

The central government is said to be planning to increase the wage ceiling limit under the Employees' Provident Fund (EPF) scheme to Rs 21,000 from Rs 15,000 now. The previous time the central government enhanced the wage threshold was in September 2014.

If this proposal, reported in The Economic Times, goes through, it would impact the amount of contribution made towards the EPF scheme and the Employees' Pension Scheme (EPS). It has a bearing on the amount of pension an employer.

The labour ministry may be looking to expand the coverage of the employers' provident fund to millions of workers by increasing the wage ceiling for mandatory EPF benefits to ₹ 21,000 a month. The wage ceiling for mandatory EPF benefits is currently set at ₹ 15,000. The move would bring EPF in line with other social security nets like Employees State Insurance Corporation (ESIC), which also have a limit of ₹ 21,000.

The wage ceiling had last been raised eight years ago in 2014, the ninth time that it had been increased since the EPF was instituted in 1952. While the EPF benefit is only mandatorily extended to employees earning up to ₹ 15,000, many companies voluntarily extend benefits to those earning higher salaries. Under existing rules, any company with 20 or more employees needs to be registered with the EPFO and provide benefits mandatorily to those within the income ceiling.

While the EPF is a lifetime deposit, there are provisions to withdraw money from the EPF early as well. By increasing the limit to ₹ 21,000, approximately 7.5 million more workers will be brought under the EPFO, which already counts 68 million contributing members. Benefits under the EPF extend to provident funds, pension and insurance under the schemes.

Several worker unions, trade unions and others have been clamouring to bring the EPF limit in line with ESIC, which had its own limit raised from ₹ 15,000 in January 2017.

Enhancement in the EPS contribution from Rs 1,250 per month currently to proposed Rs 1,749 may lead to lower EPF corpus for existing employees. This is because an employer can currently deposit a maximum of Rs 1,250 to the EPS account. Any balance is deposited into the EPF account. If the deposit into EPS is hiked, the balance deposit into the EPF account will become lower.

"Suppose an employee's current basic salary is Rs 30,000 per month. Her employer contributes 12% of Rs 30,000 to the EPF account - Rs 3,600 per month. Out of this 12%, 8.33% goes to the EPS account, the pension account. For EPS contribution, the wage threshold is Rs 15,000. Hence, the EPS pension contribution is restricted to Rs 1,250. The balance amount of Rs 2,350 (Rs 3,600 minus Rs 1,250) goes into the EPF account. If the wage threshold is enhanced to Rs 21,000 per month, the EPS pension contribution becomes Rs 1,749 per month. The balance amount of Rs 1,851 (Rs 3,600 minus Rs 1,749) will be deposited in EPF account.