Concerns with Design of EPFO

What is the issue?

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- Union government has made few tweaks in the design of Employees Provident Fund Organisation (EPFO).
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- The recent structural change has made various concerns with the beneficiaries.
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What is the role of EPFO?

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- EPFO is a statutory body of the Indian Government under Labour and Employment Ministry.
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- It is one of the largest social security organisations in the world in terms of members and volume of financial transactions undertaken.
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- The Central Board of Trustees administers a contributory provident fund, pension scheme and an insurance scheme for the workforce engaged in the organized sector in India.
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What are the recent changes made in EPFO?

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- EPFO members who are without employment for one month will now be allowed to withdraw 75 per cent of their accumulated balance without closing their accounts.
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- The residual 25 per cent can be withdrawn, if they remain without work for two months.
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- This flexibility is likely to be cheered by the more affluent members of the EPFO who are looking to take a career break to pursue higher education or start their own venture.
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What are the concerns with government’s move?

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- The decision may do serious harm to the social security of lower-income employees who make up the majority of the EPFO’s member base.
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- Given the churn in India’s jobs market, sudden job losses are an ever-present threat for workers on the lower rungs of the income ladder.
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- For such workers who are at the middle or fag end of their careers, the leeway to withdraw 75 per cent of the kitty to tide over short-term job losses, can mean a measly retirement corpus.
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- A similar conflict is also brewing with respect to the EPFO’s investments as the funds are now proposing to add stocks beyond the invested stocks in the hope of bumping up its returns.
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- Again, higher-income earners in the PF fold may not mind taking on higher market risks for higher rewards, but the majority of EPFO members may not share this sentiment.
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What measures needs to be taken?

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- Recent tweaks to EPFO’s design by its Board of Trustees suggest that it is tying itself into knots, trying to meet conflicting objectives.
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- In 2016 EPFO was forced to roll back its decision to restrict early withdrawals after nationwide protests, the EPFO has once again proposed

changes to its withdrawal rules recently.
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- Given that frequent changes in its rules are befuddling its members, it would be best for the EPFO to clearly position itself as a basic social security net for India’s less-affluent workers.
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- Higher income earners already have multiple market-linked vehicles to choose from to build their retirement kitty and must be given the leeway to opt out of EPF.
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- Employers must be required to offer a menu of market-linked options, to help such employees save for their retirement needs.
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Source: Business Line

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