



Tax alert: Madras High Court allows higher pension despite restrictive PF Trust Rules

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In a landmark ruling, the Madras High Court has adjudged that employees of exempted establishments are also entitled to higher pension under the Employees' Pension Scheme, 1995 ('EPS 1995'), irrespective of the restrictive Provident Fund ('PF') Trust Rules. The Hon'ble Madras High Court has set aside an Employees' Provident Fund Organisation ('EPFO') circular dated 18 January 2025 and directed acceptance of joint option applications (filed up to 31 January 2025) with permission to re-deposit differential contributions along with interest, for availing higher pension benefit.

In a nutshell



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Background

The petitioners were former employees of Bharat Heavy Electricals Limited, Trichy ('BHEL')¹, an establishment exempted under the Section 17 of the Employees' Provident Funds & Miscellaneous Provisions Act, 1952 ('the EPF Act').

The exempted establishments manage provident fund contributions through their own PF Trusts; however, employees continue to be governed by the statutory pension scheme i.e. EPS 1995 for receiving pension benefits.

The disputes arose after the Hon'ble Supreme Court's judgement in case of *EPFO vs. Sunil Kumar dated 4 November 2022* wherein the Hon'ble Court had allowed eligible employees who were in service as on 01 September 2014, to opt for pension on higher wages by contributing 8.33 per cent of their actual salary if it exceeded the monthly ceiling of ₹15,000.

Pursuant to this, employees of BHEL had filed joint option application for higher pension. However, the applications of such retired employees were rejected by the EPFO for the following reasons:

1. The PF Trust rules allowed contributions to the statutory wage ceiling, which is INR 15,000 per month.
2. The PF Trust Rules of the exempted establishment must be read in consonance with the Hon'ble Supreme Court ruling in Sunil Kumar case. Therefore, if the Trust Rules do not provide for higher contribution to the pension scheme, the joint option application cannot be accepted.

Thereafter, the employees challenged such rejections and the EPFO circular, before the Hon'ble Madras High Court seeking directions to grant them higher pension benefits under the EPS 1995.

1. Issues

Key issues before the Madras High Court were as under:

- Can Trust Rules of an exempted provident fund establishment override statutory benefits under the EPS pension scheme?
- Are employees of exempted establishments entitled to higher pension on actual salary (i.e. above statutory wage ceiling INR 15,000 per month) if contributions to the pension fund were getting restricted to INR 15,000 per month and the requirements of the joint option are fulfilled?
- Is EPFO justified in rejecting higher pension applications based on Trust Rules, post the Supreme Court's judgment and related circulars?

2. Petitioner's contention (Former employees of BHEL)

a. PF Trust Rules are limited to Provident Fund Scheme:

- The PF Trust Rules are applicable only for the Provident Fund Scheme for which exemption has been granted under Section 17 of the EPF Act. The Trust Rules cannot be cited as a legal embargo for conferring benefits under the EPS 1995 especially when no exemption has been granted from the pension scheme as contemplated under Paragraph No.39 of the pension scheme.

b. Contributions were already made on actual wages:

- The PF Trust has been receiving higher contribution on the actual wages (instead of the statutory wage ceiling) and the same has been credited to the Trust funds.

¹ Unknown vs Union of India (W.P (MD) No. 29573 of 2024) dated 2 September 2025

c. Hon'ble Supreme Court case:

- In case of R.C. Gupta, it was held that there is no cut-off date for exercising option for higher pension under the unamended Para 11(3) of the EPS 1995.
- In case of Sunil Kumar, it was held that exempted establishment's employees are also eligible for higher pension and extended a window period for exercising the option.

d. EPFO circular dated 18 January 2025

- The said circular was also challenged wherein the exempted establishments were not permitted to amend the Trust Rules with retrospective effect to bring the Trust Rules in consonance with the Hon'ble Supreme Court decision in Sunil Kumar's case.

3. Respondent's contention (EPFO)

a. Restrictive PF Trust Rules:

- The EPFO contended that the Trust Rules had fixed the wage ceiling of Rs.15,000 per month for the contribution of the employer and out of the said INR 15,000 per month, 8.33% shall be diverted to the pension fund. Further, in case the salary of the employee exceeds INR 15,000 per month, the contribution would be limited to the above-mentioned percentage of INR 15,000 per month only.
- The Trust Rules prohibit making any higher contribution by the employee either to the Provident Fund account or to the pension scheme. Hence, the joint option application presented by the employer and employees would be in violation of the Trust Rules which has been mutually agreed by them.
- The PF authorities also relied on the circular dated 18 January 2025 which provided that the joint option application submitted by the exempted establishment, has to be considered only in the light of the Trust Rules.

b. Exit from membership:

- The employees have exited from the membership of the scheme by receiving their provident fund amount along with interest, and pension has been vested before exercising the joint option.

c. Financial impact on EPFO

- It was further contended that the employees have withdrawn the entire Provident Fund amount and started receiving pension and the EPFO cannot be expected to receive the higher contribution belatedly, especially from exited members to pay higher pension. Also, any payment of higher pension based upon remittance by the employee would result in financial loss to the EPFO.

d. Application received beyond due date

- Many applications were filed beyond 31 January 2025 and hence, without admitting that they are eligible for higher pension, their applications are liable to be rejected.

4. Highlights of the Judgment

The High Court mentioned that Trust Rules can only regulate provident fund, not statutory pension rights, since no exemption exists under EPS-1995 (paragraph 39). The Court further stated that any beneficial changes to the statutory scheme automatically apply to employees of exempted establishments, as provided under Appendix A of the exemption conditions.

The Court quashed the impugned EPFO circular (18 January 2025) and related rejection orders that blocked higher pension rights for exempted establishment employees and ordered:

- Joint option application presented on or before due date shall be accepted by the EPFO

- Differential contribution to be paid by employees along with applicable interest to the EPFO
- EPFO to disburse higher pension from the succeeding month of their remittance
- Affirmed that in case of funds previously withdrawn, employees may redeposit/contribute the necessary amounts to the pension scheme

Deloitte Comments

This ruling by the Hon'ble Madras High Court has quashed the EPFO circular dated 18th January 2025 and related rejection orders that denied higher pension benefits to retired BHEL employees on the basis of the Trust Rules.

Until now, the positioned maintained by the EPFO was that wherever the PF Trust has a clause that puts a cap on pension contribution up to the statutory wage ceiling, such employees of exempted establishments will not be eligible for higher pension benefits.

This ruling has now paved the way for employees of such establishments to claim pension on higher wages irrespective of the clauses in the Trust Rules. Additionally, the space needs to be closely watched as EPFO may file an appeal against the above-mentioned ruling.

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