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**Module – 7: Social Securities**
**Lecture - 33**
**The Employees' Provident Fund Act**

Welcome to lecture 33. This is third lecture in our module. In this module, we have been discussing about social legislations. And today's lecture, we are going to discuss about Employees' Provident Fund. And previous lecture of course, we discussed about unorganised sector and various benefits. Now, this legislation is one of the important legislations as an employee.

And also going to be the supervisor or manager of a company, you need to understand, why this legislation? What are the important perspectives for this legislation? What is the contribution that employer make? What is the contribution employee make? What happens to your fund if you are contributing towards Employees' Provident Fund? We are going to discuss about that in this particular lecture.

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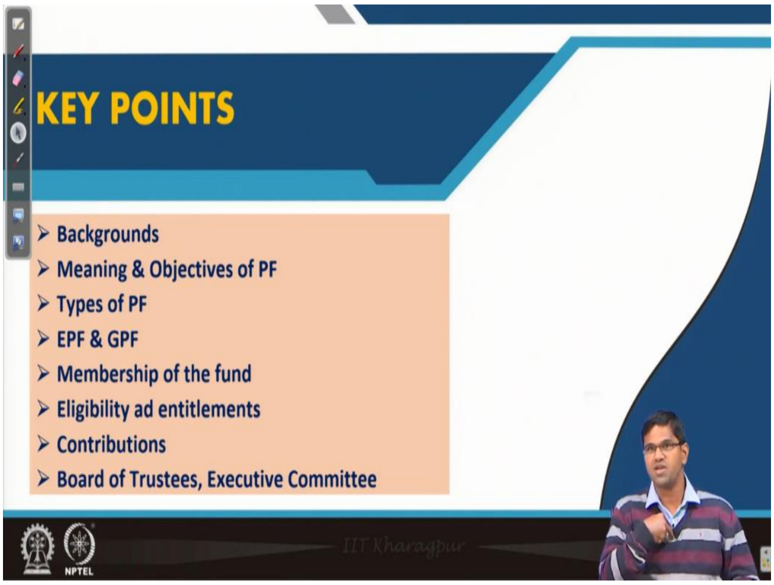


So, what are we going to discuss in this lecture? We are going to discuss background about this Employees' Provident Fund, main objectives and meaning of this Provident Fund. We will also discuss about types of Provident Fund; we will find out the difference between

Employee Provident Fund and then Government Provident Fund; membership of the fund; eligibility and entitlements; contributions.

What is the contribution that employee make an employer make? And we will also discuss about the Board of Trustees and Executive Committee; on who is going to manage this fund, Employees' Provident Fund.

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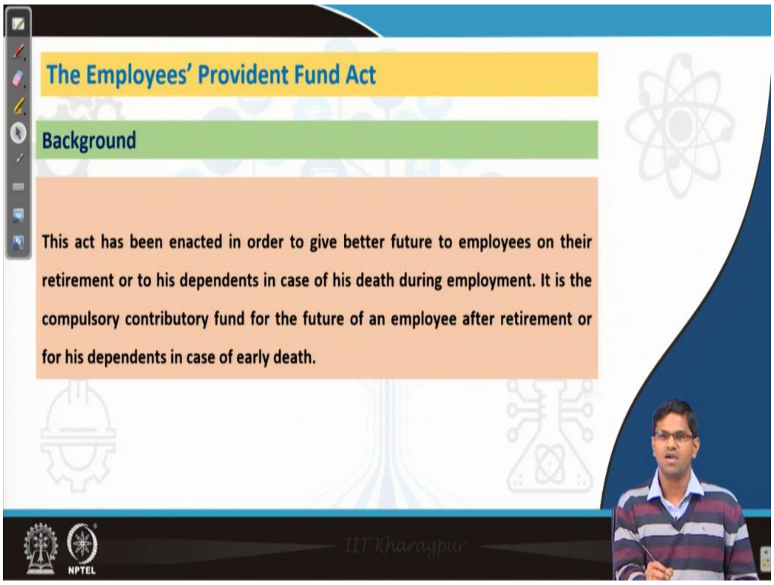


So, background to understand this act has been enacted in order to provide better future to the employees post their retirement or to his or her dependents in case of his or her death during the employment. So, essentially, this is one of the important social security legislations which are trying to give a better future for post-retirement and also in case of a death of the serving employee to secure the dependents of this employee.

That is why this Employees' Provident Fund has actually been enacted. It is a one of the compulsory contributory funds. Compulsory contributory fund, why we are saying compulsory? You do not have an option to opt out of this Provident Fund contribution when you are an employee of a particular organisation. If you are joining as an employee, you are mandated to become a member for this Provident Fund contributions; you will also contribute and your employer will also contribute towards your Employees' Provident Fund. So, this is for an employee after retirement or for his dependents in case of an early death.

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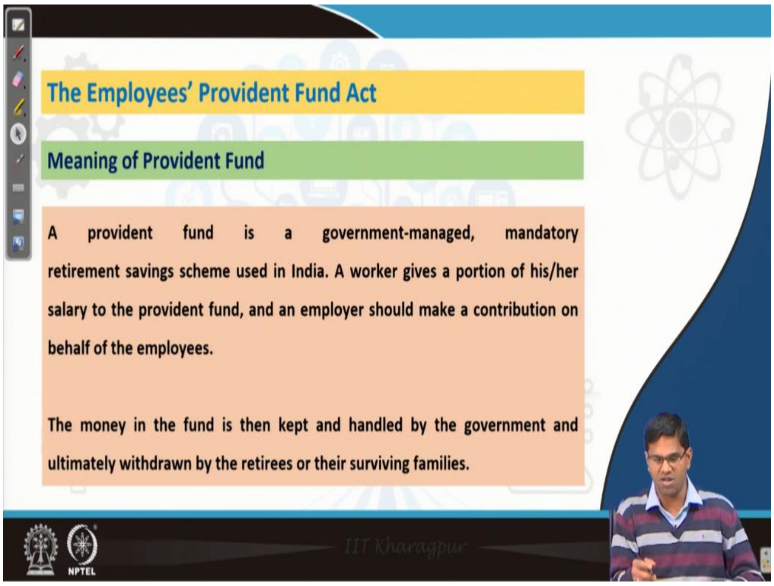


So, now, the meaning of the Provident Fund: The Provident Fund is a government managed mandatory retirement savings scheme which is available in India. Here, a worker; worker I mean employee; gives portion of his or her salary and we are going to discuss what is that portion? What is the contribution from the both the side as an employer and employee? We will discuss about it in this particular lecture.

What is the percentage which as an employee I am going to contribute and what is the percentage my employer is going to contribute? Once you contribute, what is going to happen to the money you are contributing? The money in the fund is then kept and handled by the government and ultimately it can be withdrawn by the retiree and for their surviving families. And you will also be getting the pensions every month post retirement.

For this purpose, through this Employees' Provident Fund Act, they have created EPFO, Employees' Provident Fund Organisations. Some of you would have seen that every state has got their Employees' Provident Fund Organisations and some regions also have their offices where this has been managing the funds of the employees who are working in this particular region.

