

Centre likely to raise wage threshold for EPFO's flagship retirement saving scheme

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- **This will increase the mandatory contribution by both employees and employers, helping workers save more for their retirement. The increase will also bring more workers under the EPFO's social security coverage.**

The government is likely to soon revise the wage ceiling for the Employees' Provident Fund Organisation's (EPFO) flagship retirement saving scheme.

This will increase the mandatory contribution by both employees and employers, helping workers save more for their retirement. The increase will also bring more workers under the EPFO's social security coverage.

Currently, the wage ceiling for the EPFO's Employees' Provident Fund (EPF) scheme is Rs 15,000 per month, which was last revised in 2014 from Rs 6,500 per month. The scheme is available only to enterprises that have more than 20 workers.

An expert committee will be set up shortly to determine a higher wage ceiling, which will be indexed to inflation and reviewed periodically for coverage under EPFO, a person aware of the development told ET.



Money Matters

An expert committee to determine wage ceiling for EPFO
It would be indexed to inflation; would be reviewed periodically

Currently, it is ₹15,000 per month; could go up to ₹21,000

Will enhance PF kitty and expand coverage of EPFO

Initial EPFO proposal was to do away with all thresholds

Employers resisted as it would add to the wage and compliance cost

According to the person quoted above, the EPFO wage ceiling could even be aligned with the higher Rs 21,000 per month wage ceiling under the Employees' State Insurance Corporation.

This will bring parity between the two social security schemes of the government run by the labour ministry and ease the compliance burden on establishments.

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Making Corporate India Comply

The ceiling serves two purposes. One, organised sector workers earning less than Rs 15,000 a month have to compulsorily become members of the EPF.

Two, both employer and employee have to mandatorily make EPF contributions at the rate of 12% on the prescribed Rs 15,000 maximum wage.

The employee can pay at a higher rate but the employer is not under any obligation to pay at such a higher rate.

Internal estimates show approximately 7.5 million more workers will come under the ambit of EPFO, which currently manages social security deposits of 68 million workers, if it is enhanced to Rs 21,000 per month.

EPFO subscribers get pension as well as insurance benefits under the scheme, over and above the provident fund benefits.

The move may, however, increase the annual wage cost for employers who will need to make matching EPF contributions on a higher wage and cover more employees.

Employers have, therefore, suggested that the government assess its impact fully before changing the core structure of the EPFO.

“The impact of any change in threshold may be analysed from the perspective of small-scale industries as they do not have deep pockets,” Sougata Roy Choudhury of CII said.

EPFO had earlier this year envisaged doing away with employee threshold and wage ceiling under the scheme so that not just formal workers, but even self-employed people could enroll under the social security scheme.

However, the proposal met with stiff opposition from employers who felt it would add to their wage and compliance costs. Following this, the government decided to retain the original structure of EPFO with periodic revisions to the wage ceiling to widen the EPFO coverage.