THE RECENT ROLLBACK OF EPF REFORMS IS A GOOD SIGN OF GOOD GOVERNANCE

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Abstract

The Employees' Provident fund (EPF in short) was created with the objective of instituting provident fund, pension funds and deposit linked insurance. The radical changes that were proposed recently have been suggested shuddered the hope of members of the EPF about their control over their fund kept secure with the government as their retirement kitty to rely upon. In the wake of fixed term employment and conditions that tend employees to leave their service or change employment for better prospects or employees may leave an employment to start entrepreneurship, this fund is a useful fund. Moreover EPF helps in bringing employees into organized employment sector which can help Government with a fund as well as employees to have pension from their contribution as well as interest income as a surplus. The article discusses about recent proposals in EPF and its implications.

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CURRENT ROLL BACK OF EPF REFORMS IS A WELCOME MOVE IN THE ERA OF ON CONTRACT WORK

Contract workers constituted about one-fourth of all workers in formal manufacturing in India in 2008.[1] A total of 384 million persons are employed at various levels and out of the total employed 51% are self-employed, while 33.5% are engaged as casual labour and 15.6% are employed as regular wage or salaried employees as per 66th Round of NSSO, 2009-10.[2] Economic globalization is undermining economic development by driving many workers into low-paid, insecure jobs.[3]

In the wake of rising insecurity of sustainability of jobs and fixed-term contract system, it would be tougher to keep money fixed till a person reaches age of 58, moreover need for money for basic amenities such as food, transport, rent, expenses of family members donot end with a loss of job and having a sum surplus available in these times is a blessing indeed. Hence locking money in National Pension Scheme is not a proper solution to secure income in future when the future itself has become uncertain.

On 10 February 2016, it made amendments to withdrawal rules that forbade employees resigning or retiring before the age of 58 from withdrawing the employer's share of accumulation till the employee attained the age of 58 which means even if you resign at the age of 35, you will get every rupee in your PF account provided you had completed 5 years of completed service with one or more employers and remained unemployed for 60 days from the date of resignation. So the government is telling us, if you die before 58, we will pay your family, but won't pay you if you are alive and starving.

High income inequality is nowadays accepted as a damaging force for economic development. As there are many indications of a causal link between precarious work and income inequality, this could push precarious work higher up the political agenda.[4] In the push to make labor markets more flexible, employers adopted an agenda for transferring risks and insecurity onto workers and their families.[5] Flexible labour markets create greater job

[1] Available at: http://www.ideasforindia.in/article.aspx?article_id=364#sthash.ltCrRtYi.puf
[2] Available at: http://www.aioe.in/htm/IndustrialRelations.pdf : p. 5
[3] Available at: http://www.thebrokeronline.eu/Articles/Low-wages-and-job-insecurity-as-a-destructive-global-standard
[4] Available at: http://www.thebrokeronline.eu/Articles/Low-wages-and-job-insecurity-as-a-destructive-global-standard#t7
[5] Available at: http://cepr.net/documents/publications/inequality-insecurity-2012-11.pdf

insecurity and stress. Job security is often as important to workers as the level of wages. This insecurity could lead to lower morale and lower productivity for the firm in the long-run.[6] It is evident that decreased economic security is also a current problem that results partially from the rise in the increasing contractual employment. The increasing mechanization of production creates a further problem of unemployment. The uncertainty of steady employment coupled with the problem of coming old age, works towards a need to produce a greater feeling of secure future than towards a feeling of economic insecurity. Currently 90% of working population is not having facility for pension or Provident fund account.[7]

What I don't question here is why management/ industrialists should not be concerned about economic insecurity of employees; it is accepted fact as of now. The reaction to the problem of job and economic insecurity can lead to the formation of labour unions in order that they might acquire a measure to control over some of the factors bearing on economic security.{India, like many other developing countries in the world, is presently witnessing rapid ageing of its population. According to World Population Prospects, UN Revision, 2006, the population of aged in India is currently the second largest in the world. Even though the proportion of India's elderly is small compared with that of developed countries, the absolute number of elderly population is on the high. There has been tremendous increase in the number of elderly population since independence in India from 20.19 million in 1951 (5.5 per cent of total population) to 43.17 million in 1981 and 55 million in 1991. According to 2001 census around 77 million populations is above 60 years which constitutes 7.5 per cent of the total population of the country. This number is expected to increase to 177.4 million in 2025. (The growth rate of the population (1991-2001) of elderly has been higher (2.89) than overall growth rate (2.02) of the total population. According to World Population Data Sheet- 2002, 4 per cent of the Indian population is in the age group of 65+ which accounts for 41.9 million. This phenomenon of growing population of senior citizens has been the result of recent successes in the achievement of better health standards and a longer span of life for our citizens. Due to this dependency ratio for the old had raised from 10.5 per cent in 1961 to 11.8 per cent in 1991; it is projected to be 16.1per cent by 2021.[8]

