



NOTIONAL INCREMENT FOR RETIREES: A DETAILED ANALYSIS OF KEY JUDICIAL PRONOUNCEMENTS

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Abstract : This study explores the implications of notional increments for retirees, specifically focusing on the "30th June" increment rule in the context of Indian pension systems. It examines how annual increments, especially those applied around the fiscal year-end, affect retirees' pension benefits. The research highlights two landmark judicial decisions that have significantly influenced the understanding and application of these increments. The findings reveal that while well-managed increments can enhance retiree satisfaction and financial stability, mismanagement can strain organizational budgets and affect retirees' financial projections. This paper aims to clarify the legal entitlements of retirees regarding notional increments and their impact on pension benefits.

Keywords - Pension benefits, Increments, Notional Benefits, 30th June increment, Judicial Pronouncements.

INTRODUCTION

Pension systems are designed to provide financial security to individuals in retirement. In India, especially within public sector employment, pension calculations can involve notional increments—theoretical salary increases based on criteria such as service length, age, or inflation adjustments. This paper investigates how notional increments influence retirement benefits, focusing on employees who retire on June 30 and the impact of these increments on their pension entitlements.

NEED OF THE STUDY.

This study is crucial due to the significant impact of notional increments on retirees' financial security. For retirees, these increments can affect their pension calculations and overall financial stability. Understanding the judicial interpretations of these increments helps ensure fair treatment and accurate pension calculations. Recent legal rulings have clarified the entitlement of notional increments, which has practical implications for retirees and organizational budgets.

3.1 UNDERSTANDING THE 30TH JUNE RULE

The "30th June" rule generally pertains to the cut-off date for determining whether an employee is eligible for certain pension benefits. It signifies that employees who retire on or before 30th June are considered for the financial year ending in that June, whereas those retiring after this date fall under the next financial year's pension scheme. This distinction can significantly impact the pension benefits an employee is entitled to receive.

3.2 BACKGROUND OF THE CASE

The issue at hand revolved around whether employees who retire on the very day they are eligible for the benefits of one notional increment (as due on 1st July)¹ for the pensionary benefits to those employees who retire on 30th June or 31st December are entitled to receive that increment as part of their pension benefits. Traditionally, increments were granted for completing one full

¹ **Government of India.** (1972). *Central Civil Services (Pension) Rules, 1972*. Ministry of Personnel, Public Grievances and Pensions. Retrieved from <http://www.persmin.gov.in>

year of service, but employees retiring on these dates were often denied this benefit, despite having effectively completed the requisite service period.

This denial led to several legal challenges across the country, as retirees argued that they were unjustly deprived of the increment they rightfully earned, simply because their retirement coincided with the date they were supposed to receive it.

The legal landscape concerning the entitlement of notional increment for government employees retiring just before their increment date has been shaped by several important judicial decisions. Among these, the judgments of the Madras High Court in *P. Ayyamperumal vs. The Registrar, Central Administrative Tribunal and State of Tamil Nadu vs. M. Balasubramaniam*, as well as the recent Supreme Court ruling in *Director (Admn. and HR) KPTCL & Ors. vs. C.P. Mundinamani & Ors. (2023)*, stand out as landmark cases.

1. P. AYYAMPERUMAL VS. THE REGISTRAR, CENTRAL ADMINISTRATIVE TRIBUNAL & ORS. (W.P. NO. 15732 OF 2017)

Background: P. Ayyamperumal² was a government employee who retired on 30th June 2013. He filed a petition seeking the benefit of an increment that was due on 1st July 2013, arguing that he had completed a full year of service on 30th June and was therefore entitled to the increment, even though his retirement occurred a day before the increment was officially added.

Judgment: The Madras High Court ruled in favor of P. Ayyamperumal, holding that he was entitled to the notional increment that he would have received on 1st July 2013, had he continued in service for one more day. The Court emphasized that the increment was for the service rendered during the preceding year, and merely because his retirement date fell one day short of the increment date should not deprive him of this benefit.

