Withdraw NPS corpus in tranches

• This reduces risk of taking out the money at a market low

SAIKAT NEOGI

SYSTEMATIC LUMPSUM WITHDRAWAL plan (SLWP) in National Pension System (NPS) enables an investor to withdraw a fixed amount and let the corpus stay invested in market-linked instruments. This allows for compounding to earn higher returns and reduces the risk of reinvestment with single lumpsum withdrawal.

By withdrawing in tranches, an investor reduces the risk of taking out money at a market low and the remaining funds continue to grow in a regulated manner. For instance, out of a total corpus of ₹1 crore at the age of 60, when 60% of the corpus or ₹60 lakh is put for SLWP for 10 years, an investor can earn an additional income of ₹42 lakh by the time he turns 70 (*See graphic*).

Kurian Jose, chief executive officer, Tata Pension Management, says instead of a single lumpsum withdrawal at 60 years, gradual withdrawal is a smart move. "Continued investment potentially enables the corpus to grow in line with or exceed inflation, helping retirees maintain their purchasing power."

The SWP will be provided in the subscriber login at the time of retirement. He will have to select the payout frequency (monthly, quarterly, half-yearly or annually), amount and the start date. The facility to modify, cancel and redeem SWP is provided in the login and subscribers can even modify the mandate. The SLWP will start after 30 days of creation of a mandate in the system. If on the scheduled payout day, sufficient balance is not available in the lump sum category then withdrawal will be executed only for the available amount and all remaining SLWP requests will be auto-cancelled.

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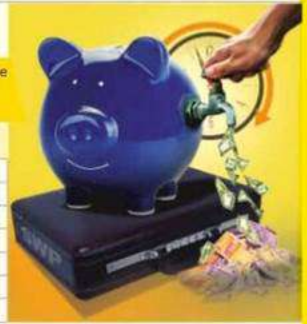
How SWP in NPS works

Total corpus at age of 60 years:	Corpus for withdrawal at 60 years:	Annuity 40% of the total corpus:
₹1 crore	₹ 60 lakh	₹ 40 lakh

Age	Start corpus (₹)	Annual growth (₹)	Yearly withdrawal (₹)	End corpus (₹)
60	60,00,000	**4,80,000**	6,00,000	58,80,000
61	58,80,000	**4,70,400**	6,00,000	57,50,400
62	57,50,400	**4,60,032**	6,00,000	56,10,432
63	56,10,432	**4,48,834**	6,00,000	54,59,266
64	54,59,266	**4,36,741**	6,00,000	52,96,007
65	52,96,007	**4,23,681**	6,00,000	51,19,688
70	**42,00,000** (Growth + balance corpus)			



SWP assumptions

₹60 lakh — Corpus for SWP

Equity 50 % Debt 50 — Asset allocation

Equity 10% Debt 6% — Annual growth rate

₹ 6 lakh for 10 years — Yearly withdrawal

Compounding benefits (₹ lakh)

Start corpus 60 | Withdrawal in 10 years 60 | Terminal corpus in hand 42

GRAPHIC: SUNEESH K

Enhanced cash flow

The SLWP is available in both Tier I and Tier II accounts up to the age of 75 years. It will be applicable only for normal exit and not for premature exit or exit due to the death of the subscriber. In case the accumulated corpus is below ₹5 lakh at the time of maturity, then the subscriber can withdraw the entire corpus.

For annuity (40% of the balance corpus at the time of retirement), an investor has the option to either opt for it immediately at the age of 60 years or defer it till 75. Annuity rates increase with the subscriber's age as insurers calculate payouts based on the life expectancy. If an investor purchases an annuity at the age of 75, the higher rates provide greater monthly payouts, leading to enhanced long-term financial security. "The dual benefit of SLWP and higher annuity payouts maximises a retiree's cash flow while optimising corpus utilisation," says Jose.

Taxation in SLWP

As per Section 10(12A) of the Income Tax Act, 1961 any withdrawal upto 60% from the NPS by the subscriber on closure or exit of their account is exempt from tax. Neeraj Agarwal, partner, Nangia & Co LLP, says systematic lumpsum withdrawal in NPS is exempt from tax. "Opting for periodic withdrawals provides a steady flow of additional tax-free income, supplementing the annuity payments and ensuring a consistent cash flow post-retirement. This structure is beneficial for managing day-to-day expenses or funding specific financial goals in a phased manner," he says.

At present, there are 15 life insurance companies empanelled with Pension Fund Regulatory and Development Authority to provide annuity to NPS subscribers. They offer various options such as annuity for life and joint life with return of purchase price, annuity for life and joint life annuity without return of purchase price. The returns from annuity will be taxed at the investor's marginal rate.

Final redemption

Subscribers are not required to contribute after the age of 60 if they opt for SLWP. If contributions cease at 60 years, the existing corpus remains invested and continues to grow based on the market performance and asset allocation. After attaining 75 years, the investor has to withdraw the balance corpus.

During the SLWP, an investor can change the scheme preference or and pension fund manager. However, it will be applicable only for the lumpsum portion. The annuity part will remain as per existing choice and no changes will be applicable.