CONSULTATION PAPERS ON

Enhancing the National Pension System: Proposals for Flexible, Assured and Predictable Pension Schemes

September 30, 2025

Table of Contents

Glossary

CNC	Cost Neutral Contribution
CPI-IW	Consumer Price Index for Industrial Workers
HTM	Held to Maturity
LDI	Liability Driven Investment
Pension Credits	Units providing fixed monthly pension
PLP	Performance Levered Price
PNP	Performance Neutral Price
SWP	Systematic Withdrawal Plan

Chapter 1: INTRODUCTION

In today's dynamic financial landscape, subscribers require pension systems that align with their personal retirement goals, offering flexibility, security, growth potential along with a level of certainty in income. With increasing longevity and economic uncertainties, pension structures need to provide more than traditional savings, they need to deliver structured, adequate, reliable income streams to sustain subscribers' quality of life post-retirement.

The current NPS is a transparent, mark-to-market Defined Contribution pension scheme that emphasizes fiscal prudence and largely focused on the accumulation phase. However, from the subscribers' perspective, it leaves certain key questions unanswered viz. adequacy of corpus and predictability of retirement income due to factors like market volatility, contribution persistency and investment choices.

To address these points, a concept paper on the matter of offering of schemes of pension funds and covering both accumulation and decumulation phases of the pension scheme has been developed as a market development tool.

The aim is to generate interest for deliberations amongst the academics, pension funds and other stakeholders to come out with suggestions for development of the pension market in India and also to encourage pension funds to design pension schemes which cater to the requirements of subscribers.

This consultation paper proposes three distinct pension schemes under the National Pension System (NPS), regulated by the Pension Fund Regulatory and Development Authority (PFRDA). These schemes aim to enhance the existing NPS framework by addressing diverse subscriber needs, including wealth maximization, assured benefits with inflation protection and predictable retirement income through innovative mechanisms such as Pension Credits.

In the forthcoming sections, the following schemes are discussed in detail-

- Pension Scheme-1: A non-assured scheme focused on maximizing pension wealth through a mix of Step-up Systematic Withdrawal Plan (SWP) and Annuity.
- Pension Scheme-2: An assured scheme providing a target pension with periodic inflation adjustments.
- Pension Scheme-3: An innovative concept titled "Pension Credits" based on the idea of goal based investing. Each credit assures fixed monthly pension pay-outs in the decumulation phase to the subscriber.

It may be noted that this concept paper neither reflects the position of the Authority on the subject and nor is bound by anything that has been mentioned herein. This concept paper is being placed on the website of PFRDA for stakeholders and public comments.

Comments, inputs and feedback are solicited from stakeholders, including NPS participants, pension funds, industry experts, academia and the public, on the design, feasibility and potential improvements of these schemes. Feedback should be submitted in the **Feedback Template** to the following email ids- market.watch@pfrda.org.in/ p.chatterjee@pfrda.org.in by 31st October 2025.

Feedback Template

Respondent Information	
Particular	**Response**
Your Role/Stakeholder Type (e.g., NPS Subscriber, Pension Fund Manager, Industry Expert, Academic, Regulator, Public/Other)	
Years of Experience in Pensions/Finance (if applicable)	
Age Group (Under 30, 30-45, 46-60, Over 60)	
Any Current Involvement with NPS? (Yes/No; if yes, please specify e.g., Subscriber, Employer, Pension Fund)	

GENERAL INSTRUCTIONS:

- Clearly identify the issues on which you are commenting. If you are commenting on a particular word phrase or sentence, request you to please provide the page number, column and paragraph citation from the consultation paper.
- The comment process is not a vote and is a process to obtain wider feedback from all. It is therefore, requested that you adequately explain the reasoning behind your position. Please note that the disagreement without any comments/ rationale may not be considered.

