

Item No. 5 Determining the rate of Administrative Charges payable by the employers under EPF Scheme, 1952.

The expenditure incurred in administering the Employees' Provident Fund, is met from the administrative and inspection charges collected from the employers of un-exempted and exempted establishments respectively. Paras 38 and 39 of the EPF Scheme mandates collection of Administrative Charges on monthly basis from un-exempted establishments. Section 17(3) of the Act mandates collection of Inspection charges from establishments exempted from EPF Scheme, 1952 and EDLI Scheme, 1976. There are no charges levied to run EPS, 1995 and EDLI Scheme, 1976.

2. The Central Government may, in consultation with the Central Board of Trustees, EPF and having regard to the resources of the fund available for meeting its normal administrative expenses, fix the percentage of administrative charges payable under paragraph 38(1) of the EPF Scheme, 1952. The administrative charge is levied as a percentage of the pay (basic wages, Dearness allowance, retaining allowance, if any and cash value of food concessions admissible thereon).

3. The rates of Administrative charges applicable over the years are given in the table below: -

MONTHLY ADMINISTRATIVE CHARGES PAYABLE BY THE EMPLOYERS OF UN-EXEMPTED ESTABLISHMENTS		
Period	Rate	Charged on
01.08.1998 to 31.12.2014	1.10%	Total wages on which contributions are payable subject to a minimum of ₹ 5/- per month.
01.01.2015 onwards	0.85%	Total wages on which contributions are payable subject to a minimum sum of ₹ 75/- per month for every non-functional establishment having no contributory member and ₹ 500/- per month per establishment for other establishment.
01.04.2017 onwards	0.65%	Total wages on which contributions are payable subject to a minimum sum of ₹ 75/- per month for every non-functional establishment having no contributory member and ₹ 500/- per month per establishment for other establishment

4. The following trends in Income and Expenditure may be seen in the tables below:-

[Rs. in crores]

Sl. No	Year	Income	Interest earned	Total Income	Expenditure	Transfer to Pension-cum-Gratuity Fund	Total Expenditure	Balance
1	2015-16	3,758.79	1,207.71	4,966.50	1,856.65	204.76	2,061.40	2,905.10

2	2016-17	4,190.78	1,456.45	5,647.23	2,249.02	1,485.05	3,734.07	1,975.69
3	2017-18* (up to Dec. 17)	2,820.47	1,391.40**	4,211.87	1,515.33	1,418.67	2,934.00	1,277.87

\*Provisional Balance sheet figure

\*\*Estimated on Closing Balance of 2016-17 @8% interest rate.

5. As on 31<sup>st</sup> March, 2017, EPFO has a surplus of Rs. 20,871 Crore in EPF Administration Account. The actuary has since submitted its report in November, 2015 and the report has projected a deficit of Rs. 8,289.98 Crore in Staff Pension-cum-Gratuity Fund. An amount of Rs. 3,110.53 Crores was transferred to the Pension-cum-Gratuity Fund during the period from 1<sup>st</sup> April, 2015 to 31<sup>st</sup> December, 2017. Adjusting for annual transfers to be made in Pension-cum-Gratuity Fund Account, pension paid out of current revenue, and additional transfers into the Pension-cum-Gratuity Account, the estimated deficit to the Pension-cum-Gratuity account is Rs. 4,594.33 Crore. Considering the existing surplus of Rs. 20,871 Crore, the balances can be transferred either from the existing annual surplus or from the corpus in Pension-cum-Gratuity account.

6. The total liability of EPFO Pension-cum-Gratuity Fund is an upper capped liability as only those employees who joined EPFO before 01.04.2004 are eligible for pension. This number is reducing with time.

7. The total collection of administrative charges in 2017-18 is estimated at Rs. 3,760 Crore. A decrease of administrative charges by 0.15% would lead to reduction in collection of administrative charges by Rs. 870 Crore. Thus excluding the impact of future growth in EPFO business, the estimated revenue is Rs. 2,980 Crores. The estimated revenue expenses requirement of Rs. 1,820 Crore, including pension payments but excluding the transfer to Staff Pension & Gratuity Fund in 2017-18. Further, there has consistently been a positive balance of income over expenditure in the last decade. The EPFO have a surplus accumulated corpus of Rs. 20,871 Crore that generates Rs. 1,669.68 Crore as additional support.

8. The past reductions in Administrative charge in 2015 & 2017 have not resulted into reduction in income of EPFO due to growth in business of EPFO in the long run. A further reduction in administrative charge to 0.50% is also not expected to reduce income of EPFO to the extent of Rs. 980 Crore due to expected growth in coverage under EPF Schemes, better compliance and default management and expected future salary ceiling increase.

9. The revenue expenses of EPFO in near future is expected to be stable even though in the last few years the administrative expenses have shown an upward trend on account of implementation of the recommendations of Pay Commission, and Cadre restructuring in EPFO. No such event is due in near future and the current increase in expenditure has already absorbed the impact of earlier events.

10. There is no need of further Actuarial Valuation as the recent valuation was done in 2016 and the liability is fixed thereafter in terms of number of employees and pensioners. The deficit estimate

of Rs. 8,289.98 Crore is already reduced to Rs. 4,594.33 Crore by a transfer of Rs. 3,110.53 Crore during 01-04-2015 to 31.12.2017. As of now the estimated accumulated corpus in the Pension-cum-Gratuity Fund is Rs. 6,210 Crore.

11. Sufficient accumulated fund is available as administrative charges and since the members of EPFO are expected to grow in future, the inflow of administrative charges will increase. As the expenditure is expected to remain stagnant, there is scope for further reduction of administrative charges. Even with such a reduction, surplus of about Rs. 1,160 Crores is expected to be received each year without taking into account the interest receipt of about Rs. 1,600 Crore.

12. It is, therefore, recommended that the administrative charges may further be reduced to 0.50% of Pay to ensure that the benefits of efficiency and savings are passed on to employers. The reduced liability on establishment can provide incentive to the employers to extend social security coverage to more employees/workers.

Proposal: CBT, EPF may, therefore, approve the proposal at para (12) above.