Key Legal Principles:

- The Court recognized the increment as a reward for the preceding year's service.
- The judgment reinforced the principle that retirement on 30th June, after completing a full year of service, should not prevent the employee from receiving the increment due on 1st July.

This ruling set an important precedent, affirming the entitlement of retirees to notional increments, which could be factored into their pension calculations.

2. DIRECTOR (ADMN. AND HR) KPTCL & ORS. VS. C.P. MUNDINAMANI & ORS. (CIVIL APPEAL NO. 2471/2023)

Background: This case involved employees of the Karnataka Power Transmission Corporation Limited (KPTCL)³ who retired on 30th June of various years. The core issue was whether these employees were entitled to the annual increment that was due on 1st July, considering they had completed the requisite year of service by 30th June.

Supreme Court's Judgment: On 11th April 2023, the Supreme Court ruled in favor of the petitioners, affirming their right to receive the annual increment due on 1st July. The Court held that denying the increment based on the retirement date was arbitrary and unjust, particularly since the employees had already earned the increment by completing the required service period.

KEY TAKEAWAYS FROM THE JUDGMENT:

- The Supreme Court upheld the principle that increments are earned based on the service rendered during the preceding year, and the retirement date should not negate this entitlement.
- The Court's decision harmonized the legal position across India, ensuring that employees retiring on 30th June would not be denied the increment that would have been added on 1st July.
- Once the Apex Court has decided the controversy and found the employee entitled for the benefit of approval of entitlement to receive increment while rendering the services over a year with good behaviour and efficiency

3.3 IMPACT AND ANALYSIS:

Reinforcement of the Right to Increment: The Supreme Court's judgment in the KPTCL case reinforced the legal principles established in *P. Ayyamperumal* and *M. Balasubramaniam*, providing a uniform interpretation that applies across all government departments.

Clarification of Legal Position: By ruling that the issue is no longer *res integra* (an undecided point of law), the Supreme Court has clarified the legal position, making it easier for employees to claim their rightful increments without having to engage in prolonged litigation.

² Landmark Judgements regarding 30th june benefits passed by madaras highcourt <https://indiankanoon.org/doc/8929815/>

³ Hon'ble Supreme Court Judgement *Director (Admn. and HR) KPTCL & Ors. vs. C.P. Mundinamani & Ors. (Civil Appeal No. 2471/2023)* <https://indiankanoon.org/doc/138109403/>

Implications for Pension Calculations: The inclusion of notional increments in pension calculations results in a higher pension for retirees, reflecting their full service period and contributions.

3.4 OVERVIEW OF INDIAN LAW REGARDING 30 JUNE NOTIONAL INCREMENTS AND BENEFITS

GOVERNMENT EMPLOYEES AND PUBLIC SECTOR UNDERTAKINGS (PSUS):

- **Annual Increments:** In the Indian public sector, including central and state government employees, annual increments are typically linked to the completion of one year of service. These increments are often processed on 1 July of each year, following the financial year which ends on 31 March. The increment is generally a fixed percentage of the employee's basic pay.
- **Notional Increments:** Notional increments are often used in scenarios where an employee is on leave without pay, or in other exceptional situations. These increments are not actually paid but are considered for purposes such as retirement benefits, seniority, and promotions.

REGULATORY FRAMEWORK:

- **Government Orders and Circulars:** The Indian government⁴ issues specific orders and circulars outlining the procedures for increments and benefits. These documents provide guidance on how increments are to be processed, including the treatment of notional increments for various benefits.
- **Service Rules:** Different services and departments have their own service rules which govern the increments and benefits. For example, the Central Civil Services (Pension) Rules, 1972, and the Railway Services (Pension) Rules, 1993, include provisions on how increments and notional benefits are to be calculated and applied.

