Government plan to allow EPF-NPS portability may be junked

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- Government plan to make NPS an alternative to EPF seen as risky and controversial
- That EPF and NPS are not alternatives to each other will be made public formally this week.

The National Pension System (NPS) will not be an alternative to the Employees' Provident Fund (EPF), as the government is set to junk its much-talked-about plan to put in place EPF account portability with NPS.

This decision has been taken as the government has realized that the move is risky and controversial, and the two are not "apple to apple comparable" schemes in terms of their application and benefits, two government officials said, requesting anonymity.

"There is a growing realization that EPF, the mandatory mass social security scheme, is far better than NPS in terms of employee benefits, tax treatment, statutory requirement, and overall reach," said one of the two officials cited above.

"There are several reasons, but the bottom line is that EPF number portability with NPS is not a plan that the government is willing to pursue now," said the other official mentioned above.

That EPF and NPS are not alternatives to each other will be made public formally this week. The move will rest a four-year-old plan first mooted by then finance minister Arun Jaitley while presenting the 2015 annual budget.

Friction between the government and workers and trade unions, including those affiliated to the ruling Bharatiya Janata Party will be reduced, with the government taking a back seat on its four-year-old plan. This is particularly significant as it comes at a time when mistrust is growing because of accelerated labour reforms.

“We are reducing friction from labour reforms. We are making efforts to frame laws that are equally beneficial for both employees and employers. The Employees’ Provident Fund will not be tinkered with to benefit NPS. We are also making changes to the gratuity payment rules and will make employees eligible for gratuity contributions after one year in service instead of five years now," said the second official.

A labour ministry spokesperson said he is not aware of the development.

“The EPF is completely a tax exempt scheme. It offers provident fund, pension, insurance, and disability benefits, among other things, but NPS does not have such mass benefit. EPF with more than 8.6% almost assured return from its own investments without any government contribution makes it a far better product. What it needs is a smoother online interface and work is on to achieve this," said the first official.

Authorities believe that while EPF is a statutory deduction scheme for all organized sector employees in any establishment having 20 or more employees, NPS is voluntary. Besides, while EPF deductions are 12% each for employees and employers, NPS deductions are 10%.

All central trade unions, including Rashtriya Swayamsevak Sangh affiliate Bharatiya Mazdoor Sangh (BMS) have been opposing the plan for four years. In October, BMS criticized the central government, terming the “latest draft Social Security Code, 2019, totally disappointing for the workers in the country". BMS president C.K. Saji Narayanan had said that there is no alternative to EPF from workers’ benefit point of view and his organization totally opposes the NPS and EPF interoperability.