Nagarik Mancha Newsletter-17

Employees Provident Fund and COVID-19

In a recent report that appeared in the media it was reported that EPFO withdrawals hit about Rs 30,000 crore during April-July lockdown. The corpus of the Fund presently stood at about Rs 10 Lakh crore contributed by 60 million salaried people, the report said.[i]

The AITUC, one of the central trade union organisations sought government's intervention in an alleged campaign for lowering interest rate on employees' provident fund on basis of estimates of large fund withdrawals by EPFO subscribers in April-June this year. The union urged the central government to take necessary steps to get facts checked, stating that the campaign seems to be directed to show the reduced income of the organisation and make out a case for lower interest rates.[ii]

To put the entire matter in perspective, the background to such withdrawals by EPFO subscribers lies in the Central Government launching the Rs.1.70 Lakh Crore relief package under the Pradhan Mantri Garib Kalyan Yojana (PMGKY) on 26 March 2020 for the economically weaker sections to cope up with the COVID-19 pandemic. A provision for withdrawal from the EPF Scheme to fight COVID-19 pandemic was announced by the government. A notification introduced special para 68 L (3) in the EPF Scheme, providing for non-refundable withdrawal to the extent of basic wages and DA for three months or up to 75% of the amount standing to member's credit in the EPF.[iii]

As part of the package announced on 26 March 2020, the Central Government also proposed to pay 24 percent of the monthly wages into EPF accounts for next three months of wage earners below Rs.15000/- per month, who are employed in establishments having up to one hundred employees, with 90% or more of such employees earning monthly wages less than Rs.15000/-. To implement the aforesaid package, the Ministry of Labour, Government of India, notified a Scheme stating that – "To prevent disruption in the employment of low wage earning employees and support establishments employing up to one hundred employees, the entire employees EPF contributions (12% of wages) and employers' EPF & EPS contribution (12% of wages), totaling 24% of the monthly wages for the three months shall be directly paid by the Central Govt. in the EPF accounts". Employees drawing a monthly wage less than Rs 15,000/- per month and establishments employing up to one hundred employees would be covered. The Scheme would be in operation for the wage months March, April, and May 2020 which was subsequently extended till July 2020.[iv]

The government expects about 79 lakh subscribers and approximately 3.8 lakh establishments to benefit from the package. This is estimated to have a subsidy outgo of Rs 4800 crore in a period of three months.[v]

As per the last officially released data by EPFO on June 9, in April-May, 36.02 lakh claims were settled, disbursing Rs 11,540 crore in total. Of these, 15.54 lakh claims were settled under the COVID-19 advance facility, disbursing Rs 4,580 crore to the subscribers. The EPFO had then said that over 74 per cent of the total claimants during the lockdown period were earning below Rs 15,000. The high-income category, with wages above Rs 50,000, accounted for 2 per cent of the claimants, while around 24 per cent of the claims were made by members with wages between Rs 15,000-50,000. The 36.02 lakh claims settled in April-May this year was a 6.7 per cent rise from 33.75 lakh claims settled in April-May 2019.

Further, Rs 875.52 crore was disbursed by the exempted PF Trusts to 79,743 subscribers under this scheme in April, of which 222 private sector establishments disbursed Rs 338.23 crore to 54,641 employees, 76 public sector establishments disbursed Rs 524.75 crore to 24,178 employees and 23 cooperative sector establishments disbursed Rs 12.54 crore to 924 employees.[vi]

The Employees' Provident Fund Organisation (EPFO) saw a three-fold increase in provident fund withdrawal claims in the past three months through the government's official mobile application. The union labour and employment ministry said in a statement that the EPFO received 1.1 million claims between April and July 2020 through the UMANG mobile application – three times more than the nearly 397,000 applications received from December 2019 to March 2020.[vii]

The withdrawals of from EPFO reflects a worsening of the trend that had started even before the COVID-19 pandemic. This trend could be described as aggravating the further overall decline in savings in the economy making conditions of revival of the economy all the more difficult.

Savings are the amount of the income left after consumption. So, if incomes collapse, so do savings. But, in any case, consumption has to continue, so people withdraw their savings and past deposits from the banks and financial institutions. The self-employed, elderly, and retired people have no option but to use their savings.[viii]

In an article on Quarterly Estimates of Households' of Financial Assets and Liabilities in the RBI Bulletin of June 2020, forming an analysis of household savings and liabilities it was mentioned that the household sector contributes around 60 per cent of gross savings in the Indian economy, and remains the major supplier of financial resources for gross investment. The annual data on household savings which is published by the National Statistical Office (NSO), with the latest annual estimates released on January 31, 2020 shows that financial saving of the household sector declined to 6.5 per cent of GDP in 2018-19 from 7.7 per cent in 2017-18 and 7.4 per cent in 2016-17. Gross financial assets of Indian households which consists of deposits kept with banks, moneys kept in life insurance, provident and pension funds, held in currency, investments in mutual and other funds and small savings declined from 12.0 per cent of GDP in 2017-18 to 11.1

per cent of GDP in 2018-19 and further to 10.6 per cent of GDP in 2019-20. The study also showed that despite a decline in the gross financial liabilities of households from 4.2 per cent of GDP in 2017-18 to 3.9 per cent of GDP in 2018-19 and further to 2.9 per cent of GDP in 2019-20. Such financial liabilities which essentially consisted of borrowings from banks and financial institutions, increased in the last quarter of 2019-20 to 5.0 percent of GDP from -0.4%of GDP in the first quarter reflecting, higher borrowings induced by COVID-19 related hardships.[ix]

The withdrawals from EPFO, which is one of important social security institutions in the country is reflective of a larger trend of the citizens forced to rely upon their savings which they were expected to depend upon in their old age or age of retirement but not while many of them are in their active service life. The intervention of the state is required not to make subscribers to the Fund depend upon their own resources which they have provided for their old age. The COVID-19 pandemic has raised these basis questions which need resolution.

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