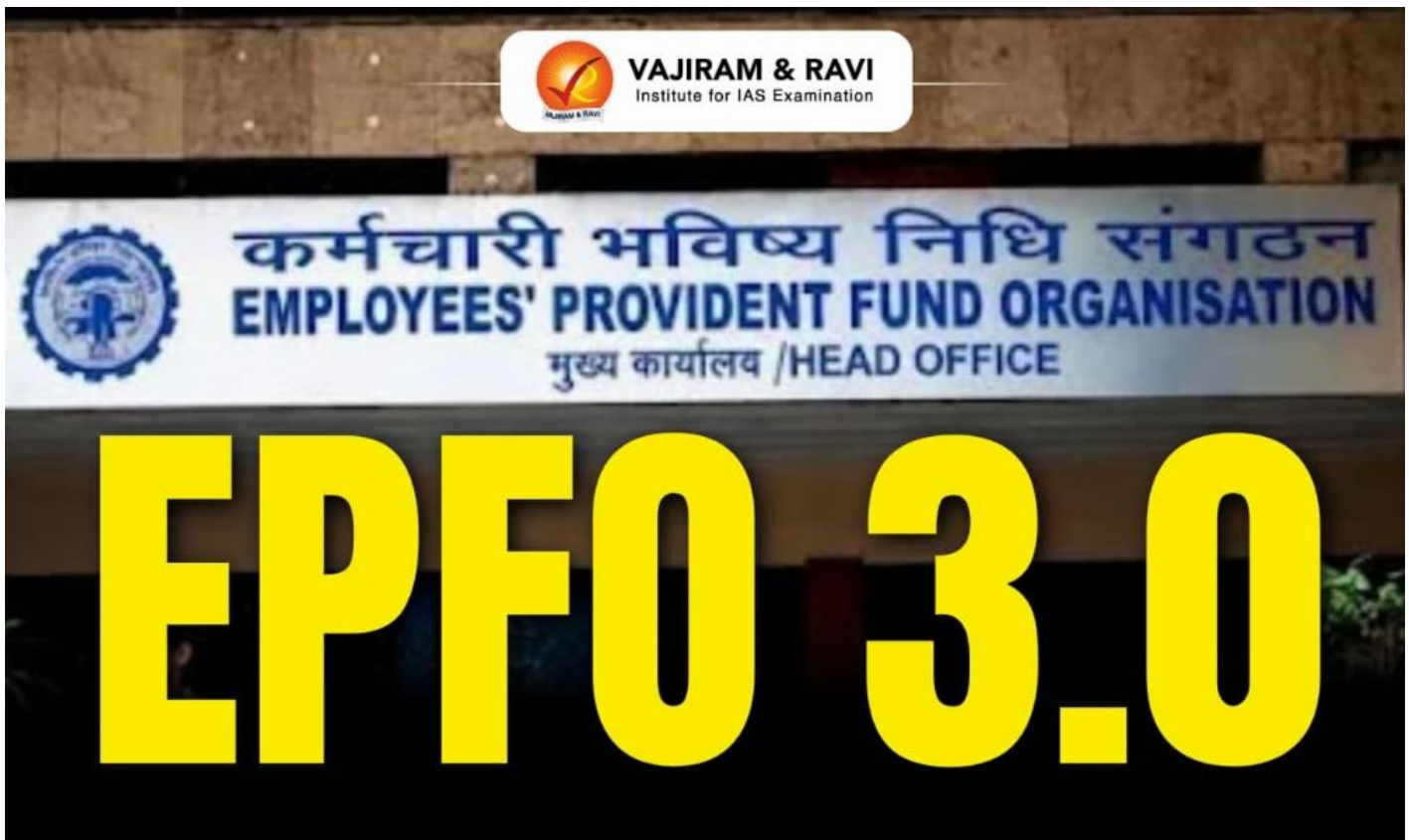


EPFO 3.0: How India's New Universal Pension Reform Will Transform Social Security

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EPFO 3.0 Latest News

- The Employees' Provident Fund Organisation (EPFO) is planning its next phase of reforms, EPFO 3.0.
- This aims to introduce a **universal pension cover** for all workers, extend first-time social security contributions to unorganised sector workers including gig and platform workers, and upgrade its technology backbone through a Core Banking Solution (CBS).

From EPFO 2.0 to EPFO 3.0

- Over the past year, EPFO has worked on EPFO 2.0, which delivered a revamped portal with a centralised database merging 123 regional databases, ensuring timely interest credit and visibility of eligible withdrawal balances for members.
- The organisation is now moving to EPFO 3.0, built on a **CBS-enabled tech platform**.