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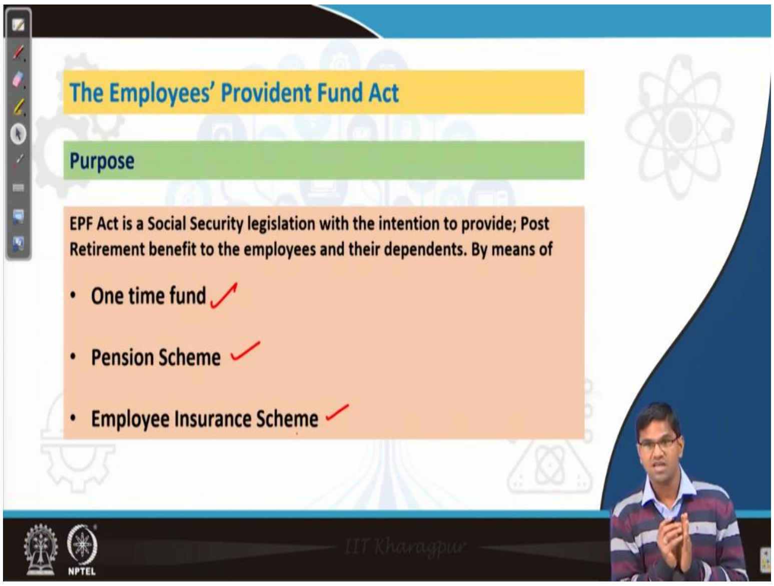


Now, under this act, what is it actually providing? This Employees' Provident Fund is a social security legislation with an intention to provide post-retirement benefits to its employees and their dependents by means of 3 ways. One is through One-Time Fund. During the retirement, it gives One-Time Fund to the retiree and also it covers, it provides Pension Scheme and also there is one more benefit out of this Employees' Provident Fund Scheme, that is Employee Insurance Scheme. So, we will discuss this aspect. What is this One-Time Grant, One-Time Funds which is going to come, and the Pension Scheme and Employee Insurance Scheme?

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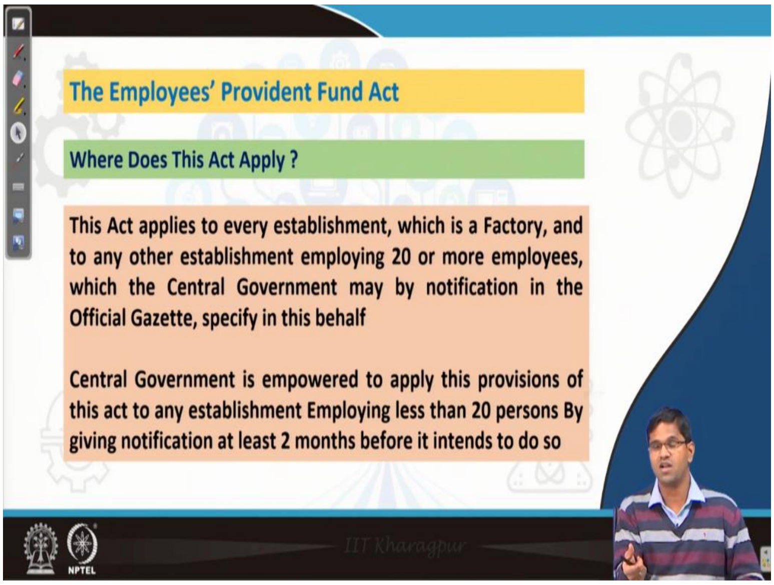


Now, we will also understand where does this act apply. This act applies to every establishment, whether you are a company or a factory, you are registered under Shops and Establishment, you are registered under Factories Act, whatever it is, every establishment is covered if you are employing 20 or more employees, which the Central Government by notifications, they will specify; so, if you are having 20 or more than 20 employees, any type of an organisation, you have to have this Employees' Provident Fund.

And time to time, Central Government has the authority to instruct, give instruction to the covering the other section, other employment industries which do not have 20 as well. So, now, currently any organisation which has 20 or more have to enroll for this Employees' Provident Fund; it is mandatory that, yes, if you have 20 or more employees, your company has to enroll for this.

Invariably, all your employees will become the holder of this Employees' Provident Fund account. And every employee and employer will be contributing towards the Employees' Provident Fund.

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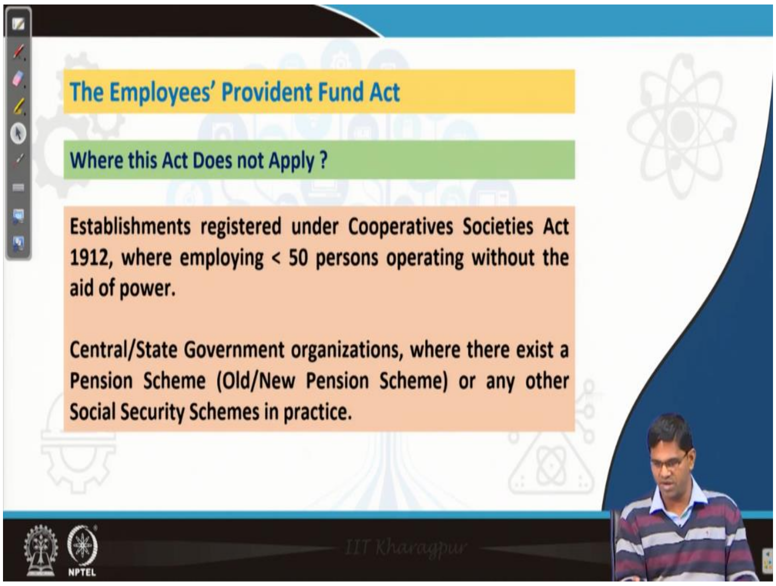


Now comes, where does this act do not apply? So, if it is a Cooperative Societies Act, you have registered under cooperative societies and you are having less than 50 persons employed under your society without the aid of the power, then you are excluded not to avail this Employees' Provident Fund.

And Central Government or State Government organisation, if they have an alternative Pension Scheme, either an old Pension Scheme or a new Pension Scheme or any other social security schemes in practice, if there are alternative Pension Scheme and Provident Fund scheme is available, for those organisations, then they are excluded from this particular Provident Fund scheme; otherwise, they are also covered.

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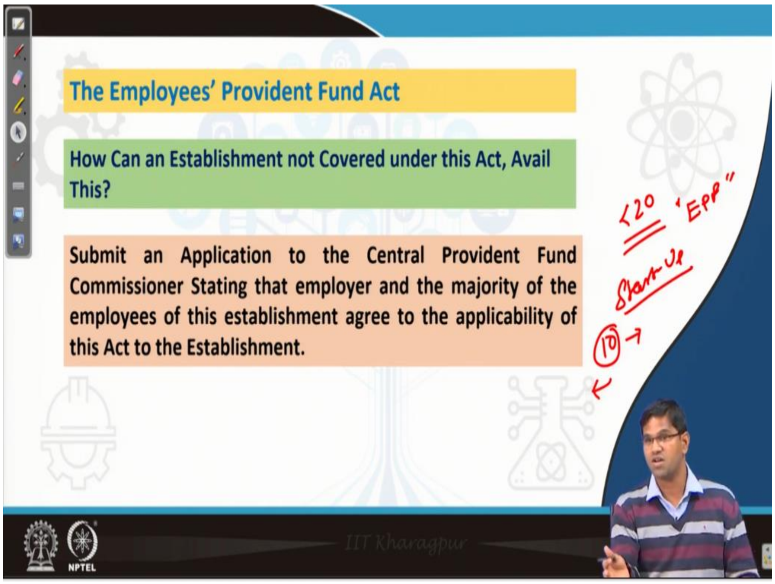


Then comes, let us say you are a company and you do not have, less than 20 employees, but we are interested in covering my employees under this Provident Fund; what one has to do? So, you can submit an application to the Central Provident Fund Commissioner informing that yes, as an employer and as an employee, my employees also, majority of the employees are agreeing to the fact that yes, they want to avail this Provident Fund.

By making this application, those organisations can also be covered under this particular legislation. So, in a very simple form, let us say I have less than 20 employees, let us talk about a startup. I have less than 20 employees; let us say only 10 employees working in my company, but we do not want to; it is not mandatory to have an Employees' Provident Fund, but we are interested in associating our company that we also wanted to offer this Provident Fund Scheme to provide know Pension Scheme for my employees.

So, then you can submit an application to the Central Provident Fund Commissioner stating that yes, we are interested, because my employees also agree, because they are also contributing, because the compulsory contributory fund. So, then, through that application, your company can also be enrolled under this EPF.

