

Hoping for higher pension from EPFO after SC judgement? Uncertainty prevails

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Big Change:

Following Supreme Court's judgment enabling 12 petitioners to get a higher pension from EPFO, other working individuals and even pensioners are all asking the same question: Will they also be eligible for a higher pension provided they start contributing on full salary, or in case of retired employees, make a lump sum payment equivalent to unpaid contributions to the Employees' Provident Fund Organisation (EPFO)? There appears to be no clarity on this.

In fact, if most, except for a small category of people, were to approach the EPFO right now they are unlikely to be able to make much headway.

Who are these 'small category'? Those who had earlier (during working years) contributed to the EPS (a fixed percentage of 8.33%) on the basis of their full salary instead of on the basis of Rs 6500. Rs 6500 was the maximum pensionable salary fixed by the government at that time for the purposes of contribution to EPS.

According to EPFO sources, the organisation is not accepting fresh monthly contributions which were due earlier (which means that EPFO would not accept retrospective contributions on full salary). They cited August 29, 2014, circular, wherein the EPS rules were changed effective September 1, 2014, to increase the wage limit from Rs 6,500 to Rs 15,000 per month.

Here, the contributors were asked to provide a fresh option to continue contributing on full salary instead of the cap of Rs 15,000 (which is applicable at present) within six months, which was later extended to 12 months. In case such a fresh option was not exercised by the contributor, then the contribution to EPS above the wage ceiling was to be diverted to EPF.

The sources said that EPFO is only considering 'reclassifying' the EPS accounts and that too not for all. It is learnt that they propose to do this re-classification as follows: The revision in the pension can be only for those pensioners who retired before 2014 from unexempted organisations, provided they had contributed on full salary.

It is understood that while these pensioners would have contributed to EPS on full salary, the EPFO would have taken only the amount calculated on Rs 6500 and put that into EPS. The balance would have been put into the individual's EPF account. So, now these funds from their PF account will have to be moved into the EPS account to be eligible for higher pension and this process will be done internally by the EPFO.

For this, the subscriber will have to submit an application on a plain paper to the PF office mentioning their retirement date and other pension details. The PF office will then recalculate the revised pension.

Obviously, those pensioners who had withdrawn their entire EPF would have to put back some funds into it for the above process to be effected.

At the moment, there is a lack of clarity in the EPFO itself as they are going by the various circulars issued by them from time to time. EPFO will be approaching the apex court and the sources said that

they would rather wait for the court to decide on the matter. The sources we met are also of the view that not all employees would stand to gain and that only those with a high basic salary will benefit. They cited a few reasons for this. To be eligible for higher pension on full salary, employees will have to move back a certain sum of money out of their PF account (along with the interest earned) into their EPS account. Currently, the pension is calculated based on last five years average pay, unlike 12 months average pay in the past. This may result in lower pension even after putting back a huge amount into their EPS account. Also, one needs to take into account his past contributions to EPS.

Further, the wage limit, if enhanced from Rs 15,000 to Rs 21,000, will also mean lower pension. Sources also said that the current low-interest rate scenario has suddenly made the EPS an attractive investment compared to other safe instruments, which was not the case before. Earlier when the rates were around 15 percent or even higher for other instruments like fixed deposits and small savings, EPS was thought to be a black hole with a low pension to fall back on after retirement. Now, with interest rates on the slide, EPS pension is looking attractive and hence individuals want to take advantage of it.

With so much confusion around whether others will be able to benefit from the recent SC judgement on higher EPS for those who want to contribute on full salary, the government needs to clarify the matter and bring out a transparent and a standard mechanism to clear the air.