- CBS is the centralised payments software that forms the backbone of Indian banks, enabling real-time deposits and withdrawals across branches.
- This shift is essential to manage payments for social security schemes **covering India's entire workforce** of over 60 crore workers, more than three-quarters of whom are in the unorganised sector with limited or no pension coverage.

Universal Pension Cover: How It Will Work

- The new pension scheme will follow a **defined contribution framework**, drawing from multiple sources:
 - Workers themselves
 - Employers
 - Government co-contributions for lower-income workers
 - Aggregators (for gig and platform workers)
 - CSR or third-party funds
- This marks the first time EPFO will allow such varied contribution and withdrawal structures.
- Currently, it only permits advance claims or partial withdrawals for specific purposes (education, illness, housing, marriage) or a lump-sum settlement at retirement.

How the Corpus Builds

- Contributions will accumulate over time, invested in government-backed securities with annual interest credit.
- At retirement, members can convert their "Target Retirement Sum" (TRS) into either:
 - A pension, based on prevailing annuity and interest rates, or
 - A systematic withdrawal plan
- The system will dynamically compute the TRS based on the member's chosen pension goal and expected retirement age, offering personalised dashboards showing contributions, real-time corpus status, and progress toward the TRS.
- Members can also adjust their TRS, with contribution requirements recalculated accordingly.

Learning from Global Models

- EPFO is studying international systems, notably Singapore's Central Provident Fund (CPF), a deferred annuity scheme covering retirement, housing, and healthcare.
- Under CPF, 20% of salary is contributed, supplemented by employers and the government, with differential interest rates: up to 6% for those aged 55 and above and 5% for those below 55.

Flexibility features planned

- Inflation-adjusted pension projections.
- Simulation of pension amounts based on age, corpus, interest rate, and retirement age.
- Ability to increase or decrease withdrawal amounts (higher initial drawdowns draw from the principal; lower drawdowns let interest compound, creating an inflation-linked effect later).

- Notably, the proposed EPFO scheme is expected to be more flexible than the National Pension System (NPS), where the mandatory annuity requirement was reduced to 20% in December 2025, easing lump-sum payouts for non-government subscribers from the earlier 60:40 ratio.

Coverage for Gig and Platform Workers

- EPFO expects around 2.5 crore gig workers and Building and Other Construction Workers (BOCW) to be added over the next five years.

Key Design Features Include

- **One-to-many mapping:** a single **Universal Account Number (UAN)** will be linked to multiple employers and aggregators, showing total contributions while retaining employer-wise breakdowns.
- Support for third-party contributions from NGOs, individuals, donor organisations, and CSR, tracked under each UAN with a configurable upper limit.
- Flexible co-contribution models to include delivery partners, drivers, and other platform workers.

BOCW Coverage

- India has over 3.5 crore registered BOCWs, with net cess collections exceeding ₹70,000 crore across state welfare boards.
- The new scheme aims to channel these funds into structured, sustainable, and portable pension benefits.

Family and Survivor Pensions

- The scheme also proposes coverage for spouses, children, and orphans, funded through a pooled “Family Benefit Fund” managed on actuarial principles.
- Members of EPF, GPF (General Provident Fund), and other provident funds may also be allowed to transfer balances into the new pension initiative.

Legal Basis and Technical Backbone

- EPFO 3.0 will operationalise PF contributions for all unorganised sector and gig workers, in line with the **Code on Social Security**, which brings gig and platform workers into the social security net for the first time.
- Under the Code, aggregators must contribute 1-2% of annual turnover toward social security, with total contributions capped at 5% of the amount payable by the aggregator.
- Given the scale involved, covering a workforce exceeding 60 crore, EPFO is adopting CBS as its technological foundation, since it is already validated and regulated by the RBI.
- The platform will support a split-payment model, allowing innovative contribution mechanisms, such as voluntary contributions from unorganised workers, third-party payments, or even a small diversion (e.g., 5%) from digital transactions like food delivery app payments toward social security.

Conclusion

- EPFO 3.0 represents a structural shift, from a scheme built around formal-sector employees to one designed for India's vast and diverse workforce, including gig workers and the unorganised sector.
- Its success will depend on how effectively technology, flexible contribution models, and the Code on Social Security are integrated to deliver adequate, portable pension coverage at scale.

Source: IE

Source: <https://vajiramandravi.com/current-affairs/epfo-3-0/>

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