

Case Law Updates: Madras High Court Clarifies Treatment of Applications for Pension on Higher Wages in cases involving Exempted Establishments

The Hon'ble Madras High Court (Madurai Bench) (**Court**), on September 2, 2025, in *D. Chandirasegar and Ors. v. Union of India* (W.P.(MD)Nos.29573 to 29578 of 2024) (**Chandirasegar Case**), delivered a significant judgment clarifying the rights of employees of exempted establishments to pension on higher wages under the Employees' Pension Scheme, 1995 (**Pension Scheme**). The Court set aside the Employees' Provident Fund Organization's (**EPFO**) rejection orders and directed the acceptance of joint option applications for pension on higher wages, and provided much-needed clarity for employees of exempted establishments seeking to exercise their rights in accordance with the decision of the Supreme Court dated November 04, 2022, in *EPFO & Ors. v. Sunil Kumar B. & Ors* (2023) 12 SCC 701 (**Sunil Kumar Judgment**) and subsequent circulars of the EPFO.

What was the core issue before the Madras High Court?

The case involved 86 former employees of Bharat Heavy Electricals Limited, Trichy (**BHEL Trichy**), challenging orders issued by the EPFO that rejected their applications for pension on higher wages. The petitioners also sought to quash a circular dated January 18, 2025, issued by the EPFO, which they argued was contrary to the Sunil Kumar Judgment.

BHEL Trichy obtained an exemption under Section 17 of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 (**EPF Act**), from the application of the Employees' Provident Funds Scheme, 1952 (**EPF Scheme**). BHEL Trichy's private provident fund was operated and administered by a trust in accordance with the relevant trust deed and allied rules (**Trust Rules**); whilst eligible employees of BHEL Trichy continued to be governed by and be members of the statutory pension fund operated and administered by the EPFO as per the Pension Scheme.



The petitioners had retired from BHEL Trichy after September 1, 2014, and pursuant to the Sunil Kumar Judgment, they preferred applications to the EPFO to exercise the option to receive pension on higher wages, which were rejected by the EPFO through orders dated February 6, 2025.

What were the EPFO's grounds for rejection?

The EPFO rejected the applications primarily based on Trust Rules, specifically Rule 11(b), which provided that when an employee's pay exceeds the statutory wage ceiling under the EPF Act, i.e., INR 15,000 per month, the employer's contribution to the pension fund would be limited to 8.33% of INR 15,000. The EPFO argued that if the Trust Rules do not provide for higher contributions to be made to the statutory pension fund, applications for pension on higher wages cannot be accepted.

The EPFO further contended that since the petitioners had retired after September 1, 2014, and had already withdrawn their entire provident fund corpus and were receiving pension, any transfer of funds from the trust of BHEL Trichy to EPFO would be impossible.

What did the EPFO's circular dated January 18, 2025, state regarding exempted trusts?

The petitioners in the Chandirasegar Case also challenged a circular issued by EPFO on January 18, 2025 (**January 18 Circular**) which, *inter alia*, stated that (i) eligibility for pension on higher wages for members who are part of/ were part of exempted establishments will be determined based on the rules of the exempted trusts, and (ii) if the trust rules of exempted establishments were amended post the Sunil Kumar Judgment, i.e., after November 04, 2022, the applications of such members will not be considered by the EPFO.

In effect, as per the January 18 Circular, if the rules of trusts operated by exempted establishments did not provide for higher contributions to the pension scheme prior to November 04, 2022, applications for pension on higher wages by such members would be rejected by the EPFO.

What was the Court's analysis and key findings?

1. Trust Rules cannot override beneficial statutory provisions

The Court held that Trust Rules framed under the EPF Scheme cannot be cited to deny benefits under the Pension Scheme, as the establishment has not been exempted under the Pension Scheme, and conditions for exemption granted under one scheme cannot be applied to another scheme for which no exemption has been granted under the EPF Act.

The Court ruled that it is an admitted fact that the establishment is governed under the statutory Pension Scheme from the beginning, and benefits of the statutory Pension Scheme cannot be denied citing Trust Rules applicable only to the EPF Scheme.

2. Automatic applicability of beneficial amendments

The Court noted that as per Condition No. 10 of Appendix 'A' in paragraph 27-AA of the EPF Scheme, *"Any amendment to the Scheme, which is more beneficial to the employees than the existing rules of the establishment, shall be made applicable to them automatically pending formal amendment of the Rules of the Trust"*.

The Court held that in view of this condition, if any amendment is introduced to the EPF Scheme and it is more beneficial to employees, it becomes automatically applicable even without formal amendment of the Trust

Rules, and the EPFO had received higher contribution on actual wages from both employer and employee, making the EPFO's reliance on the unamended Trust Rules a clear violation of statutory Condition No.10 of Appendix 'A' in paragraph 27-AA of the EPF Scheme.

3. What orders did the Court pass?

The Court passed the following orders:

- i. The orders impugned in the writ petitions were set aside, and any joint option application presented on or before January 31, 2025, should be accepted by the EPFO (subject to other conditions being met).
- ii. On remittance of the differential contribution amounts to the statutory pension fund by the employees, along with applicable interest, pension on higher wages should be disbursed to them from the succeeding month of their remittance.
- iii. The Court determined that the January 18 Circular, cannot be in violation of the decision of the Supreme Court under the Sunil Kumar Judgment, and hence, the same was liable to be set aside.

Implication of the Chandirasegar Case

We have been informed that there are petitions pending in various High Courts, including the High Court of Madras and the High Court of Delhi, with challenges against the order of the EPFO rejecting applications for pension on higher wage. Given that the January 18 Circular has been struck down in the Chandirasegar Case, there is a likelihood that similar ongoing cases may also be decided along the same lines. The January 18 Circular is now inapplicable across the country as various judicial precedents have held that the declaration of unconstitutionality of a central legislation by a High Court, in exercise of its writ jurisdiction under Article 226 of the Constitution, has the effect of rendering the law unconstitutional for the rest of the country as well.

Conclusion

This judgment by the Madras High Court significantly strengthens the position of employees in exempted establishments seeking pension on higher wages benefits. It clarifies that the Sunil Kumar Judgment applies equally to exempted establishments and that an exempted establishment's trust rules cannot be used as a barrier to deny statutory pension benefits.

Key Contacts

Rashmi Pradeep
Partner (Head - Southern Region)
rashmi.pradeep@cyrilshroff.com

Abe Abraham
Partner
abe.abraham@cyrilshroff.com

Anna Thomas
Partner
anna.thomas@cyrilshroff.com

Ankita Ray
Partner
ankita.ray@cyrilshroff.com

Bishen Jeswant
Partner
bishen.jeswant@cyrilshroff.com

Sowmya Kumar
Partner
sowmya.kumar@cyrilshroff.com

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Peninsula Chambers, Peninsula Corporate Park, GK Marg, Lower Parel, Mumbai 400 013, India
T +91 22 6660 4455 E cam.mumbai@cyrilshroff.com W www.cyrilshroff.com
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