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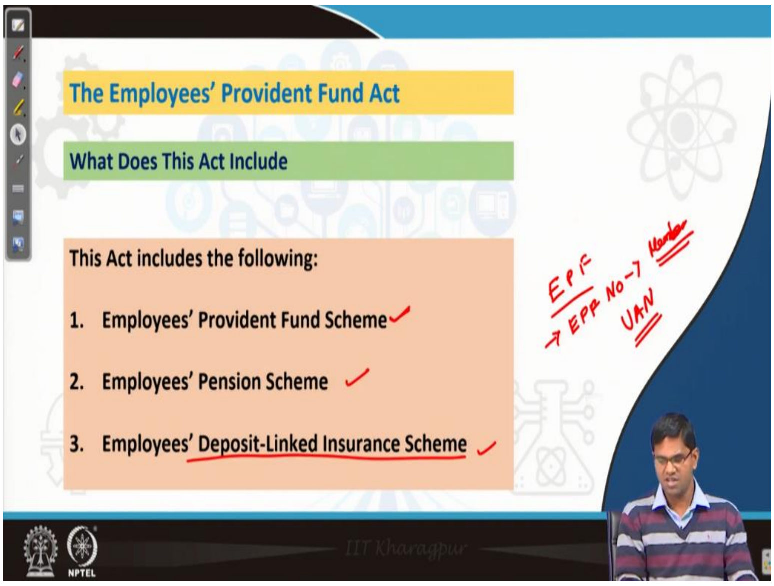


Now, so, what does this act include? As I was saying, One-Time Fund and the Pension Scheme and an Insurance Scheme; now you see that Employees' Provident Fund Scheme, this act has 3 important things; which has a Provident Fund Scheme, which is a One-Time Fund; then Employees' Pension Scheme, which is providing a pension to these employees; and Employees' Deposit Linked Insurance Scheme, which also provides an insurance, Deposit Linked Insurance protection to its members.

Member I mean, all employees when you are enrolling, you become a member of EPF. So, when you are joining a company and you are enrolled, you will be getting an Employees' Provident Fund number, because then you will become a member of this Provident Fund. So, UAN, Unique Account Number you will be having. That we are going to discuss in the latter half of this lecture.

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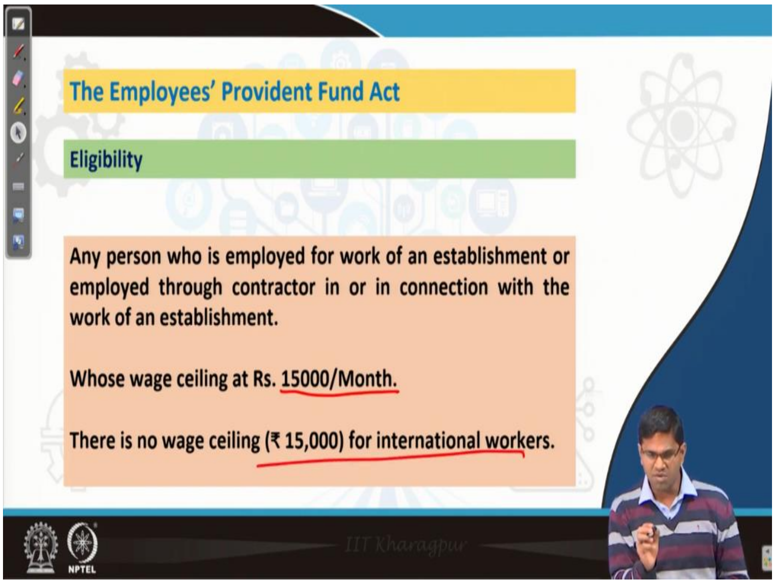


So, now, what is the eligibility? Any person who is employed for an establishment or employed through a contractor in connection with an establishment, they are obviously become eligible to be an EPF member. And the wage ceiling is 15,000 rupees per month. For a foreign international or foreign worker and international worker, there is no wage ceiling. Now, let me discuss about what is this wage ceiling.

So, I will discuss this once when I am talking about the contribution amount also, so that I can give you more examples about what is the contribution they make. So, the wage ceiling is 15,000 per month, meaning that the contribution which you will make proportionate to the maximum of 15,000 per month.

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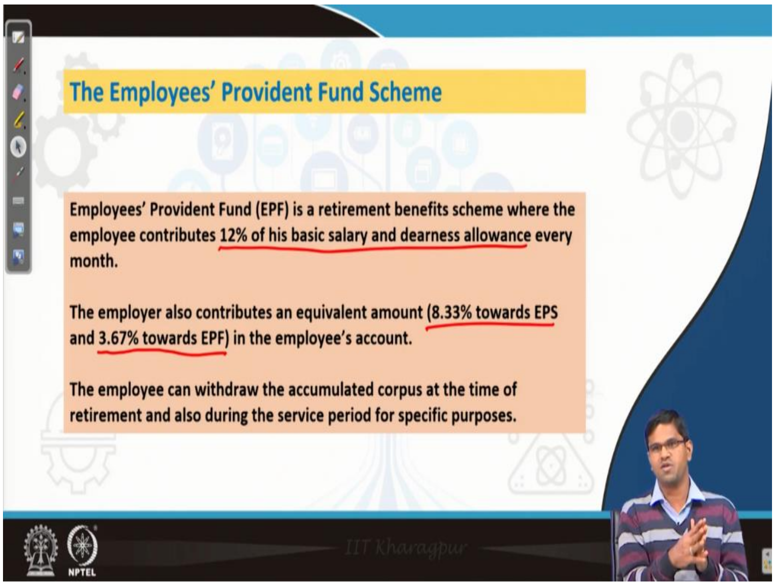

Then, so, what is the contribution? So, the Employees' Provident Fund Scheme is a retirement benefit scheme where the employee contributes 12% of his or her basic and dearness allowance every month. Now, what does my employer contributes? My employer contributes 3.67% of my basic plus dearness allowance and 8.33% towards Employee Pension Scheme.

So, now, the employee can also withdraw this accumulated corpus at the time of the retirement or during the service period for a specific purpose. For example, for a marriage purpose or my children's education or for health reasons, you are allowed to withdraw the proportion of this fund from your account, your EPF account.

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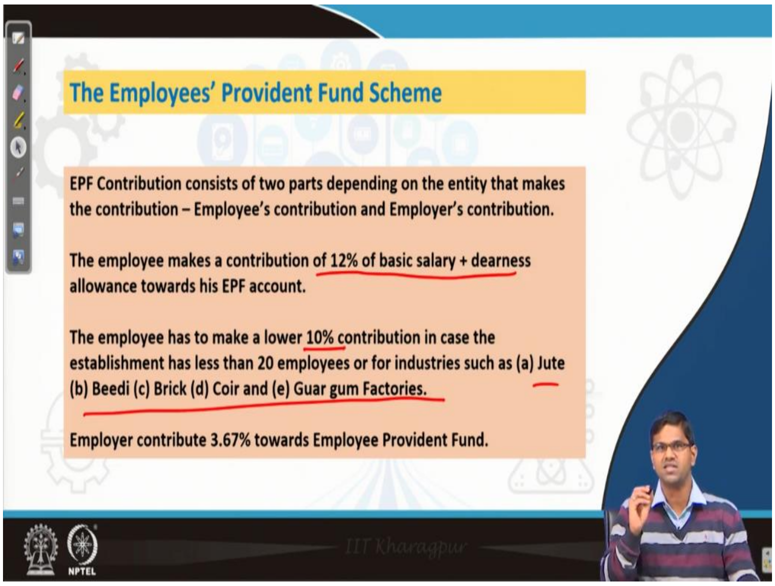


Now this has 2 different contributions. As I said, all employees will be contributing 12% of your basic and dearness allowance, there are some sectors, some industry which are given lower contribution. So, people who are working in jute, beedi or brick industries, where it is less than 20, they can contribute 10% of their basic and dearness allowance; however, the employer will contribute 3.67% towards the Provident Fund.