Feedback on Pension Scheme-1 to be provided on the following aspects of the proposal-

Aspect	Particular	Comments, inputs and feedback
Overall design appeal	On a scale of 1 to 5 (with 5 being 'Very Appealing'), how visually and conceptually appealing is the overall design of Scheme-1? Please elaborate on why you chose that rating.	[Scale:] [Explanation:]
Clarity of Desired Pension concept	Is the concept of subscribers defining their "Desired Pension" clear, understandable and practically useful for planning?	
Step-up SWP structure	Is the SWP structure *(a starting rate of 4.5% annually, increasing by 0.25% each year for 10 years)* appropriate and sustainable?	
Annuity features	Is the annuity structure *(annuity features: starting at age 70, 20 years certain, with spousal/ children's coverage until age 90)* optimal for the target demographic?	
Risk management	Does the Balanced Life Cycle investment pattern Feel like the most suitable choice to maximise returns viz-a-viz risk based on its allocation pattern to E, C and G asset classes?	
Any other		

Feedback on Pension Scheme-2 to be provided on the following aspects of the proposal-

Aspect	Particular	Comments, inputs and feedback
Overall design appeal	On a scale of 1 to 5 (with 5 being 'Very Appealing'), how visually and conceptually appealing is the overall design of Scheme-1? Please elaborate on why you chose that rating.	[Scale:] [Explanation:]
Inflation and Purchasing Power Protection	Is the CPI-IW design effective for protecting subscriber purchasing power over the long term?	
Funding and Buffers	Is the fixed 10% buffer incorporated into the Cost Neutral Contribution (CNC) calculation sufficient to adequately address underfunding risks and market volatility?	
Decumulation and Hedging	Is the adoption of a Liability-Driven Investment (LDI) approach during the decumulation phase practical and necessary?	

Investment Pools and Allocation	Does this separation of the Pools *(Pool Scheme 1- fixed pension, government securities/ bonds focus and Pool Scheme 2- inflation-adjusted, up to 25% equity)* meet the scheme's objectives? Should the equity cap in Pool Scheme 2 be higher or lower, considering long-term return goals versus risk tolerance?	
Any Other		

Feedback on Pension Scheme-3 to be provided on the following aspects of the proposal-

Aspect	**Particular**	**Comments, inputs and feedback**
Overall design appeal	On a scale of 1 to 5 (with 5 being 'Very Appealing'), how visually and conceptually appealing is the overall design of Scheme-1? Please elaborate on why you chose that rating.	[Scale:] [Explanation:]
Pension Credits Concept	Is the "Pension Credits" framework (e.g., each credit assuring Rs. 100/month for 1-5 years) intuitive and aligned with behavioural finance? Can it be simplified? If yes, how?	
Pricing Mechanisms	Are the Performance Neutral Price (PNP), Performance Levered Price (PLP) and Risk-Adjusted Price methodologies fair and transparent?	
Accumulation and Decumulation Periods	Are the limits (up to 15 years accumulation, 1-5 years decumulation) appropriate? Should longer periods be allowed to reduce risks?	
Investment Choices	Are the options (Aggressive, Moderate, Conservative, Debt-Focused) sufficient? Should subscribers have more customization?	
Market Structure Innovation	Is a regulated secondary market for Pension Credits feasible and beneficial? What challenges might arise and suggestions if any on how to address them?	
Any other		

Chapter 2: BACKGROUND AND PREREQUISITE's

The Indian pension landscape, particularly under NPS, prioritizes fiscal sustainability through contributions managed by Pension Funds based on subscriber choices, with corpus value determined through the product of No. of Units and the corresponding Net Asset Value (NAV) of those units on that particular day.

While this promotes transparency and provides a fair idea about the pension wealth (read corpus) accumulated, it often results in uncertainty about terminal pension income which can be drawn through that corpus. The stabilization and awareness of NPS has been achieved to certain extent but lot more needs to be achieved and more particularly in terms of coverage of citizen under pension net / covered under NPS.

Legal implications and status:

- The preamble of PFRDA Act, 2013 states that it is *"An Act to provide for the establishment of an Authority to promote old age income security by establishing, developing and regulating pension funds, to protect the interests of subscribers to schemes of pension funds and for matters connected therewith or incidental thereto".*
- Accordingly, the remit of the regulator does not limit itself only to accumulation phase as existing now and the goal and objective of the act is to provide for promoting old age income security by developing and regulating pension funds. In the same coin, it can be interpreted that the Act acknowledges that such a market is not developed and which needs to be developed by the Authority.
- Sec 20 (2)(g) of PFRDA Act, 2013 states that there shall not be any implicit or explicit assurance of benefits except market-based guarantee mechanism to be purchased by the subscriber.
- In terms of the Act and more particularly Sec 20, NPS is the system architecture which needs to be adhered to by all the participants. Sec 2(l) and (r) and Sec 14(2)(b) provide for schemes are to be designed, developed and distributed by the pension funds for public use post approval from the Authority and utilizing the NPS architecture. More particularly, Sec 2(l) states that *"…pension fund means an intermediary which has been granted a certificate of registration under sub-section (3) of section 27 by the Authority as a pension fund for receiving contributions, accumulating them and making payments to the subscriber in the manner as may be specified by regulations…";* Based on these provisions made under the Act, it can be reasonably presumed that the pension fund can devise a scheme, collect the contributions from subscriber and also make payments to the subscriber when they exit from the schemes. It may be understood in this context that the payments to subscriber happens only when he enters the decumulation phase or under specific circumstances in the accumulation phase and both of which are related to payment of benefits to the subscriber in terms of the scheme.

