

How NPS's 2026 withdrawal rules are changing retirement planning

Subscribers can now choose between systematic payout rate and systematic unit redemption drawdown options

Jash Kriplani
jash.kriplani@sevimint.com
MUMBAI

Until recently, the National Pension System did not work for many, and the primary reason for this was the mandate of 40% annuitization. Under this, an investor had to commit to least 40% of her retirement nest egg accumulated through the NPS into buying an annuity at the time of retirement and at the rates prevailing then.

But that changed last year, when the mandatory annuity rule was brought down to 20% for non-government subscribers, following the introduction of a systematic lump sum withdrawal plan in 2023 that allowed customers to keep the corpus inside the NPS and withdraw in instalments over time, rather than taking it all at once.

This year, the Pension Fund Regulatory and Development Authority (PFRDA) went a step further. It introduced the Retirement Income Scheme (RIS) that allows retirees to withdraw non-annuitized corpus in a regular and systematic manner.

The RIS allows retirees to keep the non-annuitized corpus within the NPS, instead of withdrawing it as a lump sum, and draw a regular income until the age of 85.

A subscriber turning 60 or exiting after 15 years (early exit option is available only for non-government employees) can leave the lump-sum portion inside NPS, in a purpose-built fund called RIS Steady. From there, the subscriber can draw it down gradually through monthly, quarterly, or annual payouts, until the age of 85.

The mandatory annuity portion is separate and unchanged—RIS only governs the drawdown of the remaining corpus.

RIS Steady works as a glide-path fund. It starts with some equity exposure at 60 (or up to 60 years for those exiting early) and gradually reduces it as subscribers age—automatically, on every birthday. At age 60, the allocation is roughly 35% equity, 10% corporate bonds, and 55% government securities. By 70, equity is down to 15%. By 75, it settles at 10% equity and stays there, with government securities reaching 75% by 80 and beyond.

"The idea behind RIS is to find balance between beating inflation while preserving the corpus," said Vishal Dhawan, founder and chief executive officer of Plan Ahead Wealth Advisors. "And the glide path aims to prevent too conservative a stance from retirees, or too aggressive ones, during their retirement years."

"The preset glide-path may not suit everyone. Very conservative investors may not be comfortable with the 35% equity exposure. At the

The new NPS payout plan

PFRDA's Retirement Income Scheme (RIS) lets NPS subscribers keep part of their corpus invested and withdraw it gradually after retirement.

RIS Steady: key points

- **RIS Steady offers** withdrawal options for the non-annuitized corpus
- **Systematic Payout Rate (SPR):** withdrawal rate increases gradually with age
- **Systematic Unit Redemption (SUR):** a fixed number of units is redeemed in each period
- The choice depends on income sources, liabilities, and retirement expenses
- **Both options carry** market risk—no guaranteed returns under RIS

Note: A non-government sector subscriber can exit NPS after 15 years, before age 60

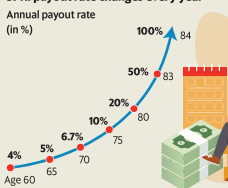
RIS Steady glide path: asset allocation changes annually

Age examples	Equity—Class E (%)	Corporate Bonds—Class C (%)	Govt Securities—Class G (%)
Up to 60 years	35	10	55
65 years	25	15	60
70 years	15	20	65
75 years	10	20	70
80 years and above	10	15	75

Note: Allocation rebalances automatically on the subscriber's birthday each year. From age 80 onwards, the allocation remains fixed

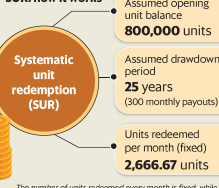
SPR vs SUR: the two RIS payout options

SPR: payout rate changes every year



Formula: $1 + (85 - \text{current age})$. The rate resets on every birthday

SUR: how it works



The number of units redeemed every month is fixed, while the payout varies with NAV

Illustrative outcomes for an NPS subscriber retiring at 60

SPR: Monthly withdrawal (rupee/month)

Market scenario	Year 0 (2026)	Year 10 (2036)	Year 20 (2046)	Year 25 (2051)	Cut-to-boost ratio*
Good market	26,667	39,032	44,899	24,263	2.93
Average market	26,667	31,674	35,611	19,064	2.56
Poor market	26,667	25,385	28,062	14,898	2.25

