

Indian Government puts limit on early withdrawal from provident fund

February 20, 2016

In brief

The Ministry of Labour and Employment, Government of India, has made a few amendments in the Employees' Provident Fund Scheme, 1952 (PF Scheme). These are effective from 10 February 2016. Key implications are briefly explained below:

- Member employees will no longer be allowed to withdraw the full amount standing to their credit in the fund on cessation of employment from a covered establishment before attaining the age of retirement.
- The maximum withdrawal on cessation of employment cannot exceed an amount aggregating employee's own contribution and interest accrued thereon. International workers (IWs) coming from a country with which India has a social security agreement (SSA) in force shall not be governed by this amendment. They can continue to withdraw the full amount standing to their credit in the fund on cessation of employment.

In detail

The key amendments¹ in the PF Scheme and its impact are tabulated below:

Subject	Relevant existing provisions	Amendment made	Impact
Continuity of PF membership	Explanation to Para 26A provides that the employee's membership shall be deemed to be terminated, if he/she withdraws full amount of provident fund (PF) standing to his credit on cessation of employment (applicable to Indian employees).	Explanation to Para 26A has been omitted.	Indian employees will continue to be a member of the fund even if they cease to be an employee of a covered establishment, as the amended withdrawal provisions no longer allow Indian employees to withdraw the full amount of PF on cessation of employment.
Increase in age-limit	A member may withdraw upto 90% of PF balance on attaining 54 years of age or within one year before actual retirement, whichever is later. (Para 68NN)	The age now has been increased from 54 to 57 years.	Members would now be able to avail this option only on attaining the age of 57 years.

¹ Notification no. G.S.R. 158(E), dated February 10, 2016 [F.No. S-35012/5/2015-SS-II]

Subject	Relevant existing provisions	Amendment made	Impact
Partial withdrawal of PF on cessation of employment		<p>A member who ceases to be in employment and continues to not be employed with a covered establishment for at least two months, may be permitted to withdraw only his own share of contribution, including interest earned thereon.</p> <p>The requirement of 'two months' period referred above shall not apply in case of female members resigning from the service for the purpose of getting married or on account of pregnancy/ child birth. (Para 68NNNN - new insertion)</p>	With the insertion of the new paragraph, employer's contribution, including interest thereon, cannot be withdrawn until retirement.
Amendment in withdrawal provisions	<p>A member may withdraw the full amount standing to his credit in the fund:</p> <ul style="list-style-type: none"> On retirement from service after attaining the age of 55 years, or in other circumstances as prescribed; On cessation of employment and not being re-employed for at least two months <p>(Para 69 applicable to Indian employees)</p>	<ul style="list-style-type: none"> The age of retirement has now been increased from 55 to 58 years. Option of full withdrawal on cessation of employment has been done away with. 	The retirement age for full withdrawal in case of Indian employees has been aligned with that of IWs. (IW's are governed by a special provision related to withdrawal of PF)

The takeaways

The amendments introduced in the PF scheme will have a wide impact on Indian employees as they will no longer be allowed to withdraw the entire PF contribution on cessation of employment. While this will help members to build funds for their retirement, at the same time, long term availability of funds to the PF authorities might result in better returns for the members.

IWs from SSA countries will not be affected on account of these changes; they can apply for a full withdrawal of their PF contribution on cessation of their employment.

Companies may consider updating their employees on these changes by circulating the alert among them.

Let's talk

For a deeper discussion of how

this issue might affect your business, please contact:

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