EXPOSURE DRAFT

Introduction of Systematic Lump sum Withdrawal (SLW)
for the benefit of NPS Subscribers and facilitate them with smart withdrawal facility

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As per the existing withdrawal guidelines, the subscribers post 60 years/superannuation, can defer availing annuity & withdrawing the lump sum on any combination till 75 years. The lump sum amount can be withdrawn as single tranche or it can be withdrawal on annual basis. If withdrawn annually, the Subscriber has to initiate the withdrawal request each time and the request has to be authorized as the case may be.

1. In the interest of Subscribers and ease the process of lump sum withdrawal, PFRDA proposes that the lump sum can be paid systematically on a periodical basis viz monthly, quarterly, half yearly or annually for a period till 75 years as per the choice of the Subscriber. Further, the process can be automated based on *one-time request* that can be captured online/offline.

2. The Central Record Keeping Agency (CRA) System Withdrawal module of Subscribes is already integrated with Instant Bank Acct verification & name matching through penny drop of PRAN and Bank details, the Systematic Lump sum Withdrawal (SLW) of any defined units/ amount can be provided to the Subscribers if opted and requested for. The facility can be provided in both Tier I & Tier II. However, post capturing SLW request, there won't be any further contribution in Tier I and the amount in Tier I would be ear marked for Annuity & lump sum as per exit regulations. Partial withdrawal won't be allowed post setting up of SLW.

3. For Tier-II, the SLW can be availed at any point of time i.e. even before attaining the age of 60 years. This is mainly because of the fact that one can make withdrawals from Tier-II anytime and this facility when introduced would act like a monthly income for the subscriber or his family members.

4. CRA system needs to display in the Subscribers login the approx amount of value of units and the amount may vary as per NAV depending upon market performance.

5. Various options available to Subscribers at the time of retirement viz one-time lump sum withdrawal, SLW, deferment, continuation etc. shall be presented by PFRDA officials during outreach events like Annuity Literacy Program (ALP) and SEEP (Subscribers Education & Empowerment Program)

Benefits of SLW:

a. The choice of SLW at periodical intervals through automation would add flexibility, provide liquidity and hence optimize the retirement benefits.
b. Enable and empower the Subscribers with periodical withdrawal to manage his needs and requirement.
c. Allows the Subscribers to participate and reap market linked investment gains for the amount not withdrawn which continue to lie in PRAN and remain invested as per the choice of investment.
d. Reduce the risk of reinvestment associated with one-time lump sum withdrawal even though the option shall continue.

Keeping the above in perspective, the draft guidelines and process flow proposed and provided at Annexure. *The Stake holder comments are invited preferably through filling the Google form (link below).*

Google form link: https://forms.gle/qJfuXURbacN22XwC6

Suggestions/ Feedback can also be written to

Mr. K. Mohan Gandhi
Chief General Manager - PFRDA
B-14/A, Chhatrapati Shivaji Bhawan,
Qutab Institutional Area,
Katwaria Sarai, New Delhi - 110 016.

Annexure

Approach Note on Introduction of Systematic Lump sum Withdrawal (SLW) in NPS

Background:

NPS was introduced for Government Subscribers (except for Armed Forces) from January 1, 2004 and extended to State Governments and All Citizens of India and Corporate Subscribers subsequently.

Subscribers have an option to open Tier II account along with Tier I under NPS.

A. *Tier I* is an account wherein contribution is towards pension from monthly salary along with matching contribution from the employer (in case of Govt. & Corporate) and voluntary contribution in UoS. Subscribers can withdraw only at the time of retirement or in case of resignation or a specified amount in case of specific exigencies.

B. *Tier II* account is a voluntary investment account aims to provide a window of liquidity to meet financial contingencies and build savings through investments. The Subscribes have the facility of unlimited withdrawal unlike Tier I where withdrawal is defined as per Exit Regulations.

As per the existing PFRDA Exit guidelines, Subscribers can withdraw the maximum of 60% as lump sum and minimum of 40% as annuity during exit on Superannuation. The premature exit rules are defined as per applicable exit regulations where in 80% is to be utilized to buy Annuity and balance can be withdrawn as lump sum. The subscribers do have an option to defer lump sum withdrawal and annuity till 75 years.

While deferring the lump sum withdrawal, Subscribers have an option of Phased Withdrawal on annual basis wherein the subscribers have to login CRA portal/ submit request physically and initiate request for further authorization as the case may be on yearly basis one time for each year. The existing phased withdrawal is yet to be popularly opted by the Subscribers due to the lack of flexibility, the need for initiating request every time. Above all, the facility can be availed only once in a year.

Proposal of SLW:

With the emerging digital payment options and advancement in financial technologies, the facility of SLW for Tier I and Tier II accounts can be provided to enhance the benefits to Subscribers based on one-time mandate which can be collected from Subscribers for processing redemption of units and transfer of funds in the verified bank account at predefined intervals.

