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Govt may hike salary threshold to Rs21,000 for mandatory PF coverage

The Rs21,000 cap for mandatory PF coverage will cover over six million more employees without putting a strain on the government exchequer

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Right now, all workers drawing a monthly salary up to Rs15,000 are covered mandatorily under EPF and the Employees' Pension Scheme social security benefits. Employees earning above this threshold join EPFO voluntarily. Photo: Ramesh Pathania/Mint

New Delhi: The Union government is likely to walk a middle path and increase the wage threshold from Rs15,000 to Rs21,000 for mandatory provident fund coverage instead of the Rs25,000 proposed by the Employees' Provident Fund Organization (EPFO), said at least two government officials, on the condition of anonymity.

The Rs21,000 cap will help bring in over six million more employees under the social security net without putting a strain on the government exchequer.

While EPFO plans to increase the wage threshold to Rs25,000, considering the financial implications for the Central government, the labour ministry is almost ready to moderate the hike in the wage threshold to Rs21,000, said the two government officials.

Once it's formally passed by the central board of the EPFO, organized sector employees drawing a monthly salary up to Rs21,000 will come under the mandatory coverage of the EPFO which provides PF, pension and insurance to its subscribers.

Right now, all workers drawing a monthly salary up to Rs15,000 are covered mandatorily under EPF and the Employees' Pension Scheme (EPS) social security benefits. Employees earning above this threshold join EPFO voluntarily.

Every month, salaried workers contribute 12% of their salary to EPF and the employer matches the sum. From what the employer contributes, 8.33% goes into EPS, which offers pension for life post retirement. The government contributes 1.16% to the pension kitty of every PF member whose salary is under the wage threshold.

When the initial plan to hike the EPF wage ceiling was mooted last year, post the implementation of the 7th Pay Commission, the Central government "sought clarifications" on how much will the increase in wage ceiling impact the government exchequer and whether this will "entail additional contribution" by employers as they pay 3.67% of the basic wage for EPS, as per labour ministry documents reviewed by *Mint*.

"The ministry did its calculations and found increasing the threshold to Rs25,000 will cost the central government Rs6,750 crore per year and increasing to Rs21,000 will take it to Rs5,659 crore per year," said the first government official quoted earlier.

Increasing the threshold to Rs25,000 will effectively mean that the Central government will have to spend Rs2,708 crore more than what it is doing now, and capping the threshold at Rs21,000 will result in an extra cost of Rs1,617 crore, as per government documents.

The second labour ministry official quoted above said that since the wage threshold for employees' state insurance run by ESI Corp. has been hiked to Rs21,000 in recent months, "it makes sense for hike in the PF threshold to be at the same level."

The EPFO hiked the wage threshold from Rs6,500 to Rs15,000 in August 2014.

The EPFO manages over Rs8.5 trillion retirement fund, and currently, has an active subscriber base of over 37 million.

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