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[6] Available at: http://www.economicshelp.org/labour-markets/adv-disadv-flexible-lm/

[7] Available at: http://planningcommission.nic.in/data/ngo/csw/csw_15.pdf : p.6

[8] Available at: http://yojana.gov.in/problems-of-aged.asp

The announcement of a very sharp reduction of interest rates on small savings schemes across the board, including the Public Provident Fund[9], Kisan Vikas Patra, Senior Citizen Savings Scheme, the Post Office Savings and the Sukanya Samriddhi Yojana. We now have a situation of something of robbing the small-saver -- PPF accounts which is a promise of an assured decent return; the government has let down the honest, hard-working Indian.

As a part of its February 16 12016, decision to revise interest rates on small savings every quarter, the interest rate on Public Provident Fund (PPF) scheme will be cut to 8.1 per cent for the period April 1 to June 30, from 8.7 per cent, at present.

Similarly, the interest rate on KVP will be cut to 7.8 per cent from 8.7 per cent, according to a Finance Ministry order. While the interest rate on Post Office savings has been retained at 4 per cent, the same for term deposits of one to five years has been cut. The popular five-Year National Savings Certificates will earn an interest rate of 8.1 per cent from April 1 as against 8.5 per cent, at present. A five-year Monthly Income Account will fetch 7.8 per cent as opposed to 8.4 per cent now. Girl-child saving scheme, Sukanya Samriddhi Account will see interest rate of 8.6 per cent as against 9.2 per cent. Senior citizen savings scheme of five-year would earn 8.6 per cent interest compared with 9.3 per cent. Post Office term deposits of one, two and three years command an interest rate of 8.4 per cent but from April 1, a 1-year Time Deposit will get 7.1 per cent, 2-year Time Deposit will earn 7.2 per cent and 3-Year Time Deposit will attract interest of 7.4 per cent. Five-year time deposit will fetch 7.9 per cent interest in the first quarter as against 8.5 per cent while the same on five-year recurring deposit has been slashed to 7.4 per cent from 8.4 per cent.

"The Sukanya Samriddhi Yojana, the Senior Citizen Savings Scheme and the Monthly Income Scheme are savings schemes based on laudable social development or social security goals. Hence, the interest rate and spread that these schemes enjoy over the G-sec rate of comparable maturity viz., of 75 bps, 100 bps and 25 bps respectively have been left untouched by the Government." Government reduced the rates on these three schemes too by 60-70 basis points.[10]

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[9] Available at: http://www.financialexpress.com/article/budget-2016/interest-rate-on-public-provident-fund-cut-to-8-1-from-8-7/227393/

[10] Available at: http://www.hindustantimes.com/india/interest-rates-on-ppf-other-savings-to-be-slashed-from-friday/story-Ml1oDmQMRg8fJuahfB1N2H.html

Figure 1[11]

INTEREST RATE ON SMALL SAVING SCHEMES

Instrument	Existing Rate (April 1, 2015 to March 31, 2016)	New Rate (April 1, 2016 to June 30, 2016)
Savings Deposit	4%	4%
1-Year Time Deposit	8.4%	7.1%
2-Year Time Deposit	8.4%	7.2%
3-Year Time Deposit	8.4%	7.4%
5-Year Time Deposit	8.5%	7.9%
5-Year Recurring Deposit	8.4%	7.4%
5-Year Senior Citizen Savings Scheme	9.3%	8.6%
5-Year Monthly Income Account Scheme	8.4%	7.8%
5-Year National Savings Certificate	8.5%	8.1%
Public Provident Fund Scheme	8.7%	8.1%
Kisan Vikas Patra	8.7%	7.8%
Sukanya Samriddhi Account Scheme	9.2%	8.6%

Source: Finance Ministry

Many people have currently invested in small savings schemes by millions of households across India. Lower earnings on small savings schemes could force millions of households to move their savings without the safety net of the government.

[11] Available at: http://images.indianexpress.com/2016/03/small-savings-759.jpg

What I perceive is that Government wants to give a signal that just as the government cannot bear the cost of providing for an ageing population, you will yourself find it hard to fend for your needs with higher cost of living and lower returns.