Post initiation of SLW, the respective intermediary charges would continue to be borne by the Subscribers at applicable rates. The process flow is as mentioned below:

A. **Process flow of SLW in Tier I**

1. Facility allowed as an option during Superannuation as well as Premature Exit requests. Exit due to Death of NPS Subscriber will not have the option of SLW.
2. The facility will replace the existing phase withdrawal.
3. At the time of exit, Subscribers will provide percentage towards lump sum and annuity by selecting Annuity Service Provider (ASP) for receiving annuity.
4. SLW will be applicable only for the lump sum portion. Subscriber can either opt for annuity immediately or defer annuity till 75 years
5. In case of deferment, equivalent annuity units/amount will be blocked till the deferment period and subsequently the equivalent units will be redeemed and amount will be transferred to concerned ASPs for policy issuance. The value earmarked for annuity depends upon the market performance.
6. If Subscriber opts for immediate withdrawal of lump sum then existing process of withdrawal will remain the same. If Subscriber opts for SLW then Subscriber will be guided through e-mandate creation process.
7. To empower the Subscribers, SLW will be provided in the Subscriber login with eSign or dual factor OTP authentication as a separate functionality and no Nodal Office Authorization envisaged.
8. Facility to 'Modify' and 'Cancel & Redeem' SLW will be provided in the login only. In case of modification, Subscriber will be able to modify the mandate, already created.
9. In case of cancellation, SLW will get cancelled and redemption will be processed for all available units and withdrawal proceeds will be transferred to the account.

10. For SLW mandate creation, Subscribers will have to select,
    - Frequency - Monthly, Quarterly, Half Yearly and Annual
    - Amount/ Units
    - Start Date
    - End Date – will be derived based on total corpus, amount, frequency and start date and shown to Subscribers.
    - In case Subscriber keeps the 'End Date' blank, SLW will be triggered at predefined frequency till the corpus is available/ Tier is active or till 75 years of age.
    - After attaining 75 years, units available will be redeemed and balance will be transferred to the Subscribers bank account.
11. SLW will start at least after 30 days of creation of mandate in the system. On decided frequency, SLW request will be considered in PayIn.
12. If Subscriber opts for monthly withdrawal on 5th of every month, then request will be considered for PayIn on 5th of every month (provided 5th is not a settlement holiday). If selected date is a non-settlement day then request will be considered for the next settlement day.
13. If on the scheduled SLW, sufficient balance is not available in lump sum category then withdrawal will be executed only for available amount and lump sum category will become zero, all remaining SLW requests will be auto-cancelled.
14. The following will not be allowed during SLW in Tier I.
    - Contribution (as Exit request is already authorized)
    - Conditional Withdrawal
15. During SLW, Subscriber can opt for Scheme Preference / PFM Change. However, it will be applicable only for the lump sum portion. Annuity portion, if not already withdrawn will remain as per existing scheme choice only and no changes will be applicable in the corpus therein.
16. At the time of set up of SLW, bank account of the Subscriber will be mandatorily verified through Penny Drop process. After successful penny drop verification, SLW will be executed.

17. If Subscriber wishes to change bank account in which funds are getting credited, then Subscriber will update the bank details through existing bank account updation option available in Subscriber login where penny drop bank details verification will be applicable and there may be a cooling-off/gestation period of 30 days for any type of Withdrawal after Bank details change as per existing guidelines.

18. Billing /Penny Drop verification charges will be recovered from the lump sum portion. SLW will be considered as transaction and accordingly, transaction charges will be applicable. Charges will be recovered from the PRAN by way of unit deduction.

19. Appropriate & Regular alerts will be sent to the Subscriber on set up / modification / cancellation of SLW through email & SMS.

20. In case of demise of the Subscriber during the SLW, his/her associated Nodal Office/POP/ NPST will have to initiate Death withdrawal request wherein entire corpus will be paid to the nominee.

21. If annuity is not withdrawn, then Nominee/legal heir will have to mandatorily opt for Annuity withdrawal in case of Govt. Sector Subscriber and annuity will be optional in case of Non-Govt. Subscriber as per exit guidelines.

B. SLW in Tier II:

1. The steps are similar as in the case of Tier I.

2. Separate screen for mandate registration for Tier II SLW will be available. The option of modifying and cancelling the mandate will be available to Subscribers. For modifying and creating mandate for Tier II account, eSign or dual factor OTP authentication will be applicable.

3. Unlike Tier I, Contribution shall be allowed in Tier II along with SLW.

4. In case sufficient balance is not available on SLW date, then redemption will not be executed on that day and system will re-attempt the request on next cycle.

5. For Tier-II, the SLW can be availed at any point of time i.e. even before attaining the age of 60 years. This is mainly because of the fact that one can make withdrawals from Tier-II anytime and this facility when introduced would act like a monthly income for the subscriber or his family members.

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