SUR: Monthly withdrawal (rupee/month)

Market scenario	Year 0	Year 10	Year 20	Year 25	Ratio
Good market	26,667	38,655	41,753	43,304	0.93
Average market	26,667	31,208	33,070	33,954	0.8
Poor market	26,667	25,207	26,230	26,702	0.69

Source: Samasthi Advisors

Note: Similar patterns were observed for a non-government subscriber exiting at 50, over a 35-year drawdown period

*Cut-to-Boost Ratio (payout cuts) = payout increases. Below 1.0 = fewer months of cuts. Above 1.0 = more months of cuts

Assumed corpus: ₹1 crore. 20% annuitized. ₹80 lakh in RIS. Monthly payouts assumed. Market scenarios are based on 10,000 simulations. Good market = 90th percentile. Average = median. Poor = 10th percentile.

Equity returns are based on Sensex performance; debt returns are based on FI rates

Withdrawals adjusted for inflation

same time, very aggressive investors may not be okay with the 65% non-equity exposure," Dhawan said.

The residual corpus, if any, goes to the nominee on death of subscriber. If the subscriber survives, the residual corpus can go to the subscriber as lumpsum. Subscriber would also have the option to combine residual corpus with annuity component (if deferred) to purchase an annuity.

Two methodologies PFRDA has introduced two drawdown mechanisms. The default is

SPR, or systematic payout rate. The alternative is SUR, or systematic unit redemption.

Financial planners say withdrawal strategy depends on finances, income sources, expenses and liabilities

Under the systematic payout rate, the annual payout rate is calculated as 1 + (85 minus your current age). For example, at 60, that gives a 4% withdrawal rate. At 70, it is 6.7%. By 80, it reaches 20%. The payout is calculated on the corpus value every birthday and stays fixed for the next 12 months, then resets. Payouts start modest and grow heavier in the later years, as the formula demands a

larger share of whatever remains.

Systematic unit redemption works differently. On the day you opt in, your total unit balance is divided equally across all the remaining payouts. That number of units—not rupees—is redeemed every month, quarter, or year. The rupee value of each payout changes with the fund's net asset value (NAV), but the number of units that are redeemed stays fixed.

For instance, a portfolio with 8,000,000 units, drawn down over 25 years of monthly payouts, gives 2,666.67 units per month.

Simulation-based study Samasthi Advisors ran 10,000 simulations across good, average, and

poor market scenarios to compare how the SPR and SUR payouts behave over 25-year of drawdown.

The study assumes if a retiree exits NPS today at age 60 and opts for the withdrawal scheme up to age 85, till the scheme allows. The study also assumed a retiree starting with a ₹1 crore corpus, with 20% going into an annuity and the remaining ₹80 lakh entering RIS, in line with the revised annuity floor for non-government subscribers. All payout figures are in inflation-adjusted terms.

Both strategies started at the same monthly payout of around ₹26,667, a 4% annual withdrawal rate on ₹80 lakh worked out to ₹3.2 lakh a year, or roughly ₹26,667 a month; systematic unit redemption arrived at the same figure by dividing the opening balance of 800,000 units equally across 300 monthly payouts, which at a starting NAV of ₹10 also gave ₹26,667.

The logic, as Ravi Saraoji, co-founder of Samasthi Advisors, notes is that the systematic payout rate is built around life expectancy based withdrawal logic: survival probabilities are higher in early retirement, so retirees get more while they are active.

So, which one to go for?

For retirees who already have a pension, rental income, or other stable cash flows covering fixed expenses, that variability may not be a concern. "Systematic payout rate is likely to be more suitable for retirees with substantial other income who want higher discretionary spending during their active retirement years," said Saraoji.

Both options come with an element of market risk.

While RIS offers a structured way to draw down the non-annuitized corpus, subscribers who already have adequate retirement income from other sources may prefer to simply take the lump sum and invest it on their own terms.

There is also another option for such subscribers: that is NPS allows subscribers to defer all withdrawals up to 85 years of age and keep the corpus invested with NPS. By deferring withdrawals, the subscriber can continue to keep the corpus within the NPS structure. Then, closer to the age of 85, depending on one's financial situation, health, longevity expectations, and income needs, the subscriber can decide whether to purchase an annuity, begin systematic withdrawals, or adopt another withdrawal strategy," said Dhawan.

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