What happens when you don’t claim EPF?

Renu Yadav Thursday, 19 March 2020

EPF money transferred in SCWF can be claimed within 25 years

In a setback for salaried employees, the Employees’ Provident Fund Organization (EPFO) is likely to offer a lower rate of return on EPF accounts in financial year (FY) 2019-20. On 5 March 2020, the Central Board of Trustees of EPFO proposed to lower the rate of interest from 8.65% offered in FY19 to 8.50%, subject to approval by the finance ministry. Once the government notifies it, the EPFO will start crediting the interest to employees at the revised rate.

The rate cut has come at a time when the overall interest rates are declining. However, compared to other long-term debt options, such as the Public Provident Fund (PPF) and 10-year fixed deposit (FD) rates, the interest rate on EPF is still lucrative and its relative tax efficiency compared to FDs adds to the appeal. Although salaried people have other options such as the National Pension Scheme (NPS), EPF is one of the preferred instruments due to its guaranteed return and tax-free nature.

Despite its efficiency, it is easy to forget about your EPF account, and people often do. They end up leaving money in old EPF accounts, forgetting to transfer it when they change jobs or move to a different city or country. Even though the Universal Account Number (UAN) has been implemented, EPF account holders still need to transfer the money from the old account to the account held with the current employer.

If you leave a job and don’t apply for withdrawal or transfer, the account will not be treated as inoperative

In many cases, the account holder forgets to transfer the amount, and as many people don’t keep records of their investment, their family members also fail to claim the money after the holder’s death. According to then Finance Minister Arun Jaitley’s budget speech in 2015, ₹6,000 crore remained unclaimed in EPF accounts. So what happens to this unclaimed money in forgotten EPF accounts? We tell you where it goes, and how it can be reclaimed.

Where does it go?
In the 2016, Senior Citizen Welfare Fund (SCWF) was established by the government, in which unclaimed money from EPF accounts, as well as from small saving schemes, insurance companies, etc. was supposed to be transferred. As per the SCWF regulations, after an account has been classified as inoperative for seven years, the amount remaining in it is to be transferred to SCWF.

The amount transferred to SCWF can be claimed within 25 years of the transfer. “A nominee or EPFO member can apply within 25 years from the date of credit of the unclaimed amount into the SCWF," said Rajat Dutta, founder and initiator, Inheritance Needs Services Pvt. Ltd., a company that enables inheritance processes. “After a total period of 32 years subsequent to an account being categorised as inoperative, the unclaimed amount shall be escheat (presumed that employee/owner/nominee died without legal heirs) to the central government, unless otherwise directed by a court order," he added.

Forgotten accounts

When an EPF account ceases to receive contributions, and no claim is made for withdrawing the accumulated amount for a period of 36 months, the account is considered inoperative in certain circumstances. “Accumulation in respect of any member who has either retired from service after attaining the age fifty-five years; migrated abroad permanently; or died, but no application for withdrawal has been made within 36 months from the date it becomes payable, is transferred to an inoperative account," said Saraswathi Kasturirangan, partner, Deloitte India.

“Employers are required to file details of members leaving the service each month, along with the reason for leaving. This allows the PF authorities to identify which accounts are to be categorized as inoperative" she added.

“The inoperative status essentially means that no interest will be credited for the money in the account," said Pooja Ramchandani, partner, Shardul Amarchand Mangaldas and Co.

However, if you leave a job and don’t apply for withdrawal or transfer of EPF within 36 months, the account will not be treated as inoperative. It will continue to earn interest for three years after you attain the age of retirement, that is, till you are 58, as per an amendment to the EPF scheme made in 2016.

Claiming your money

The process of getting the unclaimed money back from SCWF is the same as making a normal claim.

The nominee or legal heir or the EPFO member will have to claim the money through EPFO or the trusts of exempted establishments, by submitting the prescribed claim form and documents.

Money in an EPF account is hard earned and meant to fund important goals like retirement, so it’s important to ensure that it can be accessed by you or your legal heir. “Individuals must always update the administrative aspects of all financial assets," said Dutta. Updating enables seamless transmission or transfer of assets. “The events that impact legal heirs, and therefore warrant an update, include marriage, divorce and death of beneficiaries," he added.