, Majority Government Owned, Less Private Participation. First General Election of Independent India held. No foreign money inflow into the Indian Economy. High import, Less export.

National Population 37,29,97,188 (Say 37.29 Crore)

Population Growth Rate 2.21%

Life expectancy 36.39 years with a growth rate of 1.65%

Literacy Rate about 19.33% and Female literacy rate 8.86%

Per Capita income was Rs. 255.70

Financial Literacy rate- not exactly available

During 1952 – Beginning of the Industry 3.0 (3rd Industrial Revolution) existed

Method of administration **Majorly Manual & little bit Data entry era,** as most of the functions were carrying out manually.

Youth's mentality – were mostly that of survival and basic needs of life like: Food, Cloth and House (FCH) (Roti Kapada aur Makan) were the major issues in those days. Although health was also the issue of major concern, because of financial crunch government had to give importance for health after the importance given to FCH, Low mobility of the people as the transportation infrastructure was not efficient.

Scenario of India (SOI) during 2024 - Digital Era (DE)

The scenario of India (SOI) during the present year 2024, is a Technological, Artificial Intelligence (AI) & Digital era is as follows:

Type of government policies & decisions are based on Liberalization Privatization Globalization (LPG) and Public Private Participation (PPP) ways of administration from the year 1991. High foreign money inflow to the Indian Economy, value of import & export is almost equal, although imports are slightly more than the export.

National Population 144,17,19,852 (Say approx. 144.17 Crore)

Population Growth Rate 0.92%

Life expectancy 70.62 years with a growth rate of 0.29%

Literacy Rate about 84.7% and Female literacy rate 70.3%

Per Capita income is Rs. 1,84,000

Financial Literacy rate 43% Elementary level / 21% Moderate level / 4% Advanced level /

32% Nil level

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During 2024 - Industry 4.0 (4th Industrial Revolution) existing and rapidly entering to the industry 5.0 (5th Industrial Revolution)

Method of administration Automation & Digital era, as most of the functions are carrying out Automatically / Digitally / Seamlessly / Online and very little manually.

Youth's mentality – Not worried about the basic needs of the life, Food, Cloth and House (FCH), because their parents have taken care for these, more importance for the health etc., Youths are looking for the adventurous life as the efficient mobility infrastructure is available. Interesting thing is, as per one survey today's youths do not want to work as an employee of a company till the age of superannuation i.e., till the age of 60 years. But they want to come out from the life of employee of a company at the early age and want to lead retirement & self-employed life happily.

Table 1: Comparison of the Scenarios of India (SOI) during the year 1952 (the year of EPF Act enacted) and the present year 2024.

Sl	Factors	Year 1952	Year 2024
1	Type of government policies & decisions were / are based on	Socialism, Majority Government owned manufacturing establishments, Less Private Participation. No foreign money inflow to the Indian Economy. More import, Less export.	LPG era and PPP way of administration from the year 1991. High foreign money inflow to the Indian Economy, value of import & export is almost equal.
2	Population (P)	37,29,97,188 (Say 37.29 Crore)	144,17,19,852 (Say 144.17 Crore)
3	Growth Rate of P	2.21%	0.92%
4	Life expectancy	36.39 years - growth rate of 1.65%	70.62 years - growth rate of 0.29%
5	Literacy Rate (LR)	19.33%	84.7%
6	Female LR	8.85%	70.38%
7	Per Capita income	Rs. 255.70	Rs. 1,84,000
8	Financial Literacy rate	Not Available	43% Elementary level / 21% Moderate level / 4% Advanced level / 32% Nil level
9	What Industrial Revolution	Beginning of the Industry 3.0	Industry 4.0 existing & rapidly entering to the Industry 5.0
10	Method of administration	**Majorly Manual & little bit Data entry era, as most of the functions were carrying out manually**	**Automation & Digital era, as most of the functions are carrying out Automatically / Digitally / Seamlessly / Online and very little manually**
11	Youth's Mentality	Survival and basic needs of life like: Food, Cloth and House (FCH) were the	Not worried about the basic needs of the life, Food, Cloth and House (FCH),

		major issues. Health & Mobility of the people were not effective as the respective infrastructure were poor.	Importance for health, looking for the adventurous life as the health & mobility infrastructure is efficient. As per one survey youths do not want to work as an employee of a company till the age of superannuation i.e., 60 years. But they want to come out from the life of employee at the early age and want to lead the retirement & self employed life happily.
12	Tax Benefits under Sec 80C	Till the year 2023 tax benefit under Sec80C was available	From the financial year 2023-24 No tax benefit for the contribution made to the EPFT.