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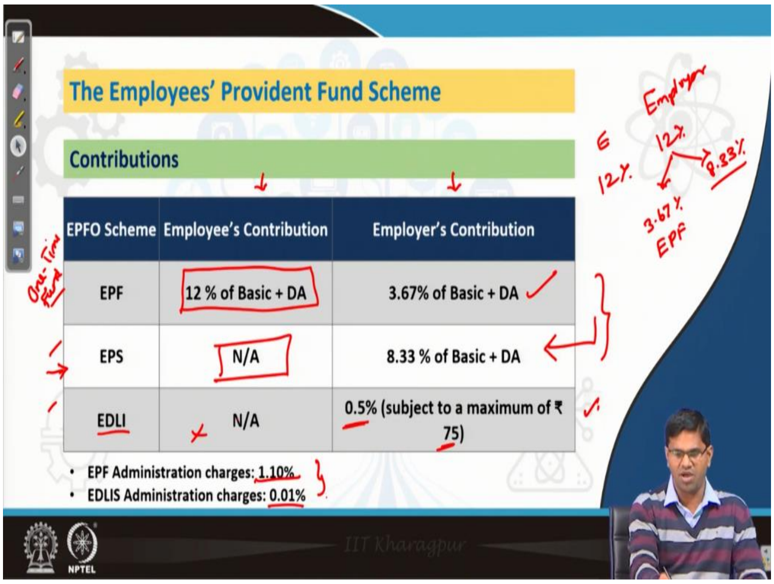


This is what I wanted to say, from here I will be discussing the contribution amount. So, now, if you look at 3 schemes, Employees' Provident Fund, Employees' Pension Scheme, that is called EPS; EPF is a Provident Fund; and EDLI is the Employees' Deposit Linked Insurance. What is your contribution as an employee and what is the contribution by the employer? Now, for the Provident Fund, whatever you contribute, the One-Time Fund during your retirement, your 12% of the contribution is directly going only to this Provident Fund.

Now, see 12% is from employee and 12% from your employer; but this 12% of the employer is further divided into 2 components. One is 3.67% towards your EPF, which is a Provident Fund, which you are talking about to a One-Time Fund, which is a One-Time Fund during your retirement. Now, another percent which is 8.33% of your contribution of the employer, which goes to Pension Scheme.

Ideally, you do not contribute anything on your Pension Scheme; whatever you contribute goes to the One-Time Fund and your employer contribution goes to the Pension Scheme. And the third one is about Deposit Linked Insurance, which is actually, you do not contribute anything, you have nothing to contribute, your employer contributes 0.5% or the maximum of 75 rupees as a contribution towards the Deposit Linked Insurance.

What is this Deposit Linked Insurance? This is an additional benefit. This Employees' Deposit Linked Insurance is an additional benefit on top of these two; this is an additional benefit. In case a serving member or the serving employee died during the service, so, now, this Employees' Deposit Linked Insurance which provides maximum of 6 lakh rupees to his dependents or nominees on top of the other benefit available under this scheme.

So, this is the Employees' Deposit Linked Insurance which are, this contribution is only made by the employer; employee do not contribute anything. And also, these are the administrative charges paid by the employer which is, 1.1% is done by the employer and the 0.01 by the employee. So, these are only by the employer. Now, coming back to the contribution discussion which I said; I will discuss now.

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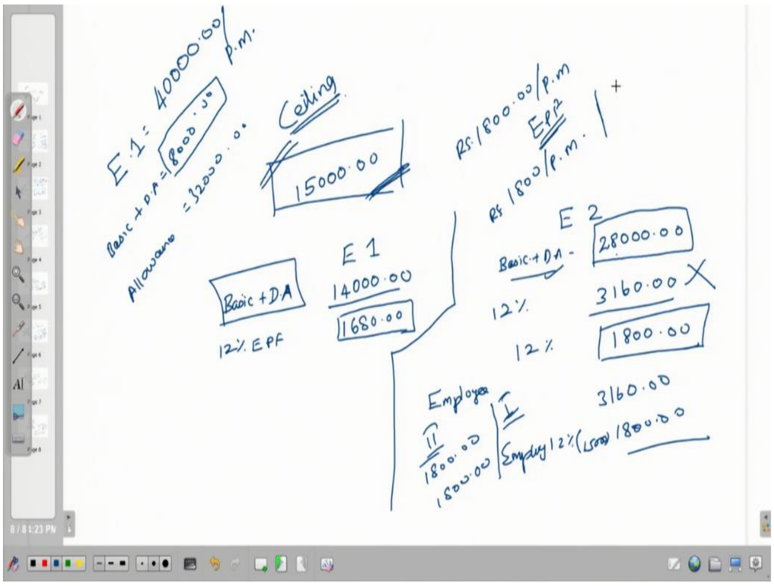


Let us say the ceiling limit is 15,000 rupees. What is these 15,000 rupees we are talking about? I am going to discuss about 2 employees, employee 1 and employee 2. So, the employee 1 whose earning is, let us say, my basic plus DA. What I am earning is, mine is 14,000 rupees. This is employee 1. And employee 2, basic plus DA is, let us say 28000. There are other components of course, allowances. Now, I am talking about the ceiling.

Now, you are contributing 12% to EPF, you have to contribute. What is the 12% of this? Is 1400 and 280. This is what your contribution towards the Employees' Provident Fund. This is on your employee basic plus DA. So, now, if you look at this person who is earning 28,000, let us say if it is a 12%, what will be the 12%? Is ideally, if we will look at, 3160, because 12% of its basic and DA. However, what is my PF?

EPF act says the ceiling limit is 15,000 rupees, which is a ceiling limit. How much ever you earn, the ceiling limit is 12%. So, I will be contributing on this 12% which is ideally 1800.

This is what the contribution will be made towards the Provident Fund. It is not the 12% of the basic, DA; that is what the ceiling limit is 15,000. Now, there are 2 ways of practice which are prevalent in the industry.

One is, see, my contribution as an employee; you may be contributing 3160; you say, I am fine, let you take 12% of my actual basic plus DA, but my employer will contribute only 12% of 15,000, that is a maximum ceiling limit; he will be contributing this. So, this is one way of practice. And another way of practice is that, yes, both of them will be contributing only 1800 and 1800. So, these are all the most 2 ways of practice which are prevalent in industry.

If you look at what are the benefits? If you are higher you contribute, higher it is going to be on your account. It is going to secure the benefit. Now, if the new labour code which is going to talk about, see what the generally the organisation does is that, if they do not want to contribute more, they used to have; for example, basic plus DA is 14,000. Let us say one of the employees, employee is there, employee 1's the overall salary is 40,000 per month, imagine.

Now, what this organisation does, so, to reduce their contribution on this Provident Funds, they keep their basic plus DA the lowest, basic plus DA, they keep it 8000 rupees. And they will have multiple allowances which will amount to 32,000. So, what is happening? So, they will be legally liable to contribute 12% of 8,000 only. In case if it is 15,000, they have to contribute more.

So, now, the new labour code which is saying that any other allowances cannot be more than 50% of their basic and DA. So, these are the some of the important things which you have to understand how the contribution happens towards the EPF. So, now, this is a 2 different. As you know ceiling limit, yes, you can, organisation will contribute rupees 1800 per month on your EPF account as per the ceiling limit and employee who is earning more than 15,000 rupees can do this:

One is, rupees 1800 per month, you can have more disposal income; at your hand, you will have more income. Otherwise, to secure your future, you can contribute more also. So, that is how the Provident Fund contribution takes place in the EPF.

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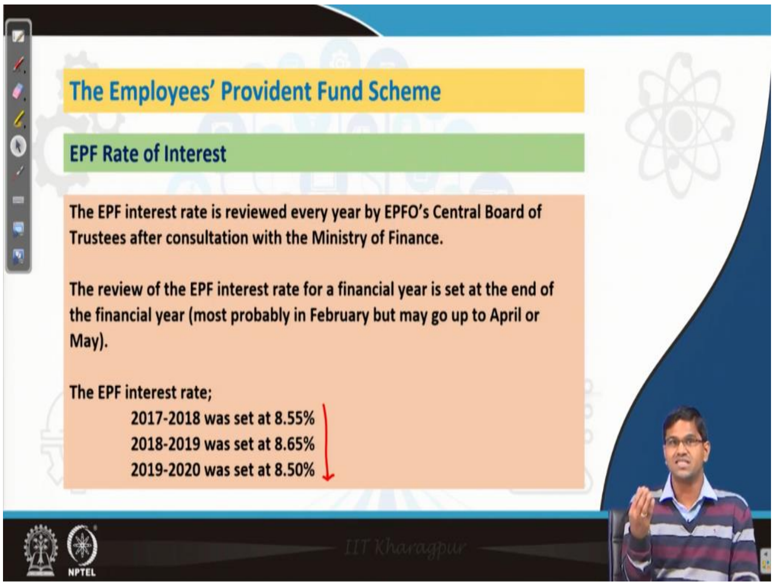


Now, so, what is the rate of interest? So, now, we are contributing fund towards your employee provident account. What is this interest towards the money you keep? So, this is one of the highest income, interest earning deposits in our country. See, the EPF interest is reviewed by the Employees' Provident Fund Organisation Central Board of Trustees after the consideration of the Ministry of Finance.

