

Employee Provident Fund (EPF)

1. What is Provident Fund?

Provident Fund (PF) is a long-term savings and social security scheme designed to provide financial stability and income security to employees after retirement or during emergencies. Under this system, a fixed portion of an employee's salary is regularly deducted and deposited into a dedicated fund, and an equal contribution is made by the employer, creating a disciplined savings mechanism over the employee's working life. The accumulated amount earns interest over time, helping the employee build a substantial financial corpus.

Provident Fund is not only a retirement savings tool but also a social protection mechanism, as it ensures that employees have financial support in situations such as retirement, disability, unemployment, medical emergencies, or family needs. In India, the Provident Fund system is regulated by the government and implemented mainly through statutory schemes like the Employees' Provident Fund (EPF), making it a key pillar of the country's social security framework and employee welfare structure.

2. Types of PF in India

In India, the Provident Fund system is structured into different types of schemes to cover various categories of employees and citizens, depending on the nature of employment and income source. These schemes ensure that people from both the organized and unorganized sectors can build long-term savings and social security protection.

We will be discussing the below three:

✓ **EPF**

EPF is a statutory, compulsory and government-regulated retirement savings scheme for salaried employees working in the organized sector. Under this system, a fixed percentage of salary is mandatorily deducted every month from the employee and an equal contribution is made by the employer, creating a structured and disciplined savings mechanism. The accumulated amount earns interest and builds a long-term retirement corpus, while also providing financial support during contingencies such as medical emergencies, unemployment, housing needs, education, marriage, disability, and retirement. EPF also forms part of a broader social security framework through its linkage with pension and insurance schemes.

✓ **PPF**

PPF is a voluntary, government-backed long-term investment and savings scheme meant for the general public, including self-employed individuals, professionals, and those not covered under formal employment systems. Individuals invest their own money periodically into a PPF account, which earns interest and grows over time to form a stable long-term savings fund. It is mainly used for retirement planning, wealth accumulation, and long-term financial security, offering safety of capital, predictable returns, and strong government support, making it a trusted savings option for households.

✓ **VPF**

VPF is a voluntary extension of the EPF scheme available to salaried employees who are already covered under EPF and wish to save more for their future. In this scheme, the employee can contribute a higher portion of their salary beyond the mandatory EPF limit, allowing faster accumulation of a larger retirement corpus. While the employer's contribution remains fixed as per statutory limits, the employee's higher contribution earns the same interest and benefits as EPF, making VPF an effective tool for enhanced retirement planning and long-term financial security.

3. PF Contribution Breakdown

Under the Employee Provident Fund (EPF) scheme, a total of 24% of the employee's basic salary plus dearness allowance is contributed every month. The employee contributes 12%, and this entire amount is credited to the EPF account in the employee's name. The employer also contributes 12%, but this amount is not fully deposited

into EPF. Out of the employer's contribution, 8.33% is diverted to the Employee Pension Scheme (EPS), which helps in providing monthly pension after retirement. The remaining portion of the employer's contribution goes into the EPF account, adding to the employee's retirement corpus.

4. Benefits of PF

✓ Safe & Government Backed

Provident Fund is considered a safe and reliable savings option because it is fully backed and regulated by the Government of India. The EPF scheme operates under the supervision of the Employees' Provident Fund Organisation, which ensures proper management, regular monitoring, and protection of employees' funds. The money contributed by employees and employers is not subject to market fluctuations, unlike shares or mutual funds, making it a low-risk investment. Moreover, the interest rate is declared by the government, providing assured and stable returns. Due to strong legal support and government oversight, employees can trust that their savings are secure and protected, even during economic uncertainty.

✓ Tax – free interest

One of the most attractive benefits of EPF is the tax advantage it offers. The employee's contribution to EPF qualifies for deduction under Section 80C of the Income Tax Act, reducing taxable income. The interest earned on the EPF balance is tax-free only when the employee satisfies the condition of continuous service of at least 5 years.

✓ Retirement corpus

It helps in building a retirement corpus by ensuring regular and disciplined savings throughout an employee's working life. Monthly contributions from both the employee and the employer, along with annual compounding of interest credited by the Employees' Provident Fund Organization, accumulate into a substantial amount over time. This lump-sum corpus provides financial security after retirement, when regular income stops, and helps meet post-retirement expenses.

