Does It Make Sense to Increase EPF Contributions?

By Meghna Maiti Published on: 19 Feb 2024, 7:40 PM

Subscribers of the Employees' Provident Fund Organisation (EPFO) desiring to exceed the mandated contribution limit are required to jointly submit a request seeking permission under Paragraph 26(6) of the EPF Scheme, 1952. In recognition of this, the Central Board of Trustees (CBT) approved a specific format. It is important to note that all upcoming cases will be submitted and processed digitally. According to the EPFO rules, employers and employees are mandated to contribute 12 per cent of the employee's basic salary and dearness allowance. But now employees can choose to increase their contribution.

Should You Increase Your EPF Contribution

Employee Provident Fund (EPF) has several benefits. Regular contributions accumulate to a sizable corpus upon retirement, ensuring consistent income post-career. Additionally, tax benefits on contributions provide immediate financial relief, while competitive interest rates provide a steady return.

However, it is important to make a few considerations before increasing your EPF contribution.

EPF is a great way of investing in long-term debt as apart from tax benefits the scheme comes with a sovereign guarantee and high interest rate. “So based on their risk appetite-based asset allocation needs, one can use EPF to contribute towards their long-term debt portfolio for their retirement goals over and above the statutory limit,” says Abhishek Kumar, a Securities and Exchange Board of India (Sebi) registered investment advisor (RIA), and founder, Chief Investment Advisor of Sahaj Money, a financial planning firm.

Starting from April 1, 2022, the interest accrued on an employee's contribution to the Employees' Provident Fund (EPF) up to Rs 2.5 lakh annually is exempt from taxation. However, any interest earned on contributions exceeding Rs 2.5 lakh becomes taxable and is to be included in the taxable income of the employees. This is one aspect that one needs to keep in mind when increasing EPF contributions.

Another benefit is that at 8.15 per cent, EPF continues to offer higher than market returns on fixed income instruments, especially for investors in a high tax bracket

“Therefore a good option to enhance exposure to high tax bracket investors provided they are comfortable with the lock-ins and lack of flexibility on withdrawals,” says Vishal Dhawan, CEO and founder, Plan Ahead Wealth Advisor, and Sebi-registered advisor. However, the rate of return on EPF is revised every year.

Consider Your Asset Allocation

How your existing investments are spread across asset major classes viz. debt, equity, gold, and real estate plays a vital role in deciding the increase in contribution towards EPF.

“Overall asset allocation may give a fair idea about your actual weightage in asset classes. If existing allocation in debt suggests further increase may be made, one may reconsider the liquidity factor and decide to increase contribution in EPF,” says Arijit Sen, a Sebi-registered investment advisor and co-founder of Merry Mind. On the other hand, if there’s over-weightage in debt already, increasing contribution towards PF may not make good sense.