Observations

By observing the SOIduring years 1952 & 2024 and considering the inflation rate, cost of living etc. it is clear that present employee's take home salary is in decreasing trend. In spite of the increasing inflation rate, the interest payable to the PF contribution is decreasing from 12% to 8.15%. From the year 2023 the tax benefit under Sec80c for the PF contribution amount is removed. Because of increase in cost of living employees are not able to save the more money sufficient enough to lead the tension free happy retirement life. When the EPF Act Introduced during the year 1952 where the concentration was more on the basic **NEEDS** of the employees rather than the **WANTS** of the employees.

But the scenario of the India is entirely different in the present year 2024 where in the **WANTS** of the employee has become predominant along with the **NEEDS. This is because of the WANTS of the year 1952 has become the NEEDS during the year 2024.** This shift in the life style of the employee is supported by the LPG way of economy, government, society, new economic culture etc., One more important modification happened in recent days when compared with the year 1952 is more & more high growth money investments products with safety are also evolved. **This has made the present PF interest rate of 8.15% as Redundant.** For example: investments and savings in the Equity Mutual Funds for long term period gives the return of 15% to 17% CAGR (Compounded Annual Growth Rate). PF contribution to EPFT is of high investment, long period, low interest, low growth, low matured value when compared with the other mode of investments available in the country. Also, amount contributed to the EPF does not attract the tax benefits, which was there before the year 2023. As the years pass on, the retirement amount needed by the employee at the time of retirement will be huge which EPFO cannot fulfill. Presently the life expectancy of an employee is about 70 years which means the employees needs huge amount to maintain her/his life for a long time after the retirement, which demands high growth investment by the employee which EPF organization cannot fulfill.

So, time is ripe to remove the mandatory deduction of PF amount from the employee's salary and allow the employee to invest in the high growth investments products like Mutual Funds etc.,.

Suggestions

By analyzing and comparing the various factors listed in the Table 1 & the observation made, it can be deduced as follows:

Time has come to **RELOOK & MODIFY** the system of mandatory contribution to the EPF Trust by deducting from the employee's salary.

As on today the monthly deduction from the employee salary is 12% of the employee's monthly salary. Earlier this deduction was 8.33% which works out to equal to one month salary for every year. Present system of 12% deduction works out to 1.44 times of the monthly salary for every year. It means more amount is deducted from the employee salary, leaving the employee with less take home salart.

With the inflation rate is increasing, that too food inflation rate increasing beyond control, how can the salaried employees manage household expenses without sacrificing the savings?

Either the present system of mandatory PF contribution to the EPFT is to be removed or it may be made as optional, leaving the choice to the employees.

By removing the condition of mandatory PF contribution to the EPFT, the workload on the EPF organization reduces drastically.

Conclusion

From the year of EPF Act introduced i.e. 1952 to till now i.e., 2024 lot of developments have been taken place in the various factors of the EPF like employees aspirations, growth of economy, employees liking & disliking, high rate of inflation, avenues for savings with higher return & growth, employees financial literacy, employees thinking on savings & expenditure, employees enhanced life expectancy, technological developments, mode of functioning of EPFO activities etc., Employees necessity of needs & wants / need of high maturity value / employees desire to retire early to lead peaceful & happy life demands the EPFO to Relook the EPF Act 1952 and to Modify the EPF rules & regulations to suit to the employees desire in this Digital era.

From the year 1952 Manual Era (ME), we have entered to the Digital Era (DE) year 2024, but the EPF objective of providing higher amount in the hands of employee at the time of her/his retirement time - - is it achieved by EPFO? So, as detailed above Relook & Modification of the EPFS to suit the Digital Era is very much essential. & need of the hour.