These savings are not just about the small-savers. The government also depends on this pool of money, called the National Small Savings Fund, to finance a part of its union budget. With the Government intent on pushing away that money, should the poor Indian be prepared for another hike in cess and excise in items of daily use?

In contrast, big corporate houses who have not repaid their loans are allowed to run away to foreign lands by Government. 'Kingfisher' Credit Suisse in its report states that Debt servicing ratios for most of the firms have deteriorated YoY. Interest cover ratios at groups such as Essar, GMR, GVK and Lanco are already under 1. Interest cover ratios at Adani and Jaypee have also fallen to less than 1.5. We believe debt servicing strain is likely to intensify further given that currently capitalised interest for most of these companies is 30- 250% higher. Moreover, 40-70% of many of these groups' debt is forex denominated, and with INR depreciation the increase in liabilities on account of the currency depreciation was larger than FY13 PAT. With the currency down another 12% YTD, debt stress should now be even higher.[12]

Debt levels at those 10 corporate groups have shot up 15% in the past year and profits continue to be under pressure are The corporates, in order of their gross debt levels, are: Anil Ambani's Reliance ADA Group, Vedanta, Essar Group, Adani Group, Jaypee Group, JSW Group, GMR Group, Lanco Group, Videocon Group and GVK Group.[13]

The largest increases have been at GVK Power & Infrastructure, Lanco Infratech Ltd. and Anil Ambani's Reliance ADA where the gross debt levels are up 24% from last year, according to Credit Suisse.

While many of these groups have projects, including several infrastructure projects, under construction, the net debt increase has outpaced the capital expenditure during this period, the

[12] Available at: https://doc.research-and-analytics.csfb.com/docView?language=ENG&source=emfromsendlink&format=PDF&document_id=1021449371&extdocid=1021449371_1_eng_pdf&serialid=9IEtj9tC9wxAGa5r2NuYSCyQ3AtHVhY88a0%2bhKfpy3E%3d

[13] Available at: http://www.forbes.com/sites/meghabahree/2013/08/19/top-indian-companies-burdened-with-debt/#a0e94c3af220

report says. Meaning, they are borrowing more than they are investing which is now being perceived as burdening the poor with additional taxes and cess, while the rich make merry.

In the face of a global economic downturn a reason for the Indian economic slowdown as the target should be to increase savings rate but now by dis-incentivizing small savings in such instruments, the overall savings rate will decline and this would mean lower levels of money available for public investment. Therefore this move makes neither economic sense nor common sense at this time.

Central government's withdrawal of its office order and restore the rate of interest on various small savings instruments and taxing Employee provident Fund money to as it was till is a welcome move. Just like the EPF taxation proposal, this draconian and heartless proposal also needs to be shelved, adding to its Govt. won't contribute to pension scheme of staff getting higher wages, the govt. move, which will be effective 1 September, is applicable to employees drawing a salary of more than Rs15, 000 a month. The government contributes 1.16% to the pension kitty of every PF member as part the employees' pension scheme (EPS) run by the EPFO, and this costs the government at least Rs.1,250 crore a year. With the wage ceiling enhanced from Rs.6, 500 to Rs.15, 000 for mandatory EPF compliance, this EPS contribution cost to the government can more than double.

"With effect from 01.09.2014, wherever employer and employees have opted to contribute on salary exceedingRs.6,500 per month, such employer and employees will have to exercise a fresh option to contribute the government's share of 1.16% on the salary exceeding Rs.15,000 per month from his/her contribution," EPFO said in a circular to all its offices for implementation.[14]

Do 'highly-paid' individuals need to be indirectly forced to subscribe an annuity product for 'pension security'? Can't they decide what is good for them? Don't the people earning less than Rs15, 000 actually need the 'pension security'? Secondly, if a person does not wish to invest in low return annuity products, why penalize him by taxing 60% of the corpus? How does help in financial protection to senior citizens?

The Government entered the scene with Employees' Provident Fund Act 1952, to resolve the requirement to form a retirement kitty, with the aim, *"An Act to provide for the institution of*

[14] Available at: http://www.livemint.com/Politics/bWl05ddREYDaUP5WAHxfbO/Govt-wont-contribute-to-pension-scheme-of-staff-getting-hig.html

provident funds, pension fund and deposit-linked insurance fund for employees in factories and other establishments"[15] in turn creating a kitty for the Government itself to invest various schemes for growth and welfare of the general public.