So, every year they review and then they will release the interest rate for every year. It may probably, mostly they will inform this interest rate in February or it may go up to April or May; but they will say what is the interest rate for the previous financial year. If we look at the last 3 years 8.55%, 8.65% and 8.55% was the previous year's EPF interest rate which are that your Provident Fund is going to earn, the deposit which you are making on your EPF account.

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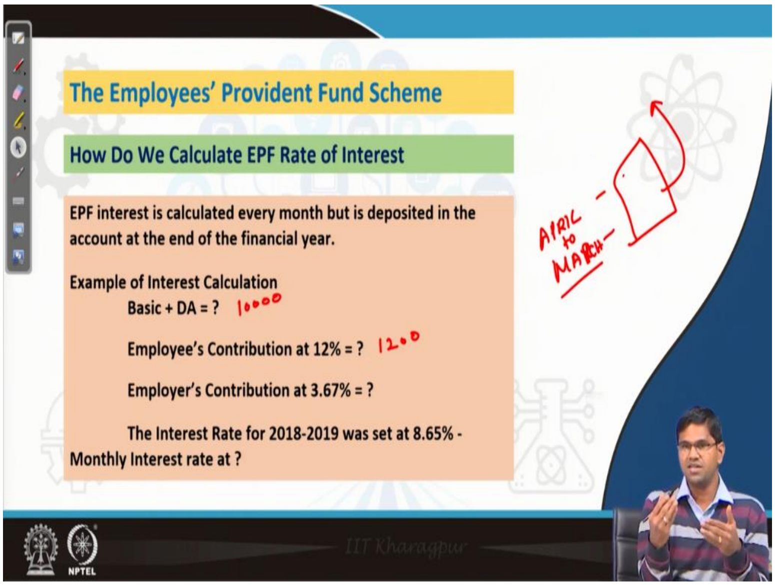


Now, how this EPF interest is calculated? EPF interest is calculated every month, but it will be accumulated and deposited at the end of the financial year. Meaning that, let us say from April till May, every month you will be contributing; you will be contributing every month, because it will be directly deducted from your salary. Sorry, not May; March, April to March. So, after they calculate and cumulatively, they will deposit on your account after the financial year is end.

So, let us say, you have 10,000 rupees is this and you have to contribution is 1200 and the employer will contribute 3.67% of this. And the interest rate will be calculated and monthly interest rate will be calculated and then accumulated, it will be added and it will be deposited on your account after the end of the financial year. So, this is how your Provident Fund interest rate is calculated.

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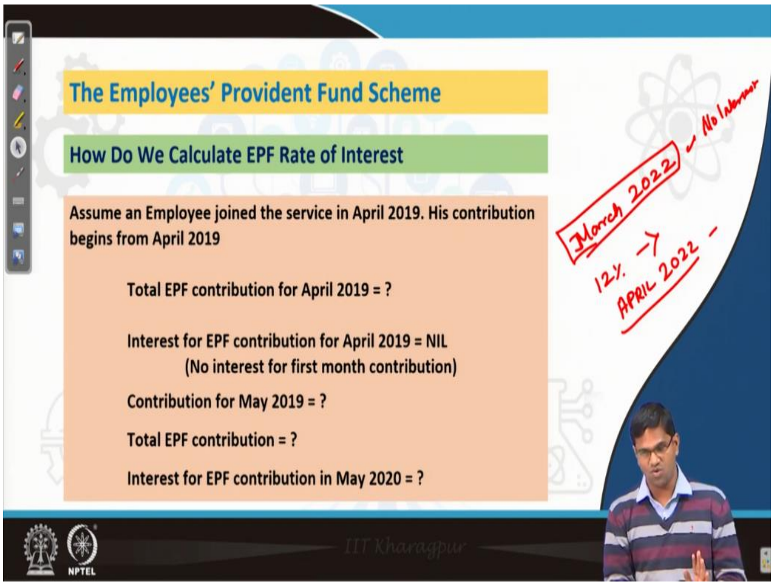


Now comes, let us say you are joining and availing the service in the month of April. But your contribution begins from April, because the first month you are joining and your contribution begins, but you will not earn any interest for the first month of your contribution. For example, let us say you are joining a company in March 2022.

So, you will be contributing 12% of your salary in March but for this particular month of March, there will be no interest will be paid, only the interest will be calculated from the month of April; your contribution of April and of course the cumulative percentage will be staying there; that will be earning interest, but not your first month of contribution will not have any interest. This is the practice under this Employees' Provident Fund.

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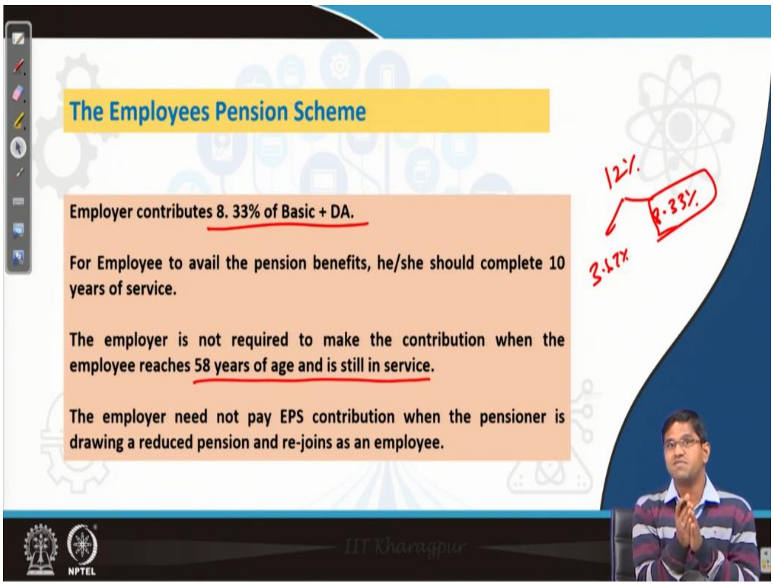

Now, coming into the Employees' Pension Scheme. So, what is this Employees' Pension Scheme? As we already discussed, you do not contribute anything to this Pension Scheme, only your employer contributes 8.33% of your basic and dearness allowance. On this 12% of employer contribution, as we already said, 3.67% and 8.33%. This 8.33% will go into the Pension Scheme.

Now, you as an employee, to avail this Pension Scheme which is a monthly Pension Scheme, one has to complete at least 10 years of service to have the recurrent Pension Scheme. Unless otherwise, you are not eligible, but that will stay as a fund, then when you retire or maybe terminated, then you can withdraw that fund from your Employees' Provident Fund account. So, if you have already a working in a company, you could see that there are 2 different deposits happening.

If you go and see your account, you will be able to see 2 different amounts been reflected. If you can see the passbook of the Employees' Provident Fund, 2 different amounts will be shown; one is about Provident Fund, one is on the Pension Scheme. The Pension Scheme money will be staying and you will be able to get pension if you are serving at least for 10 years of service.

So, employer is not required to make the contribution when you reach 58 years. And if you are still continuing service after 58 years, you will not be contributing towards the Pension Scheme. So, employer need not to pay the contribution if the pensioner is drawing reduced pension, rejoins as an employee. For example, you are joining as an employee post retirement, then you do not need to contribute towards your Pension Scheme.

