

A Comprehensive Analysis of the Proposed Enhancement of PF Wage Ceilings from Rs. 15,000 to Rs. 25,000

For and on behalf of **M/s. The Confederation for Organization Development, Excellence and Strategy (CODES)**, - a Section 8, Not-For-Profit Licensed Organization, M/s. HR Vidyalyaya Corporate Services LLP has conducted a detailed examination regarding the proposed cabinet-approved increase in the Provident Fund (PF) wage ceiling. This analysis addresses the critical nuances of these regulatory changes to assist employers** in navigating the transition effectively.

Our report covers the following key areas:

- Assessment of Statutory Liabilities – for Employer:
 - Obligations concerning direct employees.
 - Obligations concerning contractual employees.
 - Impact on Employees' Deposit Linked Insurance (EDLI) contributions.
- Implications of First Timer's: Evaluating the inclusion of employees previously exempt from PF coverage due to wages exceeding the current ceiling.
- Compensation Structuring: Analyzing the impact on net take-home pay and evaluating the necessity of Cost-to-Company (CTC) adjustments.
- Regulatory Compliance: Assessing the legality of adjusting PF wages to exceed the PF ceiling for exemption purposes and the subsequent impact on other social security benefits (like ESI, Gratuity, Bonus, etc.)
- Administrative Oversight: Managing the increased operational burden (where the activity is managed self, by employers)
- Ensuring service providers (Outsourced Partners) possess the expertise to maintain compliance and protect Employer's brand.
- Pension Coverage: Addressing the complexities surrounding current PF members who were previously excluded from pension contributions but will now be brought under the pension scheme.

** Please read the disclaimer in page-2.

**** Disclaimer:** This document is prepared & provided by **M/s.HR Vidyalaya Corporate Services LLP**, on behalf of **M/s. The Confederation for Organization Development, Excellence and Strategy (CODES)**, for academic purposes only and does not constitute formal legal advice.

**** Regarding Provident Fund (PF) ceiling wages**, the definition encompasses **total inclusion** rather than being limited to Basic Salary or Basic Salary plus Dearness Allowance, in accordance with the Code on Social Security, 2020. Please note that the **new wage ceiling (Rs.25,000)** remains subject to a formal Gazette Notification by the Ministry of Labour and Employment, which will specify the official implementation date.

S.No	Current practice by Employer	What Changes?	Liability
Scenario – 1	I am currently considering PF contribution on Actual INCLUSION wages	a) There will be no changes to the current Provident Fund (PF) deduction and but a small change in remittance process. b) The Employee Pension Scheme (EPS) component of the employer's contribution will be increased to Rs. 2,083.00 from the previous amount of Rs. 1,250.00; consequently, the PF portion of the employer's contribution (to be accumulated in members PF account) will be reduced appropriately.	LIABILITY FOR EMPLOYER ONLY: a) Please note the revision to EDLI administrative charges, which may be increased from Rs. 75 to Rs. 125 per employee. For employees with PF ceiling wages of Rs. 25,000 or more, an additional charge of Rs. 50 applies. b) For employees with PF ceiling wages below Rs. 25,000, please apply a rate of 0.5% of the respective wage amount.
Example for Scenario – 1	For instance, one employee's actual inclusion wages amount to Rs. 20,000.	a) The Provident Fund (PF) was previously calculated on a wage of Rs. 20,000 ($\text{Rs. } 20,000 \times 12\% = \text{Rs. } 2,400$). Following the enhancement of the PF wage ceiling, the contribution remains at Rs. 2,400. b) Regarding the employer's contribution, Rs. 1,250 was previously allocated to the Pension Fund (A/c No. 10), with the remaining Rs. 1,150 directed to the PF. (for whoever Pension is applicable) c) Following the enhancement, Rs. 2,083 will be allocated to the Pension Fund (A/c No. 10), and the remaining Rs. 317 will be directed to the PF.	EDLI payment by Employer Earlier: $\text{Rs. } 15000 \times 0.5\% = \text{Rs. } 75.00$ After enhancement: $\text{Rs. } 20000 \times 0.5\% = \text{Rs. } 100.00$

A Critical Analysis:

- ** It is evident that the employee's contribution toward the wage enhancement is directed entirely into their Provident Fund savings.
- ** Conversely, the employer's portion functions differently.
- ** Ultimately, increasing the Provident Fund wage ceiling from ₹15,000 to ₹25,000 fails to provide a meaningful, tangible benefit to the employee concerning their total Provident Fund accumulation.
- ** 8.33% on Employer contribution, goes to Pension (Account No.10) and balance of 12% (3.67%) goes to PF Account.

Here's a clear comparison chart showing how the two portions (8.33% and 3.67%) grow when the base changes from **15,000 to 25,000**

Portion (%)	Value at 15,000	Value at 25,000	Absolute Increase	Relative Growth
8.33%	1,250	2,083	+833	+66.6%
3.67%	550	917	+367	+66.7%

Absolute Increase

- For 8.33%: $2,083 - 1,250 = 833$
- For 3.67%: $917 - 550 = 367$

Comparison

- The 8.33% portion increased by 833,
- The 3.67% portion increased by 367.



Conclusion: The 8.33% portion is **substantially more enhanced** when the base number rises from 15,000 to 25,000, because the absolute increase (833) is more than double the increase in the 3.67% portion (367).

The employer's contribution primarily favors the pension scheme rather than the Provident Fund (PF). Consequently, the increase in the PF wage ceiling is geared more toward enhancing social security coverage (pension) than increasing individual savings. This adjustment is particularly beneficial for employees with a cumulative service record exceeding nine years and six months, as this qualifies them for pension benefits. Conversely, for those with shorter service records, a significant portion of these funds is held in a non-interest-bearing account, resulting in limited financial gain.