IMPACT ON NOTIONAL BENEFITS:

- **Pension Calculations:** Notional increments can affect pension calculations. For instance, if an employee is granted notional increments, it can impact the computation of pensionable service and the final pension amount.
- **Promotion and Seniority:** Notional increments can also influence promotion decisions and seniority. If an increment is granted on a notional basis, it may affect an employee's position in the seniority list or their eligibility for promotions.

POLICY IMPLICATIONS:

- **Fairness and Equity:** Policies related to notional increments aim to ensure fairness and equity in the treatment of employees. This includes making sure that increments are applied consistently and that employees are not unfairly penalized for administrative reasons.
- **Financial Planning:** Organizations must carefully plan for the financial implications of notional increments, especially in the context of retirement and pension benefits, to avoid unforeseen budgetary issues.

3.5 SETTLED PRINCIPLES OF LAW

Law is settled that where entitlement to receive a benefit crystallises in law its denial would be arbitrary unless it is for a valid reason. The only reason for denying benefit of increment, culled out from the scheme is that the central government servant is not holding the post on the day when the increment becomes payable. This cannot be a valid ground for denying increment since the day following the date on which increment is earned only serves the purpose of ensuring completion of a year's service with good conduct and no other purpose can be culled out for it. The concept of day following which the increment is earned has otherwise no purpose to achieve. In isolation of the purpose it serves the fixation of day succeeding the date of entitlement has no intelligible differentia nor any object is to be achieved by it the central government servant retiring on 30th June has already completed a year of service and the Increment has been earned provided his conduct was good. It would thus be wholly arbitrary if the increment earned by the central government employee on the basis of his good conduct for a year is denied only on the ground that he was not in employment on the succeeding day when Increment became payable. In the case of a government servant retiring on 30th of June the next day on which increment falls due/becomes payable loses significance and must give way to the right of the government servant to receive increment due to satisfactory services of a year so that the scheme is not construed in a manner that it offends the spirit of reasonableness enshrined in Article 14 of the Constitution of India. The scheme for payment of increment would have to be read as whole and one part of Article 151 of CSR⁵ cannot be read in isolation so as to frustrate the other part particularly when the other part creates right in the central government servant to receive increment. This would ensure that scheme of progressive

⁴ <https://www.gconnect.in/orders-in-brief/pension/grant-notional-increment-employees-retired-june-30-december-31-court-orders.html>

⁵ Civil services rules article 151 of CSR

https://www.courtktuchehry.com/Judgement/Search/AdvancedV2?s_acts=Civil%20Service%20Regulations§ion_art=article&s_article_val=151

appointment remains intact and the rights earned by a government servant remains protected and are not denied due to a fortuitous circumstance."

3.6 CONCLUSION

The rulings in *P. Ayyamperumal, M. Balasubramaniam*, and the recent Supreme Court judgment in the KPTCL case collectively establish a strong legal foundation for the entitlement of notional increments to government employees retiring on 30th June. These judgments recognize the inherent unfairness in denying increments based on retirement dates and ensure that employees are justly rewarded for their service, whether a government employee retiring on 30th June of a year is entitled to avail the benefit of increment as fixed on 1st of July is being decided by the Supreme Court recently in the case of the Director (Admn. and HR) KPTCL & Ors. vs. C.P. Mundinamani & Ors., Civil Appeal No.2471/2023 dated 11.04.2023, wherein after considering the judgments of different High Courts including the Madhya Pradesh High Court it has been held that benefit of annual increment which is to be added on 1st of July every year shall be paid to the employee who is going to be retired on 30th June of the said year. It is further submitted that controversy is now no longer res integra. This body of case law will continue to guide courts and government bodies in the fair administration of service benefits, promoting equity and justice for all public sector employees.

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https://www.courtktuchery.com/Judgement/Search/AdvancedV2?s_acts=Civil%20Service%20Regulations§ion_art=article&s_article_val=151