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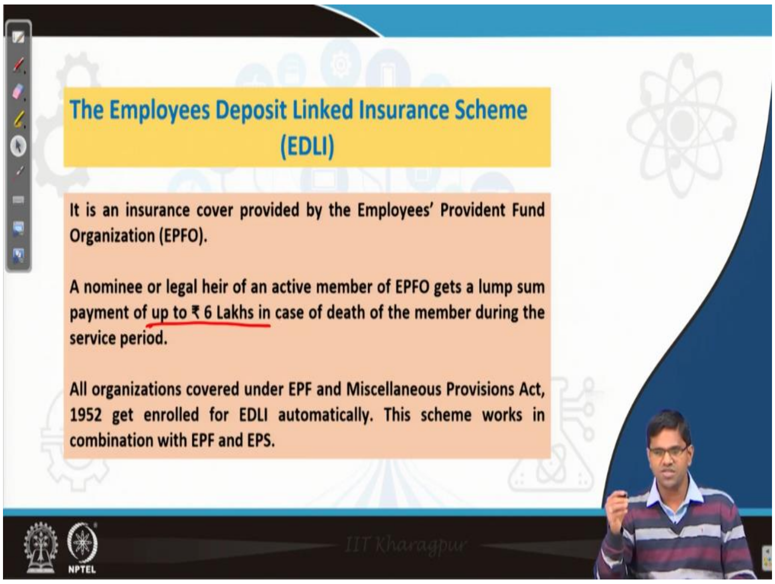


Now comes the Employees' Deposit Linked Insurance. I have already discussed this. This is a One-Time Fund lump sum money provided to the dependent or a nominee or a legal heir of an active member of a Provident Fund. In case a person, a member dies during his membership or during the service that there is up to 6 lakh rupees which is provided in case of a death of the member. So, this is Employees' Deposit Linked Insurance. This work in the combination of EPF and EPS.

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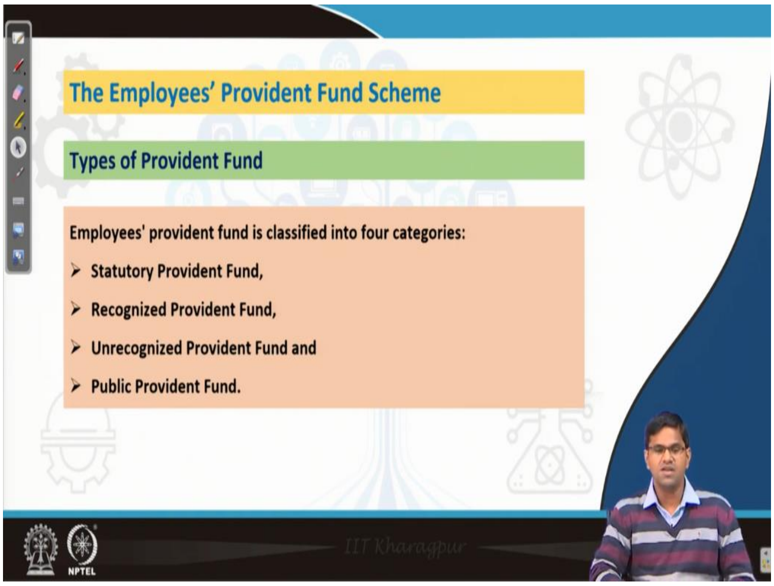


Now, we are also looking at the types of provident. What are the different types of Provident Fund here? One is the Statutory Provident Fund, Recognised Provident Fund, Unorganised Provident Fund and Public Provident Fund, PPF. So, we will see all that.

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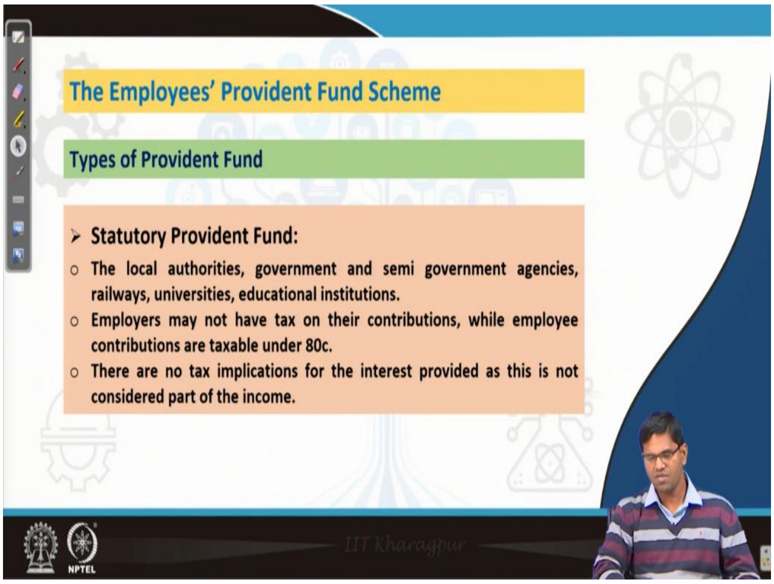


So, what is a Statutory Provident Fund? This is through local authorities or government and semi-government agencies, railways, university and educational institutions which is legally required statutory benefit. Employers may not have any tax on their contribution. However, the employee contributions are taxable under 80C. There are no tax implications for interest provided as this is not considered part of the income. So, this is a Statutory Provident Fund which as by the act, you are being an employee, you have to contribute this money towards your Provident Fund account.

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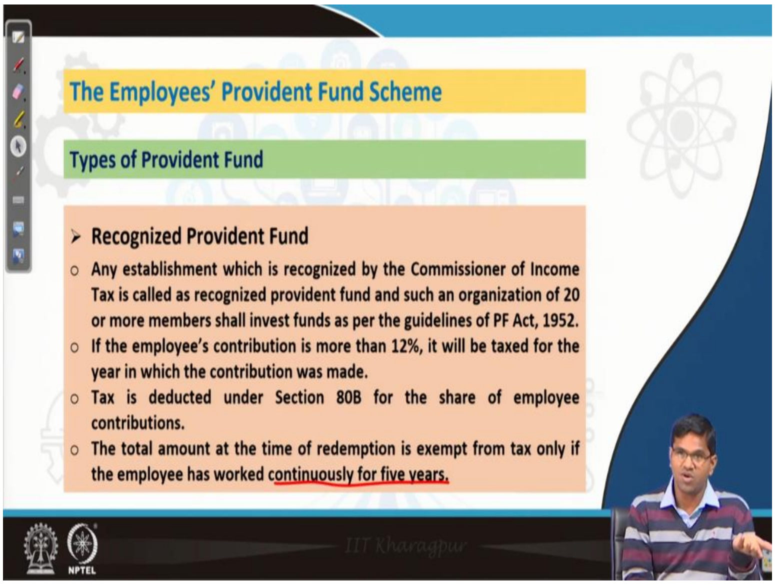


Recognised Provident Fund: Any establishment which is recognised by the commissioner of income tax is called a Recognised Provident Fund. Such organisation of 20 or more employees can also invest as per the rules of the Provident Fund Act. If the employee contribution is more than 12%, it will be taxed for the year in which the contribution was made. If it is less, okay; but otherwise, this is regulated under 80B of the Income Tax Act.

And the total amount at the time of the redemption is exempted from the taxed only if the employer at least works for 5 years. It is a Recognised Provident Fund. It is which your organisation not governed by the Provident Fund but your wanted to contribute towards the Provident Fund, manage the Provident Fund; yes, you are allowed to do so. This is what the Recognised Provident Fund.