Prerequisites:

The basic idea is to reflect a transition from a pure Defined contribution pension scheme to an Ambition based pension scheme; thence to an Assured benefit pension scheme model. To do the same the Pension Funds may need to address the following to plan the scheme in a better manner:

- Examination of all-important issues like Asset-Liability Mismatch (ALM) management, capital adequacy and solvency margin requirements, capital infusion, investment mix, Specific instruments meeting the requirements, futuristic investment vehicles, Valuation, Investment guidelines etc.
- Liabilities of PF or Sponsor towards subscribers of the scheme shall be clearly understood by the pension funds before offering any scheme with assurance of benefits.

- Which is the entity that is going to assure the benefit offered in case there is deterioration of asset return or unsustainable gap between assets and liabilities to the subscriber.
- The metrics for ensuring the assured benefit schemes are working to the satisfaction of the Board of Pension funds, a regular actuarial evaluation need to be developed and employed including metrics like funding ratio and other actuarial techniques.
- Before design, development and implementation of schemes, the pension funds shall understand and put in place policies, wherever applicable on the following:
    - Manner of pay-out after Maturity or Completion of accumulation – assured pay-out, combination of annuity and systematic withdrawals (monthly, quarterly, h-yearly, annual) etc., need to be specified clearly by the pension fund in the scheme documents.
    - Hedging interest rate risk, Reinvestment risk and Inflation in the decumulation phase.
    - Minimum Target pension and subsequent Cost Neutral contribution under the scheme in case of assured benefit schemes.
    - Portability – NPS and vice versa – As some of the schemes are expected to offer assurance of benefits any portability may lead to loss of such assurance.
    - Yield curve and Inflation assumptions for management of liabilities in the decumulation phase are to be decided by the pension fund.
    - As bonds with higher coupon rates provide a margin of safety against rising market interest rates, the same may be accumulated for on a continuous basis and more particularly the decumulation phase.

Some of the pension schemes that can be offered by pension funds reflecting a transition from a pure Defined contribution pension scheme to an Ambition based pension scheme without assured benefit; thence to an Assured benefit pension scheme model and for demonstrative purpose are as given below:

- **Pension Scheme-1**

The rationale for this scheme stems from the need for a flexible option where subscribers can define their "Desired Pension" and maximize wealth without guarantees. Current NPS structure provides the subscriber with a lot of flexibility in terms of their accumulation and decumulation phases independently. However, This scheme addresses the complexity of choice and simplifies this by combining wealth-building during accumulation with a step-up SWP and annuity for decumulation. This will help create a journey for the subscriber and improve persistency thus mitigating risks in advanced age while leveraging long-term compounding.

- **Pension Scheme-2**

Assured benefit schemes are essential in a developing economy facing increasing longevity risk. The scheme introduces assurance of benefits with inflation adjustments, similar to Dearness Allowance, to protect purchasing power. It emphasizes wealth compounding in the accumulation and liability-driven investments (LDI) in the decumulation phase to manage risks like inflation, investment volatility and reinvestment, ensuring sustainable payouts over a fixed decumulation period.

- **Pension Scheme-3**

Subscribers often question "How much pension will I get?". This scheme introduces "Pension Credits" as an innovative goal-based framework, rooted in behavioural finance, providing clear visibility of future pension income entitlements. It shifts focus from daily NAV fluctuations to accumulating credits for a target pension, improving engagement, contribution persistency and flexibility of choice. The proposal aims to ensure predictable income, simplicity and information transparency, while allowing for future innovations like secondary markets.

Common across schemes are challenges like inflation, longevity and investment risks, addressed through NPS's diversified asset classes (E, C, G) and Balanced Life Cycle patterns, as the case may be, thus enhancing overall pension coverage.

