

# What NPS' new asset allocation, withdrawal options mean for you

Surrender of annuity will be allowed only if it meets the terms of the contract

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The Pension Fund Regulatory and Development Authority (PFRDA) has launched the Retirement Income Scheme (RIS), an asset allocation plan for investors who choose to retain the withdrawable portion of their retirement corpus with the National Pension System (NPS). Two drawdown options have been made available: Systematic payout rate (SPR) and systematic unit redemption (SUR). Surrender norms for annuities have also been eased.

## How RIS works

RIS is a life-cycle scheme for the withdrawable portion of the NPS corpus. It does not apply to the mandatory annuity portion. RIS Steady Life Cycle provides a ready asset allocation solution. "NPS was earlier focused on accumulation. RIS marks its entry into the withdrawal phase," says Sumit Shukla, managing director and chief executive officer (CEO), Axis Pension Fund.

RIS Steady Life Cycle begins with an equity allocation of 35 per cent at age 60, which gradually reduces. Between ages 75 and 85, it remains constant at 10 per cent. "The option is designed to prevent retirees from becoming too conservative or too aggressive during retirement," says Vishal Dhawan, founder and CEO, Plan Ahead Wealth Advisors.

## Its pros and cons

RIS de-risks the portfolio with age. "RIS Steady tries to address the conflict between beating inflation and preserving the retirement corpus," says Dhawan.

Deepesh Raghaw, a Sebi-registered investment advisor, says a conservative portfolio of this kind reduces the risk of wide fluctuations in payouts. Do not treat RIS Steady Life Cycle as an annuity. "It does not provide the same lifetime guaranteed income as an annuity," says Shukla.

Equity exposure will create some volatility in the corpus. Highly conservative and aggressive investors may not find its asset allocation suitable.

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## How asset allocation will change with age under RIS Steady

(in %)

Age	Asset Class E	Asset Class C	Asset 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

E stands for equity, C for corporate bonds and G for government securities  
Source: PFRDA circular

"Very conservative investors may find 35 per cent equity exposure too high. Investors with adequate alternative sources of income may want to be more aggressive with their retirement assets," says Dhawan. Combine RIS with instruments that offer more predictable income.

## How SPR works

Here, the payout an investor receives is a percentage of the drawdown corpus. The percentage figure changes every year. It equals 100 divided by the difference between the drawdown end age and the current age. The subscriber can specify the end age up to 85. If a subscriber is 60 and chooses 85 as the end age, the first-year withdrawal rate will be 4 per cent.

"As the subscriber grows older, the remaining drawdown period declines, so the payout percentage increases," says Raghaw. This payout rate is applied to the market value of the corpus. "The withdrawal percentage increases, but the actual payout depends on the corpus value," says Dhawan.

## Its pros and cons

SPR protects investors from choosing an aggressive withdrawal rate. It also ensures that the investor does not run out of money up to the chosen age. "The gradual increase in withdrawal rate may partly address inflation," says Raghaw. Sequence risk arises when markets perform poorly in the early

years of retirement, causing a sharp depletion in the corpus. "SPR handles sequence risk better than SUR because the withdrawal amount is reset every year," says Dhawan.

The payout value, however, is not constant every year. Also, even though the percentage payout rises each year, the payout amount may not increase if the corpus has shrunk due to market movements. Retirees may have to adjust their lifestyles each year based on the changing payout, which is not easy.

## How SUR works

Here, an equal number of units is redeemed periodically. The total number of units at the start of the payout period is divided by the drawdown period and then by the payout frequency. If a subscriber has 800,000 units, a 25-year drawdown period, and monthly payouts, 2,666.67 units will be redeemed each month. The actual payout amount depends on the value of the units on the redemption date.

## Its pros and cons

Like SPR, SUR also enables the corpus to last for the chosen duration. However, the payout amount fluctuates, exposing the investor to market volatility.

SUR creates sequence-of-returns risk. Redeeming the same number of units during a falling market can hurt the corpus. "Sequence risk is higher in SUR than in SPR," says Dhawan.

He adds that SUR may suit investors who find a fixed-unit method

easier to understand. The withdrawal frequency is crucial. "Annual withdrawals may reduce the impact of market setbacks compared with monthly withdrawals," says Dhawan.

## Annuity surrender norms eased

PFRDA has now allowed the surrender of annuity policies if the annuitant or a family member contracts a critical illness.

This will provide liquidity to subscribers during medical emergencies. "It offers a necessary safety net that balances rigid retirement rules with compassionate flexibility for families in distress," says Abhishek Kumar, Sebi-registered investment adviser and founder, SahajMoney.com.

However, annuity surrender should be the last resort. "Surrendering could leave the individual vulnerable in later years," says Kumar.

The surrender will depend on the original policy contract. The annuity service provider will decide whether the situation warrants surrender, and permit it only if it aligns with the policy terms. "In annuity plans without return of purchase price, withdrawal of the corpus is generally not possible," says Raghaw. Kumar says investors should verify that their illness meets the policy's criteria.

Kumar informs that the proceeds from liquidating an annuity are subject to charges and taxes. Examine all the applicable charges and taxes before giving written consent to the surrender.