

EPFO Slashed Interest Rate on Provident Fund Deposits to 8.5%

The Employee's Provident Fund Organisation (EPFO) slashed the interest rate on Provident Fund Deposits to a **seven-year low of 8.5%** for the current financial year (2019-2020). The EPF interest rate was 8.65 per cent in 2018-19. The new rate introduced by EPFO marked a cut of 15 basis points from the interest rate of 8.65% paid on EPF deposits in FY 2018-19. This reduction in the interest rate is likely to impact the earnings of around 60 million active subscribers of the Provident Fund scheme.

What is Employees Provident Fund?

Employee's Provident Fund (EPF) is a savings scheme that was introduced under **Employee's Provident Funds and Miscellaneous Provision Act, 1952**. The scheme is administered and managed by the **Central Board of Trustees (CBT)** that consists of representatives from three parties, namely the government, the employers and the employees. CBT is assisted by the **Employee's Provident Fund Organisation (EPFO)** in its activities. And EPFO works under the jurisdiction of Ministry of Labour and Employment. The EPF scheme mainly aims at promoting savings to be used post-retirement by various employees throughout the country.

The decision of reducing the interest rate on Provident Fund Deposits was taken at a meeting of the Employee's Provident Fund Organisation's (EPFO's) apex decision-making body- the Central Board of Trustees (CBT). The decision is expected to provide **a surplus of over Rs 700 crore** to Employee's Provident Fund Organisation (EPFO) for the current financial year said the Minister of Labour and Employment Santosh Gangwar after the meeting of EPFO's Central Board of Trustees (CBT).

Interest Rate on Provident Fund Deposits in previous Financial Years

Year	EPF Interest Rate
2019-20	8.50%
2018-19	8.65%
2017-18	8.55%
2016-17	8.65%
2015-16	8.80%
2014-15	8.75%
2013-14	8.75%
2012-13	8.50%

The table above shows that the last time EPFO had paid an 8.5% rate was 7 years back in the FY 2012-13.

The Finance Ministry has been asking the Ministry of Labour and Employment to align the interest rate on Provident Fund deposits with other small saving schemes of the government like the public provident fund and post office saving schemes. EPFO's decision of slashing the interest rate now requires the Finance Ministry's concurrence on the matter. Since, EPFO works under the jurisdiction of the Government of India, the finance ministry will have to assess the proposal of slashing the rate on provident fund deposits to avoid any liability on account of shortfall in the income of EPFO in a financial year.

Low earnings from debt investments and the need of surplus to maintain the financial health of EPFO led to this decision of reduction in the interest rate on Provident Fund deposits.

Take Away

Employee's Provident Fund Scheme is among the largest and biggest saving scheme available to Indian employees. The scheme offers Tax-free savings and long-term financial security to employees. In its recent move, EPFO slashed the interest rate on Provident Fund Deposits to a seven-year low of 8.5% for the current financial year (2019-2020). The new interest rate is expected to provide a surplus of over Rs 700 crore to EPFO for the current financial year. If the Central Board of Trustees (CBT) had matched the 8.65 % payout of last fiscal, it would have adversely impacted the financial health of the EPFO.