Companies should not transfer the cost of managing a PF to employees

The PF administration charge should be an expense head in the profit and loss of the employer's balance sheet and not be a part of the employee's CTC

Surya Bhatia

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Can employers charge provident fund (PF) administration charge to employees? A potential employer is showing this as part of my cost to company (CTC). My current employer does not do this. I see this as business expense that should not be recovered from employees. Is there a law against this practice?

—Jobby Kunjachan

The PF administration charges is a charge to be allocated over and above the employer's PF contribution and logically is to be borne entirely by the employer and hence the employer's contribution will be increased in addition to the PF contribution. So if an employer contributes 12% of the basic salary the administration charges of 0.65% will be in addition to the 12% and the total cost to employer would be 12.65%. And this additional charge should not be a part of the employee's CTC and should be an expense head in the profit and loss of the employer's balance sheet. The employee's contribution of 12% will be entirely deducted for PF and there will be no charges debited to the employee's salary.

I am 56 years old and I have opted for early retirement. How can I plan my finances so as to ensure regular income of Rs1 lakh per month for next 20/30 years—considering inflation as well. Details of my assets and income are given below:

I have two under-construction apartments. I need Rs35 lakh for carrying out their interiors. I plan to lease out one of the houses for about Rs20,000 a month.

My other major expense is marriage of my two children. Both are likely to get married in 2018. My monthly household expense are about Rs1 lakh and I would like to spend about Rs3 lakh a year on travel. I have pension (annuity) of Rs 23,000 a month and have significant investments in provident fund (PF) and mutual funds; and a third of my saved money is in savings account and fixed deposits. Medical cover has been taken care of by my ex-employer. There are no loans and no other source of regular income. Can you plese give me a specific and actionable plan?

—Name withheld on request

It is prudent at your age to ensure insurances are in place and any need to financially protect yourself is taken care of. Life insurance- there is no need to have any life insurance as the family is not financially dependent on you as you have retired from active earnings. It is health insurance that you need to be careful of. While you have a medical insurance from your ex-employer it is recommended that you revisit the sum assured considering health insurance inflation. Healthcare inflation in India is among the highest in the world, at 20% average, over the last few years and it is good if everyone plans for the same accordingly.

And for your investments , you are maintaining a large balance in your bank savings account and fixed deposits. This is not recommended even if you need funds over the next 1 year for renovation and children's marriage. This should be ideally reinvested in ultra-short-term and short-term mutual funds. You may continue to maintain small amounts in fixed deposits due to your lower marginal rate of tax. Over and above the bank deposits, the remaining investments are already invested in mutual funds. Do ensure that you don't have too many funds in your portfolio and keep reviewing your portfolio regularly along with rebalancing of your portfolio to ensure your portfolio allocation is maintained. Do make sure that you maintain at least 30-40% in equity asset class. This is required to protect from inflation over longer term.

Lastly, an annuity of Rs1.25 lakh per month (including travelling corpus) inflation-adjusted can be partially met by your pension income and the rental income from house property. It is assumed that both these incomes—pension as well as rental income—will continue to remain inflation adjusted. And the balance annuity of Rs82,000 per month will be provided by your existing investments. The monthly income can be started by using systematic withdrawal plan (SWP). You can start the same from your existing debt mutual fund portfolio, which should preferably be for the long term—that is, held for more than 3 years from the date of purchase. This will ensure tax efficiency and create regularity to your income stream.

I was about to withdraw my PF online but my PAN info was not updated in the KYC information in Universal Account Number(UAN). When I tried to update PAN details, it kept failing with an error message: "Name against UAN does not match with income tax department". How can I resolve this issue? Can I withdraw my PF without updating PAN and if so are there any issues regarding it?

—Vishnu M R

It is recommended that you update your PAN details in the new EPF system called UAN (Unique Account Number). UAN does give you an option to edit KYC. However in your case, prima facie, PAN details are not as per your other information already updated in KYC; hence, it could show an error. Check if the name mentioned in your PAN is different from the one you are trying to use. If it is, then that details would already be updated? The error message could be due to a spelling mistake, abbreviation used in the name or there could also be a different date of birth used. If that is the case, you need to get the same rectified. This is important as in case if you don't update your PAN, the TDS will be deducted at the maximum marginal rate of tax.

Surya Bhatia is managing partner at Asset Managers.

Queries and views at mintmoney@livemint.com.

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