

23rd Current Issues in Retirement Benefits (23rd CIRB) Seminar

Hotel Sea Princess, Juhu, Mumbai

11th & 12th September 2026

Reimagining the Deaccumulation Phase

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“Flexibility” isn't the same as “Financial Security”



- *The shift from Defined Benefit to Defined Contribution has moved core financial risk **from institutions to individuals***
- *The real fault line isn't accumulation; it's **decumulation**- turning a lump sum into payouts that lasts a lifetime*
- *People are expected to understand **tax policy, investment projections, estimate longevity and payout frequency & quantum.***
- *Unrestricted early access to a pension corpus exposes subscribers to serious **spend-down and longevity risk.***
- *Without institutional guardrails, most subscribers **lack the actuarial and portfolio skills** to turn a lump sum into a disciplined, multi-decade payouts.*

Retirees are expected to make a choice while predicting the unpredictable.

Behavioural Paradoxes of Pension Freedom

<i>Behavioural risk</i>	<i>How the Risk manifests ?</i>
<i>Windfall effect / mental accounting</i>	• <i>Money is judged by its source, not treated as fungible; Lump sum as a "windfall," not as income</i> • <i>Illusion of abundance decouples the payout from the funding an entire retirement</i> • <i>Leaves retirees vulnerable to front-loaded spending, non-essential lifestyle inflation, or family pressure to distribute capital early</i>
<i>Longevity underestimation</i>	• <i>Systematic underestimation of life expectancy leads to unsustainably high drawdown rates from day one</i> • <i>Poor grasp of how inflation erodes an unhedged portfolio over decades</i>
<i>Overconfidence trap- Dunning Kruger effect</i>	• <i>Retirees who exit structured funds often overestimate their ability to out-invest institutional managers</i> • <i>Chasing returns with high-risk bets or over-conservative hoarding that loses to inflation- either way, risk of capital impairment rises sharply.</i>

Case Study- 2015 UK Pension Freedoms

<i>Feature</i>	<i>Rules Before April 2015</i>	<i>Rules After Pension Freedoms (Post-2015)</i>
<i>Tax-Free Cash</i>	<i>25% lump sum (tied to crystallising the remainder).</i>	<i>25% tax-free lump sum retained</i>
<i>Annuity Purchase</i>	<i>De facto mandatory for most, or restricted by strict GAD drawdown caps.</i>	<i>Completely voluntary; no requirement to ever buy an annuity.</i>
<i>Lump Sum Access</i>	<i>Remaining 75% taxed at 55%+ if taken as cash (unless qualifying for MIR).</i>	<i>Whole pot can be withdrawn as cash; 25% tax-free, 75% taxed at marginal income tax rates.</i>

2015 UK Pension Freedoms- What Happened

Next ?

A decade of evidence confirmed the behavioural risk !



<i>Risk</i>	<i>Risk manifestation</i>
<i>Withdrawal Volatility & the Decline of Counsel</i>	<i>Unadvised retirees withdrew at 6-8% annually — well above the 4% safe-withdrawal benchmark</i> <i>~70% of savers managed their pots without any formal advice or state guidance</i>
<i>Premature Access & Pot Draining</i>	<i>Over half of all accessed pension pots were cashed out entirely on first access</i> <i>Smaller and medium pots were drained as one-off windfalls — evidence of savers tapping retirement wealth for mid-life pressures, not old age</i>
<i>Near-Collapse of the Annuity Market</i>	<i>Annuity purchases fell by ~75% between 2013 and 2024</i> <i>Removing the structured default left citizens to independently absorb lifelong investment and longevity risk</i>

Reimagining Decumulation- Flexi Payouts

RIS- Retirement Income Schemes & Drawdown Options

A purpose-built, market-linked, age-adjusted drawdown facility inside NPS that keeps your corpus invested and growing while paying you regular income, all the way to age 85.

