



## EPFO: Interest Rate for 2020-21

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### Why in News

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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

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- **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

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- 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