✓ Partial withdrawals allowed

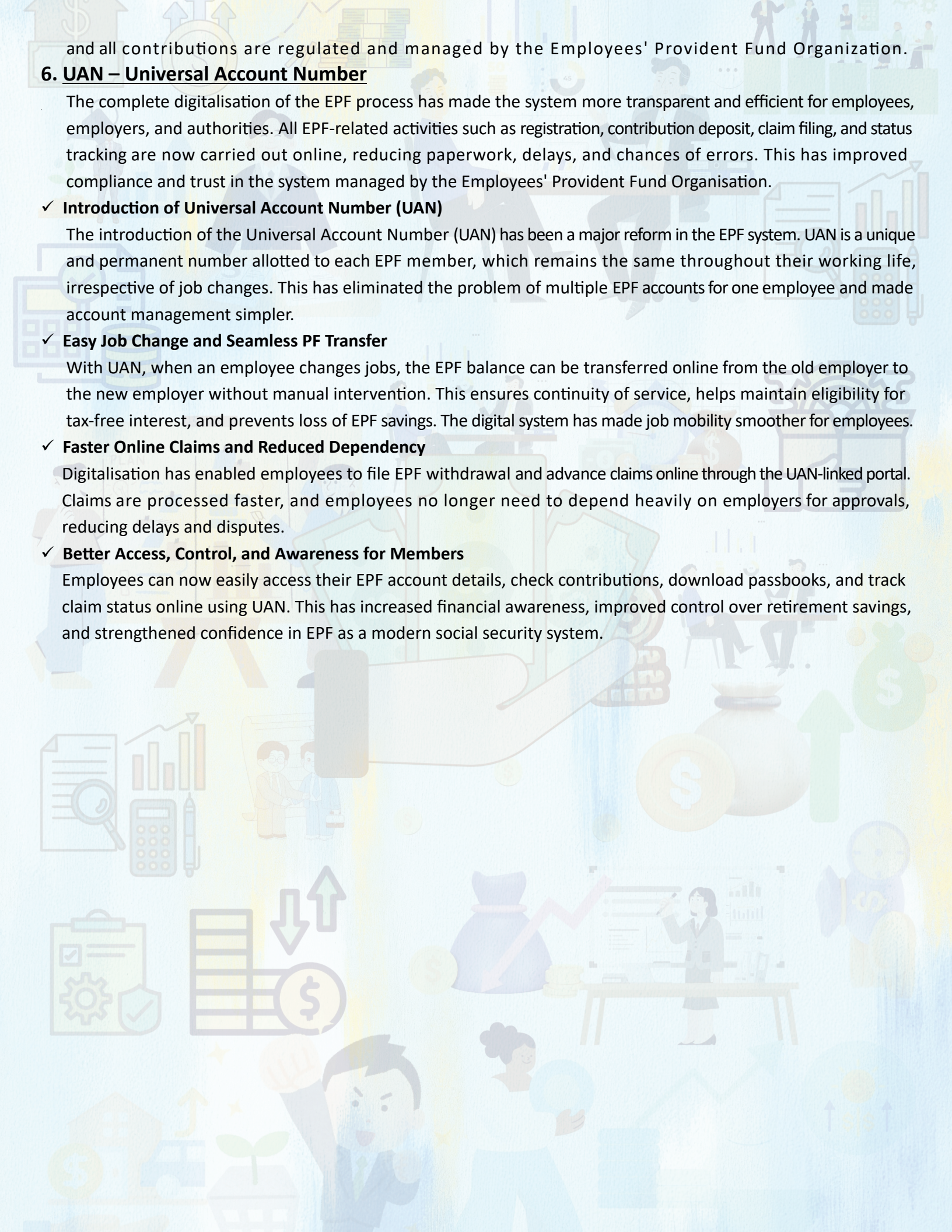
It allows partial withdrawals, making it a flexible savings scheme in addition to being a retirement fund. Members can withdraw a portion of their EPF balance for specific purposes such as medical emergencies, higher education, marriage, purchase or construction of a house, or repayment of a home loan. These withdrawals are permitted subject to prescribed conditions like minimum years of service and limits on the amount that can be withdrawn. This facility ensures that while the EPF balance continues to grow for retirement, it can also provide timely financial support during important life events or emergencies.

✓ Disciplined saving

It promotes disciplined saving by making monthly contributions compulsory for both the employee and the employer. A fixed percentage of salary is automatically deducted every month and deposited with the Employees' Provident Fund Organization, ensuring regular savings without requiring any active effort from the employee. This habit of forced and consistent saving helps employees build long-term wealth gradually and prevents impulsive spending, ultimately supporting financial stability and retirement planning.

5. Rules & Eligibility

Under Employees' Provident Fund (EPF) rules, registration and applicability depend on both organizational strength and employee salary limits. Any establishment employing 20 or more persons is required to compulsorily register under EPF, while organizations with fewer than 20 employees may opt for voluntary registration. Once registered, the provisions of EPF continue to apply even if employee strength falls below the prescribed limit. Additionally, EPF coverage for employees is mandatory if their basic salary plus dearness allowance is ₹15,000 or less per month. Employees earning above this limit may be covered voluntarily with mutual consent of the employer and employee. After enrollment, EPF membership becomes compulsory irrespective of future salary increases,



and all contributions are regulated and managed by the Employees' Provident Fund Organization.

6. UAN – Universal Account Number

The complete digitalisation of the EPF process has made the system more transparent and efficient for employees, employers, and authorities. All EPF-related activities such as registration, contribution deposit, claim filing, and status tracking are now carried out online, reducing paperwork, delays, and chances of errors. This has improved compliance and trust in the system managed by the Employees' Provident Fund Organisation.

✓ **Introduction of Universal Account Number (UAN)**

The introduction of the Universal Account Number (UAN) has been a major reform in the EPF system. UAN is a unique and permanent number allotted to each EPF member, which remains the same throughout their working life, irrespective of job changes. This has eliminated the problem of multiple EPF accounts for one employee and made account management simpler.

✓ **Easy Job Change and Seamless PF Transfer**

With UAN, when an employee changes jobs, the EPF balance can be transferred online from the old employer to the new employer without manual intervention. This ensures continuity of service, helps maintain eligibility for tax-free interest, and prevents loss of EPF savings. The digital system has made job mobility smoother for employees.

✓ **Faster Online Claims and Reduced Dependency**

Digitalisation has enabled employees to file EPF withdrawal and advance claims online through the UAN-linked portal. Claims are processed faster, and employees no longer need to depend heavily on employers for approvals, reducing delays and disputes.

✓ **Better Access, Control, and Awareness for Members**

Employees can now easily access their EPF account details, check contributions, download passbooks, and track claim status online using UAN. This has increased financial awareness, improved control over retirement savings, and strengthened confidence in EPF as a modern social security system.