

How can you withdraw from NPS account after retirement?

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You can automate monthly payment from NPS account after retirement and can opt for periodic payment of the lumpsum amount systematically, monthly, quarterly, half-yearly or annually, till the age of 75 years

To ease the process of lumpsum withdrawal of the amount accumulated in the National Pension Scheme, regulator Pension Fund Regulatory and Development Authority (PFRDA) has proposed the 'Systematic Lumpsum Withdrawal (SLW)' option that allows periodic withdrawal of 60% of the corpus from the age of 60.

As per the proposal, subscribers can opt for periodic payment of the lumpsum amount systematically - monthly, quarterly, half-yearly or annually - till the age of 75 years

As per the existing guidelines, at the age of 60, subscribers can withdraw up to 60% of the corpus as lumpsum (with a minimum of 40% transferred to annuity). Subscribers, however, do have an option to defer lumpsum withdrawal till 75 years. While deferring the lump sum withdrawal, investors also have an option of 'phased withdrawal' on annual basis. This way, the subscriber can withdraw partially every year, but for that, a request has to be submitted by the investor each year separately.

The new proposal allows a one-time mandate for processing the redemption of units and transfer of funds at predefined intervals including monthly, quarterly and half-early.

This facility will be provided for both Tier I & Tier II accounts. Unlike Tier I, which allows withdrawal only at the time of retirement or in times of exigencies, Tier II is a voluntary investment account with no withdrawal restrictions. The SLW option can be initiated for the Tier II account even before attaining the age of 60 years.

Note that the SLW proposal is still under consideration and is open for public comments till October 19, 2022. Experts believe that this rule provides extra options to investors at the time of exit and makes the NPS retirement product a little less rigid.

Predefined amount

Once the SLW option is introduced, subscribers can choose from various options at the time of exit. That includes one-time lump sum withdrawal, SLW, deferment and continuation.

For SLW, investors need to pre-define the number of units or the amount that has to be paid to them periodically. The balance amount after each payment will remain invested in the NPS account.

The option of selecting SLW will be provided in the central record-keeping agency (CRA) withdrawal module with an eSign or dual-factor OTP (one-time password) authentication to the investor.

The investors need to select the frequency of payment, amount/units to be paid and start and end date for payment. After attaining 75 years, any available units will be redeemed, and the balance will be transferred to the subscriber's bank account.

If the subscriber wants to change the terms of the SLW option already created, a facility to 'modify' and also 'cancel & redeem' will be available in the CRA login only.

Conditions

Experts believe that providing a greater number of withdrawal options to investors for the retirement product will make them feel more comfortable.

"When investing in retirement products, investors over-focus on how that money will come back to them after they retire. The more options they have, they can choose the one that works for them at that particular point. It is very hard to figure out today which option will work after many years," said Vishal Dhawan, founder & CEO of Plan Ahead Wealth Advisors.

Having said that, the SLW proposal, if introduced as is, will come with two conditions. After opting for SLW, investors will not be able to contribute further to the Tier I NPS fund. Further, partial withdrawal won't be allowed post-setting up of SLW.

Commenting on disallowing the partial withdrawal after the SLW option is initiated, Dev Ashish, a SEBI-Registered Investment Advisor said "after selecting SLW, what if the subscriber needs to access his/her own money, which was earlier available freely without any restriction? This clause doesn't seem too fair."

Further, Amol Joshi, founder of Plan Rupee Investment Services believes that a facility to increase the withdrawal amount each year should also be incorporated in the guidelines to take care of inflation.