- It is not a replacement for the lumpsum- it is the **intelligent deployment** vehicle for it.*
- The **60–80% lumpsum remains fully available**.*
- Drawdown corpus stays invested in the **RIS Glide fund**, continuing to earn market-linked returns, while delivering structured, age-adjusted periodic payouts.*
- The corpus keeps growing even as it pays. At 85, any residual corpus is available as lumpsum or can be used to purchase an enhanced annuity*

RIS Glide Path



Active glide (60–75)

Equity reduces 2% per year.
Rebalanced annually on your birthday.

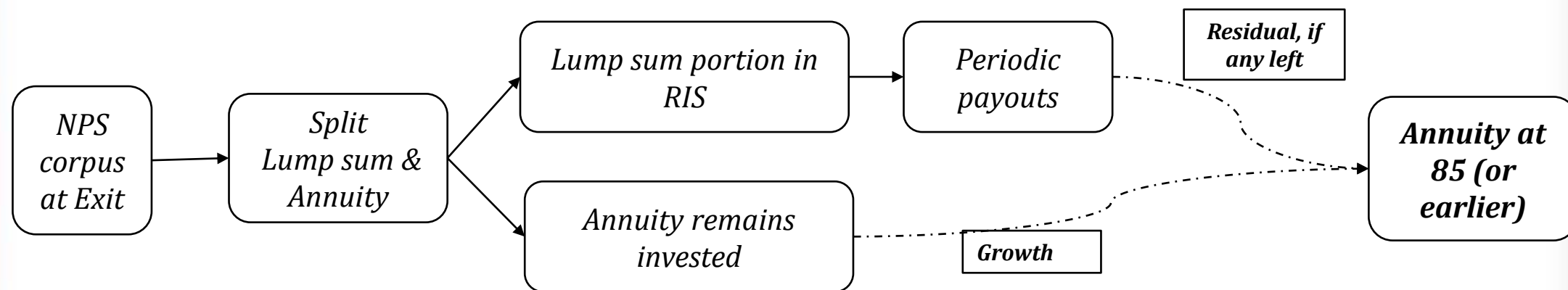
Transition (75–80)

Equity at floor (10%). Corporate
bonds taper as G rises.

Stable phase (80–85)

E: 10%, C: 15%, G: 75%. Maximum
capital preservation.

