

EPF likely to fetch lower returns

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EPFO offered its subscribers an interest of 8.65% in the 2018-19 fiscal.

- This year EPFO has found it hard to recover some of its previous investments in troubled IL&FS and DHFL
- EPF interest rate is likely to be cut by 15-25 bps this fiscal.

Millions of salaried workers may soon get lower returns on their mandatory investment for the fiscal ending 31 March. The Employees' Provident Fund Organisation (EPFO) is likely to reduce the interest rate offered to its subscribers by 15-25 basis points for this fiscal, two government officials said on condition of anonymity. A basis point is one-hundredth of a percentage point.

This comes in the wake of EPFO offering its subscribers an interest of 8.65% in the 2018-19 fiscal after taking seven months to convince the finance ministry of the viability of its proposal.

The decision also comes against the backdrop of the economic downturn, lower yields for debt market instruments, including government securities, and fixed deposits and lower interest rates on similar products such as public provident fund and government provident fund that are likely to be factored in when EPFO announces its 2019-20 rate of interest, said one of the two officials cited earlier.

The retirement fund manager is expected to announce the annual rate of interest by the end of January after a series of meetings of its investment officials, executive committee members and the central board of trustees (CBT), the other official said.

"The economic downturn was visible this year. The falling returns on debt instruments will force the EPFO to tinker its 2019-20 payout downwards," the first official said. "The long-term fixed deposits and some bond yields have gone down by between 50 and 90 basis points in the last one year and you cannot ignore those indicators."

"The 10-year benchmark government securities or G-Secs went down between 85 and 90 basis points between January 2019 and January 2020" and that would be a drag on EPFO's earnings, said the second official.

A 100-basis point fall in interest rates in the market has the potential to impact the EPF payout by between 55 and 70 basis points, the official said. As such, EPFO will find it difficult to offer 8.65% interest this fiscal, especially as it invests 85% of its annual accruals in the debt market and 15% in equities through exchange-traded funds. "Thus, a 15-25 basis point cut in EPF interest rate this fiscal should not come as a surprise," said the second official.

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Two more developments could force a rate cut, according to the first official. First, investments made in small savings instruments such as public provident fund and government provident fund are at present earning only 7.9% interest.

Second, EPFO this year has found it hard to recover some of its previous investments in crisis-ridden shadow lender Infrastructure Leasing and Financial Services Ltd and troubled mortgage lender Dewan Housing Finance Corp. Ltd. Despite attempts, about Rs 1,300 crore of workers' money, invested directly by the retirement fund manager, is stuck with the two firms, Mint reported on 14 August.

Employees' representatives in CBT confirmed that 2019-20 is likely to be a tough year, but said they would push EPFO to maintain the 8.65% rate of return for the current fiscal. "Yes, we know it's a tough year, but we shall push for maintaining 8.65% EPF payout," said Prabhakar Banasure, a CBT member representing employees. "We are waiting to see what the labour ministry and EPFO bring to the table in terms of their income this year when we meet."

A labour ministry spokesperson chose not to comment.

CBT, led by the labour minister, is the apex decision-making body of EPFO, which manages a corpus of over Rs 12 trillion and has an active subscriber base of more than 60 million.

CBT, comprising representatives of the government, employers and employees, discusses the retirement fund manager's earnings for the year before deciding the provident fund interest rate that needs to be approved by the finance ministry.

The finance ministry had kept on hold the EPFO payout of 8.65% in 2018-19 for almost seven months. One of the contentions last year was that after an 8.65% payout, EPFO was left with a surplus of Rs 151 crore in 2018-19, much less than the surplus of Rs 586 crore in 2017-18.