Installing a pension scheme along with a comprehensive saving scheme which evolved with evolution of Employees Provident Fund Scheme.

Salary or wage is taxed by Income Tax Department by Govt. of India. With current attacks on economic insecurity and the proportion of people employed in formal employment being less than compared to unorganized informal employment; the step to tax provident fund on its withdrawal from EPF Account disincentives resolution of problem of enhancing inclusiveness of more employment into formal and organized employment.

Further, with effect from 1st June 2015, Income Tax shall be deducted at source (TDS) if at the time of payment, the accumulated PF balance is more than or equal to Rs 30,000 with service less than 5 years. TDS will be deducted at the rate of 10 percent provided that PAN is submitted.

Earlier in 2014, the Employee Pension Scheme was withdrawn for new employees who joined the workforce after September 1, 2014 and whose basic pay plus dearness allowance exceeded Rs. 15,000. For existing employees before this cut-off date, 8.33 per cent of the employer contribution (of the total of 12 per cent) goes to the Pension scheme, promising a regular though small pay out from this when he turns 58. Secondly, EPF withdrawal rules were also made more stringent last month, just before the Budget. Earlier, you could withdraw your EPF balance entirely when you left a salaried job and didn't join another. Recent changes mandate that beginning with contributions from this year onwards, only the employee contribution and interest can be withdrawn entirely. The employer contribution will be locked- in till you turn 58. Whether this money would sit idle or would earn interest is a grey area. Third, Budget 2016 also proposed capping employer contribution to EPF at Rs 1.5 lakh (for taking tax benefit), thus bringing down the savings potential through this route for the high income group.[16]

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[15] Available at: http://www.epfindia.com/site_docs/PDFs/Downloads_PDFs/EPFAct1952.pdf

[16] Available at: http://www.thehindubusinessline.com/economy/pushing-investors-away-from-epf/article8327496.ece

The present roll back of all changes that Central Government proposed and tried to implement were an indication can also be seen as an indication of image makeover in the wake of recent elections that start from 4th April 2016 in the states of West Bengal, Assam, Kerala, Tamil Nadu, Pondichery and vote counting on May 19, 2016.[17]

These states are predominantly having influence of regional parties and who will not favour safer and fixed stable income. No one will be impressed by a party that takes anti-populist measures.

It is quite possible that the Central Government might re-implement the amendments that are rolled back for now if the present sarkar comes back in power in majority after the elections results are out. Looking at such a scenario, the point to contemplate and decide is whether employees should withdraw the money as much as possible whenever possible or trust the present Government on the issue that the dilemmas on issues of Employees Provident Fund is buried deep for the present term of this Government at least.[18]

Some other proposals[19] than those discussed above are,

(i) Raising age of retirement from 55 to 58.
(ii) Tightened rules governing withdrawals,
(iii) Quarterly revision of interest,
(iv) No interest on dormant/inoperative accounts. This raised middle class anger.
(v) Proposals in paragraph 138 and 139 of my Budget speech were that the proposal of 40 per cent exemption given to NPS subscribers at the time of withdrawal remains.

Paragraph 138 proposed to tax money withdrawn from EPF beyond 40 per cent, if the sum is not invested in annuity. Paragraph 139 proposed to tax contribution made by an employer exceeding Rs 1.50 lakh in EPF a year. Both the proposals were to come into effect from April 1, 2016.After this, no amount withdrawn from EPF account would be taxed, whether it is invested in annuity or not.[20]

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[17] Available at: http://www.elections.in/upcoming-elections-in-india.html
[18] Available at: http://www.business-standard.com/article/economy-policy/govt-buries-epf-tax-after-massive-protest-from-salaried-middle-class-116030900059_1.html
[19] Available at: http://www.business-standard.com/article/opinion/epf-dilemmas-116042801451_1.html
[20] Supra Note 18

Moreover today 'middle class' is a new group of vote bank which is beginning to be banked upon by 'Aam Aadmi Party' as well as 'Communist Party' DMK, AIADMK, Trinamool Congress and Congress. This is seen in the quote by Ms. Mamta Banerjee, *"EPF Roll Back A victory for the common people. Happy that we were the first to raise this issue"*.[21]

Prime Minister Narendra Modi changed the employee provident fund (EPF) withdrawal rules. Only 50 percent of the fund savings can now be withdrawn; the rest remains with the government till you turn 58. This is tyranny of the unelected people like Finance Minister Arun Jaitley ji. They have no idea of the pulse of the people. They are disconnected from reality, Kejriwal tweeted.