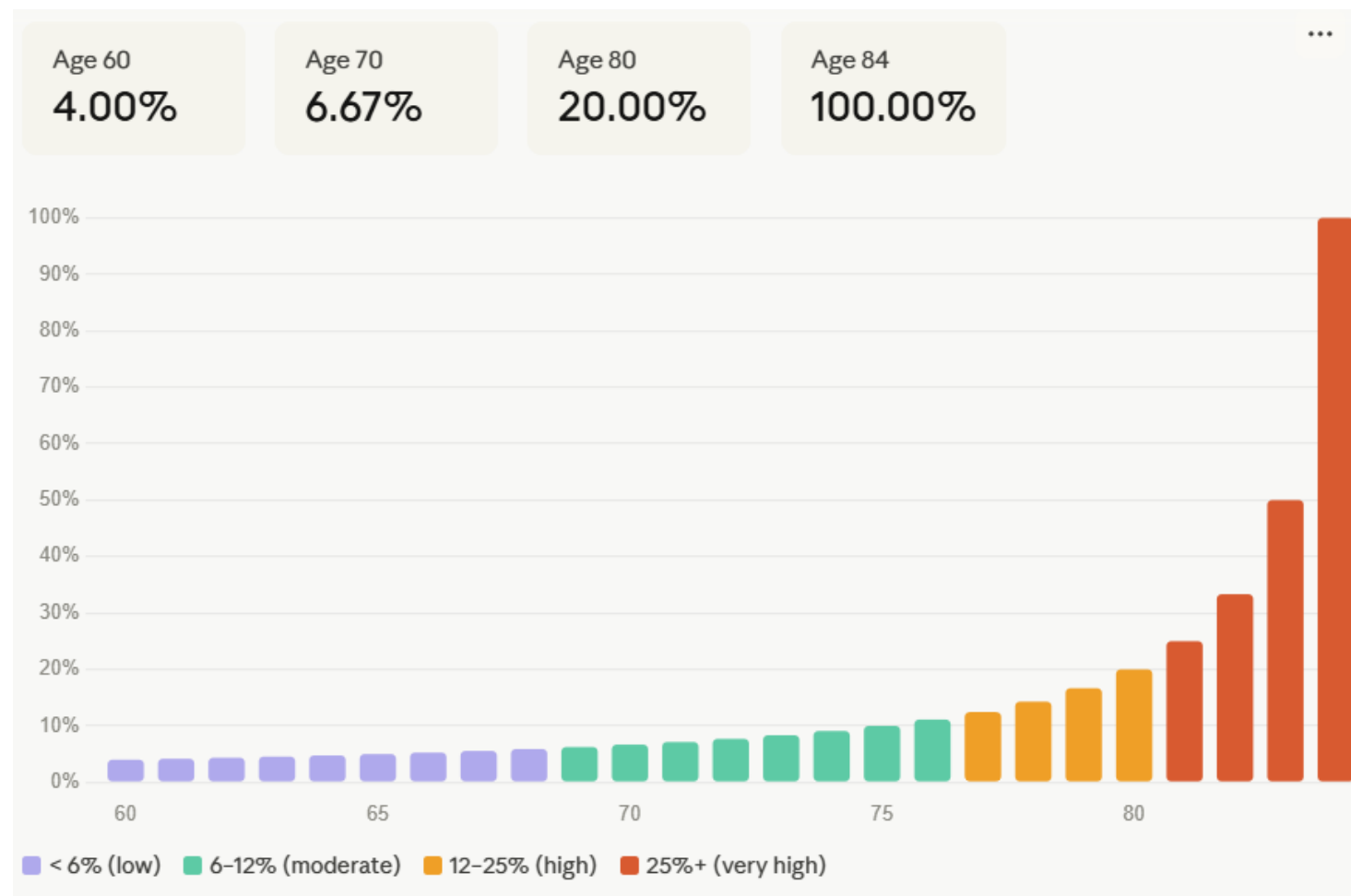
RIS- Process



- *Mandatory annuity corpus (20% or 40%) remains untouched*
- *Drawdown corpus stays invested in the RIS Life cycle fund- earning market returns throughout retirement*
- *Available to all Government and Non-Government NPS subscribers*

