

EY PAS Alert

Government enhances wage ceiling for Provident Fund from INR15,000 to INR25,000 per month

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Executive summary

The Ministry of Labour and Employment has notified INR25,000 per month as the wage ceiling for the purposes of Chapter III of the Code on Social Security, 2020 ("COSS"), replacing the earlier wage ceiling of INR15,000 per month with effect from 17 September 2026. Chapter III of the COSS governs the provident fund, pension and deposit-linked insurance framework.

The change is intended to align the social security framework with prevailing wage levels and expand access to Provident Fund savings under the Employees' Provident Funds Scheme, pension benefit under the Employees' Pension Scheme and insurance protection under the Employees' Deposit-Linked Insurance Scheme.

The revised wage ceiling has an impact on the following operational and financial aspects:

- i. Mandatory coverage of employees under the Provident Fund
- ii. Wage ceiling on which statutory contributions are payable
- iii. Mandatory coverage of employees under the Pension Scheme
- iv. Monthly pension benefit
- v. Allocation of the employer's contribution between Provident Fund and Pension Scheme
- vi. Contributions to Employees' Deposit-Linked Insurance Scheme
- vii. Administrative charges and inspection charges linked to wages

As a result, employers may need to assess the population of employees becoming mandatorily coverable, quantify the impact on employer costs and employee take-home pay, and undertake corresponding changes to payroll systems, provident fund compliance, onboarding processes and employee communication.

This alert summarizes the key implications arising from the enhancement of the wage ceiling and highlights the practical considerations and next steps that employers may wish to evaluate in preparation for implementation.



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Background

On 17 September 2026, the Ministry of Labour and Employment issued Notification S.O. 5109(E) to prescribe INR25,000 as the monthly wage ceiling for the purposes of Chapter III of the COSS, which governs the statutory social security framework relating to EPF, EPS and EDLI benefits.

The notification has come into force with immediate effect from the date of its publication and replaces the earlier wage ceiling of INR15,000 per month.

Notably, the Ministry had earlier prescribed the INR15,000 monthly wage ceiling under the COSS through Notification S.O. 2702(E) dated 29 May 2026. The latest notification supersedes the earlier notification and enhances the statutory threshold to INR25,000 per month with effect from 17 September 2026.

This revision follows the Union Cabinet's approval announced through the Press Information Bureau ("PIB") press release dated 16 September 2026. As outlined in the press release, the increase is intended to align the social security framework with prevailing wage levels, account for sustained growth in employee earnings, and expand social security coverage in line with the continued formalisation of India's workforce.

Consequently, references to the wage ceiling under the Employees' Provident Funds Scheme, 2026 ("EPF Scheme"), Employees' Pension Scheme, 2026 ("Pension Scheme") and Employees' Deposit-Linked Insurance Scheme, 2026 ("EDLI Scheme") may have to be read with reference to the revised threshold.

Key implications of the revised wage ceiling

I. Provident Fund coverage

With the wage ceiling increasing from INR15,000 to INR25,000 per month, an employee earning wages up to INR25,000 will be mandatorily required to become a member of the Provident Fund.

This change will bring employees earning 'wages' above INR15,000 and up to INR25,000 within mandatory provident fund coverage. Under the earlier ceiling, such employees could have been treated as excluded employees if their wages exceeded INR15,000 when they first became eligible for membership.

The revised threshold will need to be applied by reference to "wages" as defined under the COSS.

II. Provident Fund contributions

The EPF Scheme requires the employer and employee to contribute at the rate of 12% of 'wages'. However, the contributions are subject to the wage ceiling notified by the central government from time to time.

Consequently, the increase in the wage ceiling also enhances the wage base for mandatory Provident Fund contributions - which may entail a financial impact in the following situations:

- (a) For employees earning monthly wages of INR25,000 or more and whose contributions are restricted to the statutory ceiling, the mandatory contribution will increase from INR1,800 to INR3,000 per month for both the employer and the employee.
- (b) For employees earning monthly 'wages' between INR15,000 and INR25,000, the contributions would be determined as 12% of actual 'wages'

As per Paragraph 21 of the EPF Scheme, employer shall not be entitled to deduct the employer's contribution from the wages of a member or otherwise to recover it from the member.

However, there may be reduction in the take-home pay of employees on account of higher employee's share of contribution because of the revised wage ceiling.

Where the employer and employee are already contributing on wages or basic salary exceeding INR25,000, the revision in wage ceiling may not have an impact on their total provident fund contributions.

The actual impact may depend on the employer's current practice and the terms of employment.

III. Pension coverage

The Pension Scheme applies to employees who become members of the EPF Scheme or of an exempted provident fund and whose wages at the time of joining are within the notified wage ceiling.

The enhancement of the wage ceiling will therefore broaden mandatory pension coverage for employees having wages above INR15,000 and up to INR25,000. Such employees would have fallen outside mandatory pension membership earlier but will now be required to become members under the Pension Scheme.

