Employees' Provident Fund (EPF): 3 reasons why you might earn less returns this year

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- **Several rules related to EPF withdrawal and deposits have been changed during the coronavirus pandemic.**
- **As interest rates fall, the EPFO might also declare a lower interest rate for PF account holders in FY 2020-21.**

NEW DELHI: If you are depending on your employees' provident fund (EPF) account for retirement needs, earnings from this financial year is likely to disappoint you. Although the new measures like allowing Covid pandemic withdrawal facility and a cut in EPF contribution will improve liquidity in the hands of PF account holders during the ongoing crisis, yet returns for this financial year will be affected. Despite falling interest rates in fixed deposits and small saving schemes, the Employees' Provident Fund Organisation (EPFO) had declared an interest rate of 8.5% for 2019-20.

1) Cut in statutory EPF contribution for 3 months

The government has announced a reduction in the statutory EPF contribution requirement from 24% of basic salary and dearness allowance (12% employee and 12% employer) to 20% for the next three months. As a result, your in-hand salary will increase.

However, a lower contribution will lead to a lower retirement corpus as EPFO relies heavily on compounding to create a nest egg that can help individuals manage their living costs post-retirement.

"Interest is credited to the member's account on the monthly balances. Since there will be less contribution for 3 months, the monthly balance will be lower to that extent and will lead to lower interest credit," Saraswathi Kasturirangan, Partner, Deloitte India, said.

2) Penalty for delay in EPF deposits removed

Considering the lack of normal business functions and liquidity crunch, EPFO has removed the penalty for delay in EPF deposits by employers. The penalty ensured that the contributions are deposited in time, making it easier for the EPFO to manage investments made on behalf of the fund, Harsh Jain, co-founder and COO of online investment platform Grow, said.

Delay in contributions by employers impacts the monthly balances and this in turn will adversely impact interest earned on deposits. The benefit of compounding of interest on this balance will not be available where the contributions are not credited on time, Kasturirangan said.

"The range of impact will be clear once we know how many employers have chosen to deposit the contribution after three months," Jain said.

3) EPFO interest rate likely to fall further this year

Given the falling interest rate scenario in India now where the Reserve Bank of India (RBI) has been cutting policy rates regularly, it would be tough for the EPFO to maintain 8.5% interest rate for this financial year too. Public Provident Fund (PPF) interest rate has been cut to 7.1% while the interest rate on National Savings Certificate (NSC) has been slashed by 110 bps to 6.8%.

Given the fact that rate of return on various investment has been declining, corporates with PF Trusts will need to review whether the earnings are sufficient to match the interest rates that the EPFO declares. "We will also need to wait and watch on whether a lower rate of interest would be declared by the EPFO for FY 2020-21," Kasturirangan said.