Govt may rethink NPS-EPS switch

Option for workers being reconsidered after reactions from employees and employers in recent meetings

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The Union government is reviewing its proposal to allow private sector workers to switch between the Employees' Pension Scheme (EPS) and the National Pension System (NPS), a senior government official said.

A re-think has been prompted by reactions from representatives of both employers and employees in recent consultation meetings with the labour and employment ministry.

The government had proposed amendments to the Employees' Provident Funds and Miscellaneous Provisions Act, 1952, in August. It suggested giving private employees an option to switch between NPS — a defined contribution retirement scheme administered by Pension Fund Regulatory and Development Authority (PFRDA) and EPS — a scheme administered by the Employees' Provident Fund Organisation (EPFO) providing fixed pension, beginning from 58 years of age until the death of a worker.

The move was announced by late Arun Jaitley, who was the former finance minister, in his speech for Union Budget 2015-16.

Some employers' representatives, including the Confederation of Indian Industry, have said the move may become "an administrative burden" on them as the pension account of a worker will be shifted to NPS, while the Employees' Provident Fund account will continue to be administered by the EPFO.

Employees contribute 12 per cent of their wage (basic pay and dearness allowance) towards schemes run by the EPFO with a matching contribution of 12 per cent from employers. Of this, 8.33 per cent of the employers' share of monthly wage up to ₹15,000 goes towards the EPS and the government further makes a contribution of 1.16 per cent of the wage to the pension account of workers.

The move may increase the compliance cost for companies, along with administrative hurdles, some industry bodies said in their representation in a meeting chaired by Labour and Employment Minister Santosh Kumar Gangwar on September 24.

Some employers' representatives demanded that the labour ministry release a white paper giving a detailed comparative analysis of the benefits offered by EPS and NPS to workers. Employers have further raised doubts on the status of the EPS funds of workers accumulated over the years, who decide to switch to NPS.

Labour unions, including RSS-affiliated Bharatiya Mazdoor Sangh, have also opposed the proposal. "NPS is risky as it is market-linked. Return in EPS is much more than NPS, according to a study by EPFO. EPS has more benefits, including that to family members, insurance, widow pension, etc., whereas NPA has a lock-in period of 15 years for withdrawal," the BMS said in its representation.

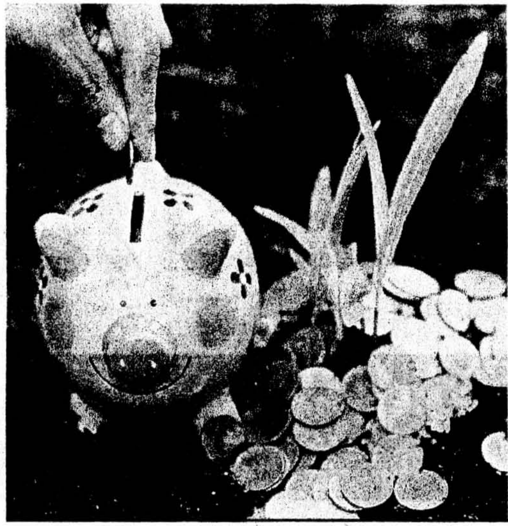
EPFO had conducted a study in 2013, in which it said the annualised return under the EPS between May 2009 and May 2013 stood at 10.47 per cent, which was "higher than the return declared by NPS".

All other trade unions, including the Centre of Indian Trade Unions, Indian National Trade Union Congress, said by asking workers to shift to a contribution-defined pension scheme, the government was insisting workers "to purchase their old age pension from the market, where their own life-long savings for pension will be deployed for speculation".

According to the labour ministry's proposal, workers will also get an option to revert to the EPS whenever they feel like.

"The EPF Bill, 2019 enables employees to switch between EPS and NPS at any point in time. The ability to keep switching between EPS and NPS will pose a huge administrative burden for the employer every time that the employee exercises the option since the employer will be expected to transfer the accumulated amounts back and forth," according to a submission by National Association of Software and Services Companies (Nasscom).

While the returns earned in the EPS is fixed and is paid on a monthly basis after a worker reaches 58 years, the returns offered by NPS are market-linked. On retirement, 60 per cent of the NPS corpus is exempt from income tax and the balance 40 per cent has to be invested in an annuity, whereas the EPS — a defined monthly pension based on pensionable income derived from a formula — is tax-free.



DIFFERENT SIDES, SIMILAR OPINION

EMPLOYERS' VIEWS

- Might become an administrative burden on companies
- Difficult to manage provident fund and pension accounts of workers, administered by two bodies — EPFO and PFRDA
- Option to switch between NPS and EPS back and forth will lead to difficulties for employers who will be expected to transfer the accumulated amounts time and again
- Government needs to come out with a white paper on benefits offered by NPS and EPS

EMPLOYEES' VIEWS

- EPFO study shows EPS offers better return than NPS
- NPS is risky as it is primarily a market-linked product
- EPS has more benefits including pension to widow, children and dependents in case of death of the subscriber
- By asking to shift to a contribution-defined pension scheme, government wants employees to purchase their old-age pension from the market