Employees whose wages exceed INR25,000 will remain outside mandatory pension coverage, subject to their previous membership status.

Employers may therefore determine EPS membership by reference to the new wage ceiling as well as prior EPF and EPS membership.

IV. Allocation of pension contribution

Under the Pension Scheme, a portion of the employer's contribution is allocated to the Pension Fund at the rate of 8.33% of wages, subject to the statutory wage ceiling.

With the wage ceiling increasing to INR25,000, the contribution allocated from the employer's share to the Pension Fund will increase from INR1,249.50 per month to INR2,082.50 per month. Where the employer's total statutory contribution is INR3,000 (i.e., 12% of INR25,000), the balance contribution after the pension allocation (i.e., INR3,000 - INR2,082.50 = INR917.5) would be credited to the Provident Fund.

Thus, while the overall statutory employer contribution rate remains 12%, the revision principally changes the allocation of the employer's contribution between the Provident Fund and the Pension Fund. A larger portion of the employer contribution may therefore be directed to Pension Fund, resulting in a reduction in the amount being allocated towards Provident Fund corpus.

Employers may need to configure payroll and Electronic Challan-cum-Return processes to reflect the revised allocation.

V. Pension benefit

One of the implications of the increase in the wage ceiling is its potential impact on pension benefit under the Pension Scheme. The monthly pension is determined based on the prescribed pension formula, which takes into account the member's 'pensionable wages' and years of 'pensionable service'. The maximum pensionable wages are restricted to statutory wage ceiling, which effectively cap the monthly pension that may be earned by members, regardless of their actual salary (where employee has not opted for pension on higher wages).

Thus, the increase in the wage ceiling from INR15,000 to INR25,000 is expected to result in a corresponding increase in the pensionable wages used for determining pension entitlements. This would enable eligible employees to accrue pension benefits on a higher base, potentially leading to an enhancement in the monthly pension payable upon retirement. However, the actual benefit may depend on years of service and average pensionable wages.

VI. EDLI contributions and benefit

The EDLI Scheme applies to members of the EPF Scheme, who are required to become members of EDLI Scheme. As a result, employees newly brought within mandatory EPF coverage by the revised wage ceiling will also be covered under the EDLI Scheme.

Employer contributions to the EDLI Scheme are calculated as 0.5% of 'wages', subject to the notified wage ceiling. The increase in the wage ceiling to INR25,000 will increase the maximum monthly EDLI contribution from INR75 to INR125 for each employee.

The EDLI contribution is the employer's liability and cannot be recovered from the employee's wages. Employers may therefore incur an additional cost

not only from higher PF contributions but also from the corresponding increase in EDLI contributions.

While the revised wage ceiling increases the wage base for calculating EDLI benefits, the maximum benefit payable under the EDLI Scheme continues to be capped at INR7 lakh. Accordingly, the increase in the wage ceiling may not necessarily result in higher benefits for all members and beneficiaries.

VII. Administrative and inspection charges

The EPF Scheme requires employers to pay administrative charges at the rates prescribed by the central government (currently 0.50% of wages) on which PF contributions are payable. In case of exempted establishments, administrative charges are replaced by inspection charges, which are presently payable at 0.18% of such wages. These charges are calculated on the contribution wage base applicable to the employee.

Accordingly, the increase in the wage ceiling may also result in a higher administrative / inspection charges. Employers may evaluate the potential cost impact based on their existing practices, including whether contributions are restricted to the statutory wage ceiling or are being made on actual wages exceeding the ceiling.

Comments

The enhancement of the wage ceiling from INR15,000 to INR25,000 represents an expansion of the social security framework which may bring a larger employee population within mandatory provident fund, pension and insurance coverage, and is likely to improve long-term retirement and social security protection.

From an employer's perspective, the notification may entail financial, payroll, operational and compliance implications that may warrant a detailed assessment and review.

Organisations should also assess the implications of the revised wage ceiling on their contract labour workforce. Since the revised threshold applies equally to eligible contract labour engaged through contractors, businesses may face a consequential increase in social security costs and may need to revisit contractor commercials and workforce planning assumptions.

Key considerations may include the following:

1. **Identifying additional employees** falling within the scope of mandatory EPF, EPS and EDLI coverage.
2. **Assessing the additional cost implications** arising from higher employer contributions towards EPF, EPS and EDLI, as well as any corresponding increase in administrative or inspection charges.
3. **Evaluating the impact on employee take-home pay** and planning appropriate employee communications and change management measures.
4. **Assessing payroll, HR, onboarding and compliance processes and systems** for seamless implementation of the revised wage ceiling and related reporting requirements.
5. **Undertaking a separate review of contract labour arrangements** to verify that contributions in respect of employees engaged through contractors are aligned with the revised wage ceiling, considering the responsibilities as principal employer.

Given the impact of the revision, employers may have to conduct an immediate review and implementation exercise to effectively manage the financial, payroll, operational and employee communication considerations.

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