# EPFO’s Dilemma

## What is the issue?

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- “Employees’ Provident Fund” (EPFO) is currently in a dilemma on whether to focus on the higher income strata or target the lower waged population.
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- Its board of trustees are currently in a fix regarding these conflicting objectives and proper clarity and direction is yet to emerge from them.
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## What is the context of the conflict?

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- At times, EPFO is seeking to position itself as a closed-end stable contributory social security net for lower income workers.
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- But at other occasions, it sees itself as a market-linked generous retirement kitty for the well off.
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### Withdrawal Option:

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- **Limit -** In 2016, EPFO was forced to roll back its decision to restrict early withdrawals after nationwide protests.
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- Currently, it is moving in the opposite direction by further easing norms, allowing up to 75% withdrawal after the very 1$^{st}$ month without a job.
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- Even the residual 25% can be withdrawn, if one remains without work for more than two months.
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- **Conflict -** These changes are likely to cheer affluent classes who are looking to take a career break to pursue higher education or start their own venture.
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- But then, it 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 workers who are at the middle or fag end of their careers, the leeway to withdraw 75%, will affect their retirement package.
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### Investment Risk:

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- **Options -** EPFO's 15% equity allocation is now being invested mainly in Sensex 30 and Nifty 50 ETFs (top shares in India's Share Markets).
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- Central PSU shares and Bharat-22 ETFs (a conglomerate share of "multiple shares across sectors") is the other option where money is invested.
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- The Fund is now proposing to add stocks beyond these blue chip names in the hope of bumping up its returns.
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- **Conflict -** Higher-income earners in the PF fold may not mind taking on higher market risks for higher rewards.
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- But many EPFO members may not share this sentiment, and there is also fear that EPFO (like LIC) might become a bail-out for stressed public companies.
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## What is the way ahead?

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- Higher income earners already have multiple market-linked vehicles to choose from to build their retirement kitty.
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- 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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- In this context, high end employers could be given the leeway to opt out of EPF and offered a menu of market-linked options to further their retirement needs.
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**Source: Business Line**

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