S.No	Current practice by Employer	What Changes?	Liability
Scenario – 2	I am currently considering PF contribution on PF Ceiling wages (Rs.15,000)	a) This will impact both the employer and the employee, as both parties will be required to contribute additional payments. b) Pension portion accordingly (to whoever it is applicable) be enhanced	<u>EMPLOYER AND EMPLOYEE CONTRIBUTION LIABILITIES:</u> <u>The contribution ceiling has been increased to Rs. 25,000. Computation on Maximum ceiling.</u> Adjusted contribution rates are as follows: a) Employee Contribution: Rs. 3,000 per month (reflecting an increase of Rs. 1,200). b) Employer Contribution: Rs. 3,000 per month (reflecting an increase of Rs. 1,200). c) Additional Employer Charges - EDLI: Rs. 125 per month (reflecting an increase of Rs. 50 per employee). d) Additional Employer charges – PF Admin charges on the enhanced ceiling wages. (same as point C)
Example for Scenario – 2	For instance, one employee's actual inclusion wages amount to Rs. 20,000.	a) Currently, the Provident Fund (PF) contribution for both the employee and the employer is Rs. 1,800 each. b) Following the notification of the enhancement, this amount will increase to Rs. 2,400 for both parties, resulting in an additional contribution of Rs. 600 each.	For the example case: Employee PF – Rs.600.00 Employer PF – Rs.600.00 Employer EDLI – Rs.25.00 Employer PF Admin – Rs.25.00

Significant Implementation Challenges for Existing Employees (Who Were FIRST TIMERS at the time of joining):

Example from Scenario 1:

1. An employee's initial wages at the time of joining were Rs. 18,000.
2. Under current regulations, the PF portal automatically excludes these individuals from the Pension Scheme (Account No.10), as their PF wages exceed the Rs. 15,000 ceiling. Consequently, both employer and employee contributions are allocated entirely to the Provident Fund (PF).
3. Should the PF ceiling be increased (to Rs.25,000 – as proposed), these employees would subsequently qualify for pension coverage.
4. Transitioning these employees into the Pension Scheme presents a significant administrative challenge.
5. A critical concern arises regarding data integrity: while the date of joining (DOJ) for EPF remains unchanged, the DOJ for EPS would necessarily reflect the effective date of the wage ceiling enhancement (awaiting Gazette notification)
6. Key Questions for Compliance:
 - i. Will the EPFO portal facilitate this transition seamlessly for employers? (DOJ for Pension)
 - ii. Alternatively, is there a risk that the system will continue to automatically exclude these members from pension contributions due to their existing UAN status, which identifies them as ineligible for the pension fund?

We expect the Ministry of Labour and Employment and EPFO, for immediate clarification the above.

Example from Scenario – 2

While the circumstances are similar, there is a subtle yet significant distinction to consider. (in Scenario-2)

- 1) If an employee's (First Timer's) initial wages at the time of joining exceeded Rs. 25,000—and this was correctly documented during the UAN seeding process in the Unified PF portal — there are no complications, with reference to Pension portion.
- 2) However, if the initial wages were between Rs. 15,001 and Rs. 25,000, the aforementioned challenges remain applicable.
- 3) It is important to note that many employers and service providers frequently commit a significant oversight by incorrectly recording PF wages as Rs. 15,000 during the UAN seeding process, for First-Timers.
- 4) For example, if an employee's (First-timer) salary is Rs. 30,000, an employer/service provider who customarily caps Provident Fund (PF) contributions at Rs. 15,000 for all staff may inadvertently enter the lower amount when seeding the Universal Account Number (UAN). Consequently, these employees may be incorrectly enrolled for pension contributions, both currently and following the notification of any future increases to the PF wage ceiling.

Areas of Minimal Impact:

- a. For employees with current Provident Fund (PF) wages below 15,000, the enhancement of the PF ceiling wage will result in no material impact.
- b. Voluntary Provident Fund (VPF) contributions remain unaffected (due to this PF ceiling enhancement) under the recent notification (refer to PF Scheme, 2026).

Concluding Remarks:

1. For both Employer and Employee, there will be an impact. For Employer it is extra liability, for Employees while it may reduce take-home pay, it simultaneously serves as a mechanism for increased long-term savings.
2. The PF Ceiling enhancement will lead to an increase in both administrative and EDLI charges, representing an additional liability for employers.
3. EDLI coverage may expand (from 7 lakhs to an higher amount) in alignment with the revised ceiling; alternatively, contribution rates may be adjusted to maintain parity. We await the formal Gazette Notification for clarification.
4. Both pension contributions and final pension disbursements will increase for all eligible employees.
5. For employees ineligible for Pension benefits—defined as those with a total service period of less than nine years and six months prior to their superannuation date across one or more organizations—accumulated funds will not accrue interest. While this lack of interest represents a potential financial disadvantage compared to interest-bearing Provident Fund (PF) contributions, the provision serves as a critical safeguard for the employee's family in the event of an unfortunate demise.
6. Clarification is required regarding the treatment of first-time employees who were previously excluded but may now qualify under the enhanced ceiling. We are currently awaiting procedural guidelines from the EPFO to ensure a seamless transition.
7. A significant number of employees previously excluded from coverage due to wages exceeding the former threshold will now be included.
8. This represents a substantial financial liability for employers and a notable change in take-home pay for staff; consequently, employers are advised to manage this transition with care and efficiency (CTC impact).

The information provided herein, is for educational purposes only. Please refer to the PF scheme provisions, administrative circulars, and gazette notifications for further details.

THE CONFEDERATION FOR ORGANIZATION DEVELOPMENT, EXCELLENCE AND STRATEGY

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