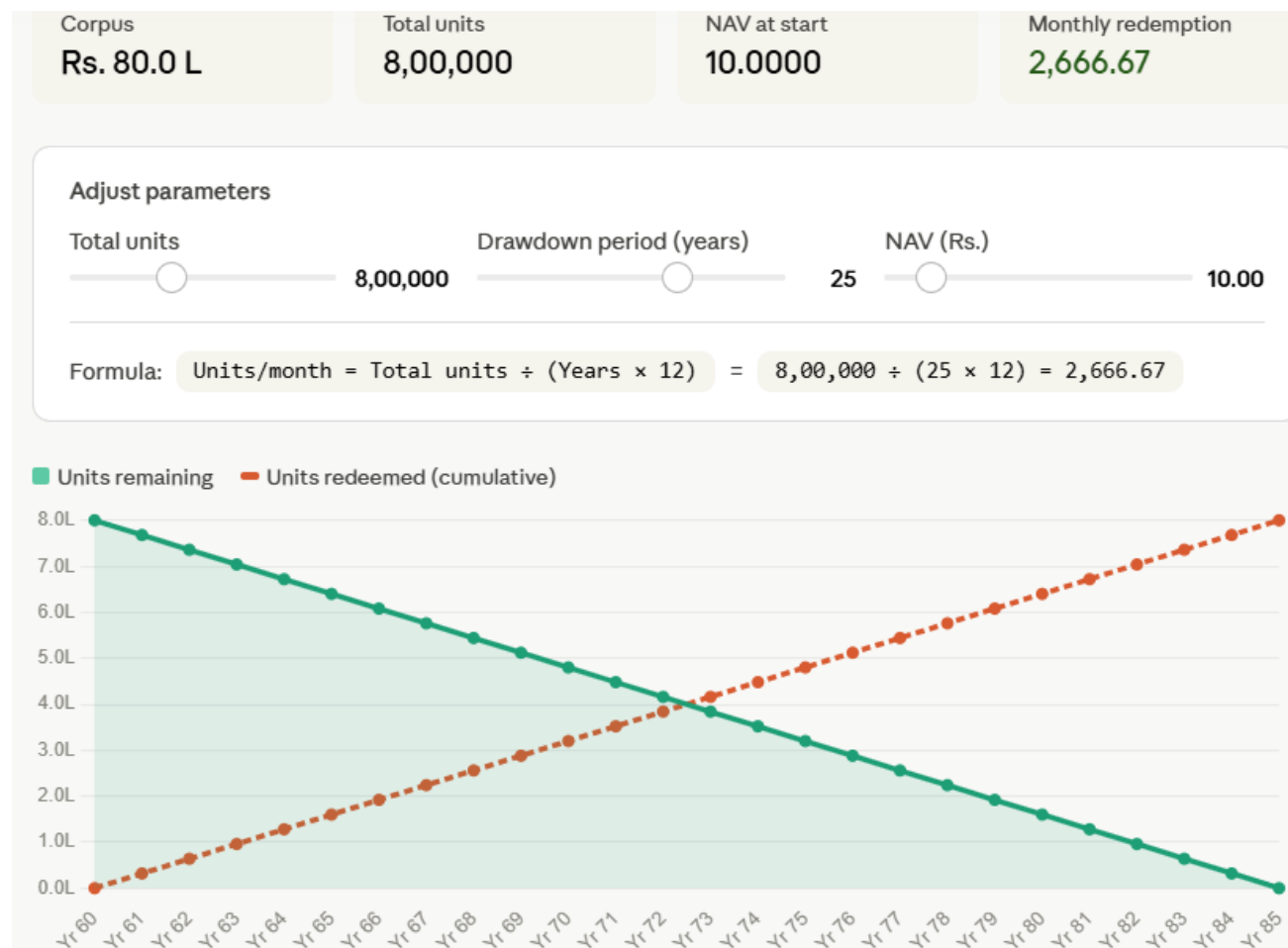
Drawdown Options- SPR (Default)

$$SPR_{CA} = \frac{1}{(\text{Drawdown End Age} - \text{Current Age})} \%$$



Drawdown Options- SUR

$$\text{Number of units per period} = \frac{\text{Total no. of units at start}}{\text{Drawdown Period} \times \text{Payout Frequency}}$$



What's New?

Pre-RIS

- 60% lumpsum, no guidance on deployment
- No structured drawdown
- Corpus not invested post-exit
- Manual, subscriber managed withdrawal
- No lifecycle glide path in retirement
- Annuity was the only regular income option

Exit Post-RIS

- ✓ Drawdown corpus stays invested in RIS fund
- ✓ Structured payouts -monthly/quarterly/ annual- within NPS
- ✓ Corpus continues to earn market-linked return ✓
- Automated drawdown methods - no manual intervention required
- ✓ Lifecycle glide path for decumulation
- ✓ Annuity requirement untouched- statutory compliance intact

Benefits to Subscribers

- Corpus longevity maximized- not sitting idle in savings account
- One integrated ecosystem
- Wealth based income with birthday-based reset
- PFRDA-regulated, low-cost, institutional quality
- Residual corpus at 85- for annuity

How RIS Addresses the Behavioural Pitfalls?

<i>Behavioural risk</i>	<i>How the Risk manifests ?</i>
<i>Windfall effect / mental accounting</i>	<i>Corpus never leaves the pension wrapper — it stays invested and pays out on a schedule, so there's no lump sum moment to mentally "windfall"</i>
<i>Longevity underestimation</i>	<i>SPR's payout rate is actuarially linked and resets every birthday against the age-85 horizon — the subscriber never has to personally guess a safe withdrawal rate</i>
<i>Overconfidence trap- Dunning Kruger effect</i>	<i>RIS Steady's glide path rebalances automatically — removes the self-directed allocation decision entirely, no room for a Dunning-Kruger moment</i>

Calculator Presentation