"I demand that the prime minister and the finance minister roll back this rule as soon as possible," he tweeted. Kejriwal's reaction came after the central government on Tuesday said it had decided to withhold till July 31 its decision on tightening rules on the withdrawal of provident fund.

"I was an employee myself and I stand with all employees against this draconian rule. PF is our only savings. We adults have the wisdom to manage it. Why is the government interfering? Why should my hard-earned savings remain with the government?" Kejriwal tweeted.[22]

Looking at the scenario, why shouldn't a retiree decide, based on needs and risk appetite, to invest his or her corpus in bank deposits, monthly income mutual funds or medical insurance in place of low-return annuities? Why shouldn't a retiree decide, based on needs and risk appetite, to invest his or her corpus in bank deposits, monthly income mutual funds or medical insurance in place of low-return annuities? Given that 90 per cent of India's workforce has no form of retirement savings, any move to shrink the existing EPF cover makes no sense. If an entire generation of Indians faces a pension shortfall 20 or 30 years hence, the problem would certainly come back to haunt policymakers.[23]

[21] Available at: http://www.business-standard.com/article/pti-stories/epf-rollback-a-victory-for-common-people-mamata-116030800452_1.html

[22] Available at: http://www.business-standard.com/article/news-ians/kejriwal-demands-rollback-of-new-epf-withdrawal-norms-116041901066_1.html

[23] Available at: http://www.thehindubusinessline.com/opinion/editorial/right-rollback/article8327948.ece

The government has also proposed that 14 per cent service tax on services provided by Employees' Provident Fund Organisation (EPFO) to employees, being exempted, with effect April, 2016.

The budget has also proposed to increase the threshold for deducting tax deducted at source (TDS) on payment of accumulated balance due to an employee in EPF Rs 50,000 from existing Rs 30,000.

Last year budget had provided that the members of private provident fund trusts will not have to pay tax on pre-mature withdrawals provided the amount is either less than Rs 30,000 or their tax liability is nil even after including the withdrawn sum to their income.[24]

Pension plans, which are low yielding, should not be the only option when it comes to parking such proceeds. Why not give an array of schemes - including options such as Post Office Senior Citizens' Scheme or for that matter low-risk mutual funds and government bonds to ensure investors create their own 'income' stream?

Unfortunately, this did not happen in the recent Budget. However, the roadmap laid thus far is pointing to only one direction: a move towards market-linked products if you are saving for retirement.

Although some good things did happened in the Provident Fund Scheme such as,

i. No more revenue stamps on PF claims is required to be fixed in respect of payment made through NEFT. EPFO has discontinued the practice of affixing revenue stamp on claim forms with effect from 18/08/2015, in case; claim amount is paid through NEFT.
ii. After leaving employment, employees need not get their forms for withdrawals attested through employer as earlier, now after launch of UAN the process of withdrawal for such employees is made very simple as the employee is not required to verify the form by his employer.
iii. EPFO launches an Incentive Scheme for employers to encourage partnership in allotment of Universal Account Number (UAN) to their employees; employers can

[24] Available at: http://www.firstpost.com/business/budget-2016-tax-on-epf-shocks-the-salaried-unions-warns-of-agitation-govt-on-back-foot-2649066.html

get refund upto 10% of administrative charges payable to EPFO under a new incentive scheme. This UAN remains constant despite change of jobs.

iv. Now employers in India can use Digital Signature Certificates (DSC) for submitting their employee PF transfer claim form online. Digital Signature makes your work easier, convenient and cost saving in handling your employee PF transfer claim forms.

The moves on restrictions on release of funds and other above discussed issues were making the positive improvements get overlooked.

The rollback of the controversial EPF tax proposal is a step in the right direction and will bring welcome relief to the salaried class. Freedom to use retirement savings is of paramount importance to salaried group, which is created to take care of their sunset years. People often tend to dream of a face lift change in lifestyle by purchase of either a car, television, a new house, marriages of children, a source of income for family in case of job loss of any of the family members or put in a monthly income plan in banks and many more things with the lump sum of provident fund amount that employees get after retirement. Again, in case a person wishes to buy or take up entrepreneurship on rent or start up a consultancy, or start any enterprise or self-enterprise, dealership of some product of a company on employee's name or his/her sons' or daughter's name, this fund can be useful for starting a second professional life of employee or employee's family. Hence compelling an employee to shift to NPS account by showing the stick of tax deduction as tax can form a significant part of the fund amount is not a sign of good governance.