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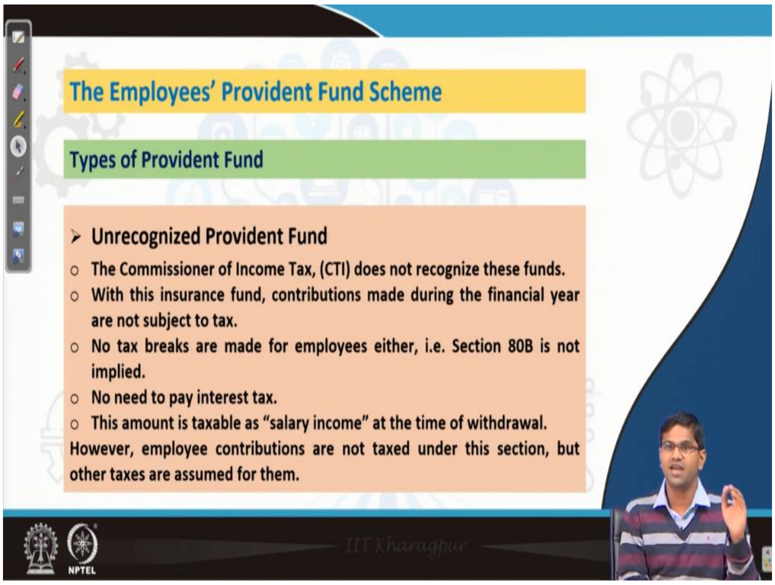


Now, the third one, the second last, which is Unrecognized Provident Fund, which is a Commission of Income Tax does not recognise this fund, which is, with this insurance fund, contribution made during the financial year are not subject to tax. So, tax breaks are made from, again 80B is not implied. No need to pay interest tax. This amount is taxable as a salary income at the time of the withdrawal. So, this is an Unrecognized Provident Fund; means it is not recognised under Provident Fund, it does not qualify to enjoy the benefits as the informed in the Provident Fund.

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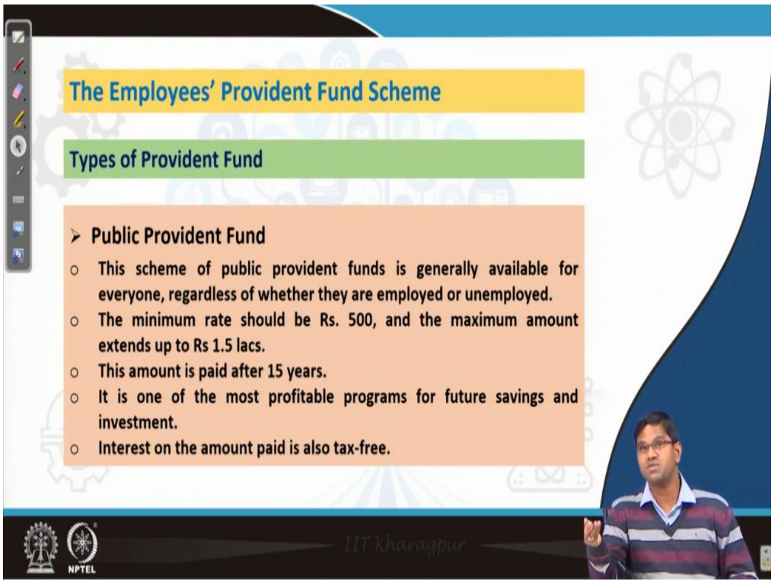


Now comes Public Provident Fund where there is also, now if see, the last few years, this Public Provident Fund comes into picture, because we are also seeing that large section of the workers who wanted to contribute towards the Provident Fund, they are beyond what my employer is doing; or independently also you can open a Provident Fund account, need not to be associated with an organisation.

In this case, there will be no contribution coming from their employer, because you are voluntarily as an individual, you can also enroll in the Provident Fund Scheme and then you contribute. So, the minimum should be at least 500 rupees per month and the maximum can be 1.5 lakhs. It is a Public Provident Fund. You as an individual, you as a citizen of this country, you wanted to enroll for the Provident Fund Scheme; you can contribute every month and this is amount to be paid after 15 years.

So, this will also get the interest rate of what this Provident Fund Organisation provides, which is higher than the any banks provide. So, it is one of the most profitable programmes for future savings and investment. It is also a tax free Provident Fund scheme. So, now you see recent past, many people enrolled on this Public Provident Fund Scheme.

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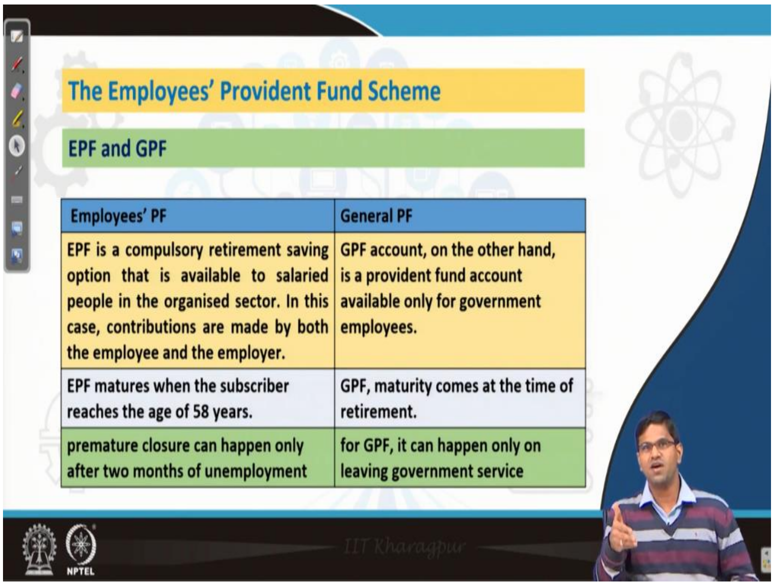


Now, let us also look at the difference between Employees' Provident Fund and General Provident Fund. So, Employees' Provident Fund is a compulsory retirement scheme option available to all salaried employees. Contributions are made both by employee and employer of course, yes, 12% from employee and 12% from the employer. And GPF account is an, other hand is a Provident Fund available for a government employee.

It is not open for other people; it is only for government employees. This is called a GPF, General Provident Fund. So, EPF matures when a subscriber reaches the age of 58 years. And GPF matures at the time of the retirement. Whereas in this case, it is a government employee, at the time of their retirement, it either; if it is State Government employee, different states have a different age and different Union Government have 60 years and some institutions have 65 years.

When they attain the retirement age, that will the time it is get matured. And premature closure can happen only after 2 months of the unemployment, meaning that if you are an EPF member and you want to withdraw your amount, so, after you resign from a particular organisation, then, after 2 months of your job, then only you can make the withdrawal. So, for it can happen only leaving the government service.

You can withdraw this amount when you are leaving the government service, means you are terminated or maybe want to resign from your service, then you will be able to withdraw this amount.

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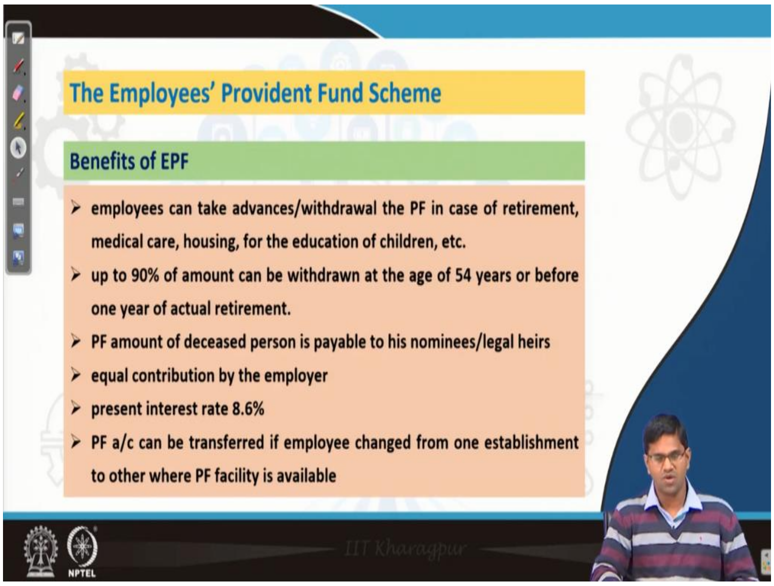


So, we have already discussed this.

