



# EPFO: Interest Rate for 2020-21

## Why in News

- Recently, the [Employees Provident Fund Organisation \(EPFO\)](#) recommended that subscribers be given **8.5% interest rate for Provident Fund contributions (under Employees' Provident Funds Scheme)** for 2020-2021.

## Employees' Provident Funds (EPF) Scheme

- **EPF** is the main scheme under the **Employees' Provident Funds and Miscellaneous Act, 1952**.
- This scheme **offers the institution of provident funds** for factory employees and other establishments.
- The employee and employer each contribute 12% of the employee's basic salary and dearness allowance towards EPF.
  - The [Economic Survey](#) 2016-17 had suggested that **employees be allowed to choose** whether or not to save **12%** of their salary into EPF or keep it as take home pay.
- As per current laws, **a person mandatorily becomes a member of EPF if his monthly salary does not exceed Rs. 15,000.**

## Key Points

- **Interest Rate:**
  - The interest rate was **kept the same** as the previous year.
    - In March 2020, EPFO had **reduced interest rate on provident fund deposits to 8.5%** for the year 2019-2020.
    - The interest rate was **8.65% in 2018-19** and **8.55% for 2017-18.**
- **High Returns:**
  - Amid falling interest rates owing to the [economic slowdown](#) throughout 2020 due to the [Covid-19 pandemic](#), the EPFO has managed to **hold on to the high interest rate** of 8.5% in the current year.
- **Reason for High Returns:**
  - The interest rate recommended was a **result of the income from interest from [debt investment](#) and income from equity investment.**
    - EPFO had decided to **liquidate investment in equity** through [exchange traded funds](#), which it had started in **2015-2016.**
    - This has **enabled EPFO to provide higher return** to its subscribers and still allowing EPFO with healthy surplus to act as cushion for providing higher return in

future also.

## Key Terms

### ▪ Debt Investment:

- It refers to an investor **lending money** to a firm or project sponsor with the expectation that the borrower will **pay back the investment with interest**.

### ▪ Equity Investment:

- It is the money that is invested in a company **by purchasing shares** of that company in the stock market.

## Employees Provident Fund Organisation

- It is a **government organization** that manages **provident fund and pension accounts** for the workforce engaged in the organized sector in India.
- It implements the **Employees' Provident Fund and Miscellaneous Provisions Act, 1952**.
  - The Employees' Provident Fund and Miscellaneous Provisions Act, 1952 provides for the institution of provident funds for employees in factories and other establishments.
- It is administered by the Ministry of Labour & Employment, Government of India.
- It is **one of the World's largest Social Security Organisations** in terms of clientele and the volume of financial transactions undertaken.

**Source:TH**

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