Should one be allowed to dip into retirement funds?

***In a bid** to discourage premature withdrawals from the Provident Fund, the Employees' Provident Fund Organisation has proposed to limit the withdrawals to 75% of the balance. At the same time, the National Pension System (NPS), which used to be an airtight investment, has become more flexible and permitted withdrawals for certain specified needs. ET Wealth reached out to experts to know whether employees should be allowed to dip into their retirement savings prematurely.*

Sundeep Sikka

President and CEO,
Reliance Capital Asset Management

"The savings are meant to fund your retirement. They should not be treated as a savings bank account."

No

Premature withdrawal of retirement savings is not in the interest of investors. They should not be allowed to dip into these funds, and definitely not withdraw the entire amount. The corpus helps build financial stability and is often the only support for the 20-25 years in retirement. After one stops working, one's daily expenses and healthcare costs keep rising but the income from the investments does not increase. To provide a meaningful income to cover all expenses, the corpus should be sufficiently large. This makes it important to start saving early, invest regularly, and not withdraw the savings before the retirement age.

There is a high cost to be paid for breaking this long-term saving. If you put ₹5,000 per month into your retirement savings and earn 9% returns, at the end of 30 years the corpus would be ₹91 lakh. However, if the investor decides to withdraw even 50% of the corpus after 15 years, the final corpus would be reduced to ₹65 lakh. Premature withdrawals from the retirement savings would deprive investors of a sufficiently large corpus.

In India, there are few social security options and only a small segment of the population is covered under these options. As India ages, this will put an enormous pressure on our government to cater to the healthcare and well-being of our elderly. When compared globally, India's retirement assets (to GDP ratio) is 15% as compared to other countries like US (80%) and Japan (65%).

It is with this objective that the EPFO has proposed restricting withdrawals to 75% of the balance. The core purpose of a Provident Fund account is to ensure social security for employees in old age. The Provident Fund money should be used only in dire need. Investors should not treat these retirement savings as a savings bank account. Allowing full withdrawals would defeat the purpose of retirement savings.

Jayant Pai

CFP and Head of Marketing,
PPFAS Mutual Fund

"Capping withdrawals will prevent investors from blowing away their savings on frivolous expenses."

No

The proposed cap on premature withdrawal from the Provident Fund has raised many hackles. This is partly because no one likes fetters imposed upon them, more so in a raucous democracy like India and especially where money is involved. Your reaction may differ markedly, depending on whether you are 22, 42 or 62. The 22-year-olds are likely to be dead against this proposal. For them, retirement is an eon away and compulsory contribution to the EPF is, at best, a necessary evil. To them, a cap on premature withdrawals, is equivalent to the proverbial red rag fluttering before an incensed bull.

A 42-year-old (like me) will see things differently. Most of us have already made the mistake of withdrawing prematurely, at least once in our career, and profusely regretted doing so, after frittering away the proceeds on, what then seemed vital expenditure, but in hindsight, turned out to rather frivolous. To us, the cap is a welcome development because we still have about 15-20 years to rebuild our Provident Fund corpus. If you are 62 now, and have been reckless in the past, you may be wishing that such a cap was in effect when you were in your 30s.

Certain professions are naturally prone to 'job-hopping'. Financial services, advertising and now, e-commerce are prime examples. Employees in these sectors will object to the capping because premature withdrawal is the default option for them. Less jumpy employees, in sectors such as the armed forces or PSUs may be more tolerant of this proposal.

The proposed cap is correct in-principle. Over the years, besides withdrawals on switching jobs, the EPF has often been used as a quasi 'lender-of-first-resort'. The cap will compel members to seek alternate sources of funding. It may also nudge them to cut their coat according to their cloth.

The EPFO has taken several steps to make Provident Fund accounts more user-friendly and portable. The introduction of the universal account number (UAN) will do away with the problem of shifting the money when you change jobs. The digitisation of records and online access will make it easier for investors to check their Provident Fund accounts. The decision to invest some portion of the corpus in equities could result in higher returns in future.

The EPFO should devote time and money to explain the features and benefits of the scheme to the public at large. Once it is perceived as a long-term solution, offering competitive tax-free returns, Provident Fund investors may resist the urge to raid the till at the first opportunity.

Ashok Singh

National Vice-President, INTUC

"It is the workers' money and they should have access to it for tiding over contingencies."

Yes

Any restriction on the withdrawals from the Provident Fund is not in the interest of the workers. The money belongs to the workers and they should be able to access it during a financial emergency. The government, which has not contributed even a single rupee to the corpus, has no right to deny workers access to their own money.

Having said that, I agree that withdrawals should only be allowed in extreme circumstances. To that end, the EPFO should set up a mechanism to assess the applications for withdrawals. Internet connectivity has made this task easier. The worker can email his application along with supportive documents. If the need is genuine and the employee is facing a cash crunch, he should be allowed to withdraw up to 100% of the amount.

There is also the new rule of deducting TDS on withdrawals, which is also going to hurt the interest of the workers. There should not be any TDS on Provident Fund withdrawals. Investors only withdraw their Provident Fund when they are in dire need of money. Taxing the withdrawal at that stage will add to their problems.

One of the reasons that the NPS has not taken off is that there were too many conditions attached. The corpus could not be withdrawn before the investor turned 60. Some of these conditions relating to withdrawals have recently been relaxed but the rules need to be liberalized further. I firmly believe that social security for all should not merely be a slogan but transform into a reality.