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FOR THE SAKE OF SECURITY

Here's some help for all those who wish to dip into your provident fund savings in order to realise their home-buying dream. **Read on...**

SHEHZIN.SHAIKH
@timesgroup.com

Mahatma Gandhi had said – India lives in its villages, but modern India is quickly urbanising. In 2011, India was 31 per cent urbanised, and McKinsey Global Institute (MGI) estimates that the figure will be about 41 per cent by 2030. Not to forget, home-ownership would be (more than now) a very important metric for the urban residents to achieve a decent standard of living.

Hence, how can we realise our dream of buying a house? How can we unlock the potential of real estate for our long-term gains? Get answers to these queries and more as our experts spill the beans for you.

GETTY IMAGES

PROS:

- Individuals can tap their PF for part-financing their new home, land purchases, or use it for home upgrades or buying a second home;
- Since EPF advances are not loans, one need not pay any interest or repay these amounts.

CONS:

- PFs are inherently designed as a security for post-retirement needs of an individual and jeopardising these savings without any alternate cushioning can have adverse effects on an individual's financial freedom goal.

SURESH SADAGOPAN,
founder, Ladder7 Financial Advisories

EMPLOYEE PROVIDENT FUND (EPF)

Provident fund is a government managed contribution plan, which aids in creating a large corpus of funds over a long period of time for all salaried employees. "This fund is maintained and overseen by the Employees Provident Fund Organisation of India (EPFO) and any company with over 20 employees is required by law to register with the EPF.

Under the EPF scheme, an employee pays a certain contribution towards the scheme and an equal contribution is paid by the employer. The employee gets a lump sum amount (including self and employer's contribution with interest) on retirement. Currently, both, the employer and employee are required to contribute 12 per cent of the employee's basic salary and dearness allowance every month to the EPF account," says Ravindra Sudhalkar, ED and CEO, Reliance Home Finance.

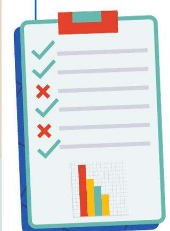
So, while the primary objective of the EPF scheme is to meet the needs of the individual during his/her retirement years, the amendment to the scheme in 2017, aimed to help the potential buyers (close to 4 crore EPF account holders) finance their home purchase before they hit their retirement age.

Insertion of Section 68BD of the Employees Provident Fund and Miscellaneous Provisions Act, 1952 has enabled contributors to a lump sum withdrawal of 90 per cent of accumulations in provident fund accounts for the purchase or construction of a dwelling house or flat, including acquisition of a suitable site for the purpose. Members can opt for full/part repayment of any other outstanding loans from the credit amount in the fund to the government, housing agency, primary lending agency and banks as well.

GO ABOUT YOUR BUSINESS

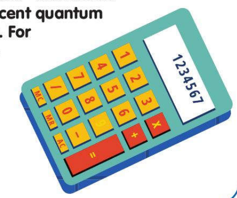
Tarun Birani, founder and CEO, TBNG Capital Advisors, points out the eligibility criteria to qualify under the aforesaid section:

- To avail the facility, a member first needs to apply for withdrawal through self-certified Composite Claim Form available on the EPFO website;
- Thereafter, the individual has to be a member of a co-operative or housing society with at least 10 members;
- The person should be the member of the PF fund for not less than three years;
- Withdrawal shall be granted only once in a lifetime;
- The amendment applies to all those who together with their subscriber's spouse have at least Rs 20,000 in their accounts;
- The amount on withdrawal shall be paid directly to the co-operative society, government or any housing agency and not to the member.



A MATHEMATICAL RISK

While the amendments in the EPF scheme would certainly allow more individuals to raise funds needed for their home purchase – it is important they weigh their options accurately and then take a call. "Individuals who have accumulated a decent quantum of funds should opt for a home loan alongside part EPF option. For instance, if 80 per cent of the retirement corpus is required to purchase a house, one should withdraw only 25-35 per cent and thereafter, opt for a home loan to pay the remaining amount. Also, if partial withdrawal of funds can help you reduce your interest – it is not a bad move too. However, on the other hand, an individual with no savings is at high risk if s/he is using funds from EPF towards housing," says Bhoopal Raje, DVP – transaction advisory, Nisus Finance.



SHOULD YOU OR SHOULD YOU NOT?

EPF funds are seen as a source of income for individuals at a stage in life where they do not have a fixed income. In fact, EPF offers a post-tax yield of 13 per cent, which is highest in the category. Hence, one must not withdraw 90 per cent of his/her savings to fund the purchase of a house, but should look at consuming 30-40 per cent of the funds and then assist oneself with a home loan. Also, the option of paying the EMIs partly through PF deposit is a lucrative option and should be exploited. So, take stock of your situation and avail the benefits that best suit your needs.

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