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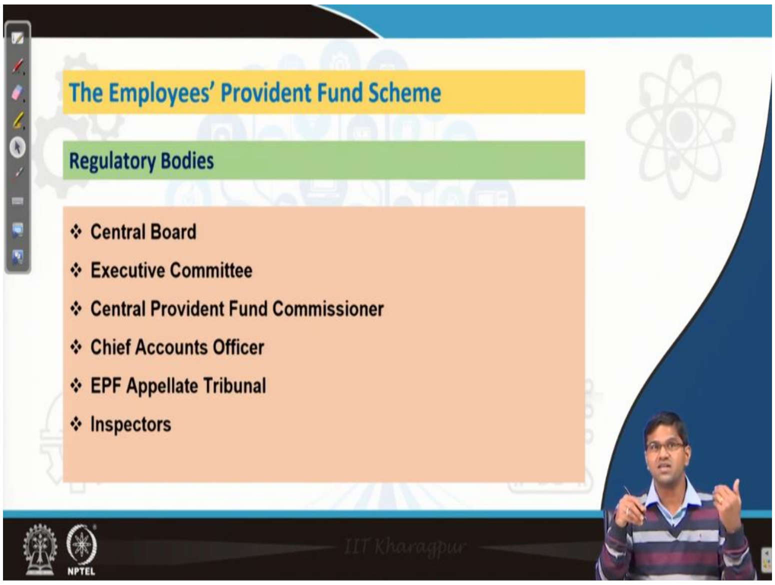


But I am going to discuss about the regulatory bodies. They have a Central Board Executive Committee and also have the Central Provident Fund Commissioner, Chief Accounts Officer, EPF Appellate Tribunal and Inspectors. These are the regulatory bodies which are looking after the various activities of the EPFO.

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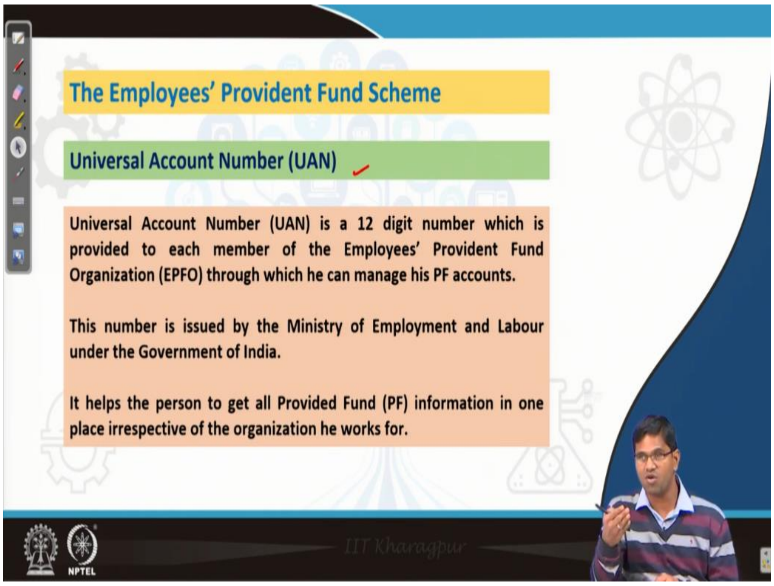


And very important aspect of this lecture we are going to talk about is Universal Account Number, UAN. When you are enrolling or become a member of this EPF account, you are provided with a 12-digit number which is a Universal Account Number which is provided to each member, wherein you will be able to manage your PF accounts; meaning that you will be able to see whether my contributions are made or not, what is my employer contribution, time to time you can see my interest amount has been deposited, what is your current amount and all that.

And also, it is you can use this account, where for example, previously, when you are resigning from one organisation and joining a new organisation where you need create a new provident account from that particular employer.

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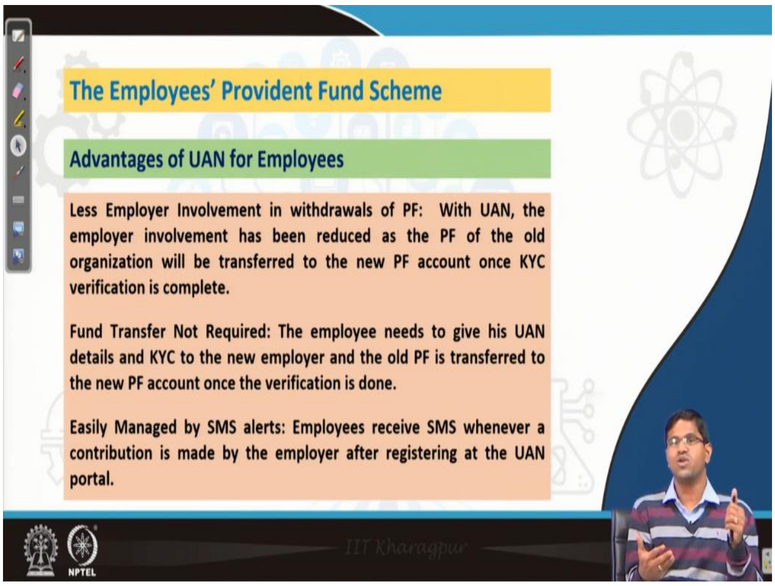

Now, after this UAN where it has become an advantage that yes, you will be able to transfer this existing Provident Fund account to the new employer also, meaning that you no need to open a new account, you do not need to withdraw the existing amount, you can actually carry forward to the new employer and you still have the same account, you will be keep contributing towards your Provident Fund with the current employer also.

And also, another benefit of this Universal Account Number is that now less interruption from the employer side, when the moment your Aadhaar and your PAN card has been verified by your employer, you will be able to withdraw your amount. When you are leaving the company previously, the previous employer has to sign. So, there are times when they have, because of the bad terms they leave and there are hindrances that they cannot withdraw the money.

After this process, now, it has become easier that you will be able to withdraw your Provident Fund account or at least you will be able to transfer to the next employer. And it is easily managed by the SMS alerts employee receives whenever the contribution made by the employer, when you are registering at UAN. So, you will be able to see, what is my contribution? How much my employer has contributed? All that are advantages of this Universal Account Number which is becoming so useful for the users.

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So, these are the references.

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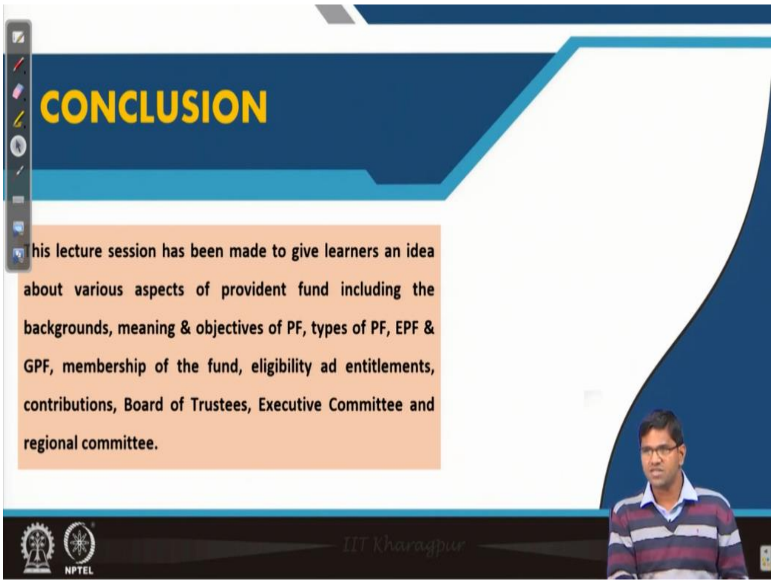


This is one of the important legislations. I think anyone who is going to be employed will definitely will have this scheme. Now, you will have a fair idea about what is my contribution? What happens to my contribution? What is the amount of interest it is going to earn? When I can withdraw? Whether I can make a partial withdrawal? What will happen to my Pension Scheme? What are the Employees' Deposit Linked Insurance? So, in the next lecture, we will be discussing about Gratuity Act. So, we will meet in the next lecture. Thank you.