Chapter 3: PENSION SCHEMES

A. Pension Scheme-1- Desired Pension through mix of Step-up SWP and Annuity

The primary objective of this scheme is to enable the subscribers to set a "Desired Pension" and maximize benefits through structured payouts. Although without guarantees, the payouts shall be adjusted upward for better financial status. The Pension Funds are envisioned to try and provide subscribers with a better visibility over questions such as "How much pension?" and "How much to contribute?". This structure is envisioned to help improve persistency and provide subscribers with a start(accumulation) to end(decumulation) solution on their pension journey.

a. Key Features

The scheme operates within the NPS framework without assurance of pension wealth and/or benefits.
The scheme allows subscribers to define their "Desired Pension," with a fixed Indicative Contribution (IC) that remains unchanged unless the subscriber opts to increase their pension target.
Requires a minimum accumulation phase of 20 years, with no upper limit, provided the subscriber is at least 18 years old at entry.
Follows the Balanced Life Cycle investment pattern, with 50% equity exposure until age 45, tapering thereafter; pension funds retain flexibility to determine the investment mix in line with the current Investment Guidelines..
Provides payouts through an initial monthly Systematic Withdrawal Plan (SWP) at 4.5% of the corpus annually (divided by 12), increasing by 0.25% each year for 10 years, followed by an annuity purchased at age 70. The annuity is payable for 20 years certain and thereafter as long as the annuitant is alive. If the subscriber predeceases their spouse after age 70 but before 90, the pension continues to the spouse or children until the subscriber's 90th birthday.

b. Accumulation and Decumulation Phases

- Accumulation: The accumulation phase emphasizes wealth maximization through the Balance Life Cycle Investment choice to achieve compounded growth over the long term. As will be seen in the illustration provided in the forthcoming section, the Indicative Contribution (IC) i.e. contribution required to achieve the Desired Pension, is calculated based on an assumed 8% compounded annual rate of return for simplicity of representation. Investments utilize the existing NPS schemes (E-I, C-I, G-I) and follow the Balanced Life Cycle pattern, with 50% equity exposure until age 45, tapering thereafter.
- Decumulation: Post-retirement, subscribers receive monthly payouts through a Systematic Withdrawal Plan (SWP) starting at 4.5% of the corpus annually (divided by 12), increasing by 0.25% each year for 10 years, reaching a maximum of 7%. The residual corpus, assumed to grow at 6% annually during the SWP period in the illustration, is fully annuitized at age 70, providing payments for 20 years certain and thereafter for life, with spousal or children's coverage until the subscriber's 90th birthday if predeceased.

c. Functional aspects & Illustration

This section outlines the operational mechanics of liability estimation and contribution calculation for the scheme, supported by illustrative example to enhance stakeholder understanding. All calculations use conservative assumptions for simplicity, with pension funds expected to adjust for market complexities.

S. No.	Variable	Value
1	Entry Age	T_0
2	Retirement Age	T_{25}
3	Objective	To maximize the benefit of pension savings through a mix of SWP and annuity and to provide a desired level of monthly pension. There is no assurance of the benefit but an indicative monthly pension that the subscriber may derive if he stays invested and subject to conditions.
4	Desired Pension	Rs.50,000/- pm
6	Exit Rule	100% corpus utilization and No lump sum withdrawal allowed.
7	Benefit payable	Desired Pension of Rs. 50,000 payable monthly initially through systematic withdrawal plan (SWP) and later through an annuity - Annuity payable for 20 years certain and thereafter as long as the annuitant is alive variant from an insurance company to take care of the survival or mortality risk and without any assurance of a target pension. 1. SWP payable for the first 10 years at the Safe Withdrawal Rate of 4.5% which shall be stepped up by 0.25% every financial year on the initial corpus. 2. The SWP for the first year at 4.5% will be equivalent to the "Desired Pension" and shall increase each year as per step up defined above. 3. At the end of the 10 years, the entire residual corpus shall be utilized to purchase an annuity providing for 20 certainty, meaning if subscriber alive beyond 20 years, he continues to receive annuity till he survives and if he predeceases before 20 years, the annuity will be paid for till the term 20 years is completed to his family members (spouse and children).

Illustration

For a Desired Pension of Rs. 50,000 per month, the corpus needed is calculated as Rs. 1,33,33,333. Assuming a 25-year accumulation at 8%, the monthly IC is derived.

During decumulation, with a 6% corpus growth rate and step-up SWP, the residual corpus after 10 years is annuitized.

The following figure illustrates the accumulation and the increasing payout structure:

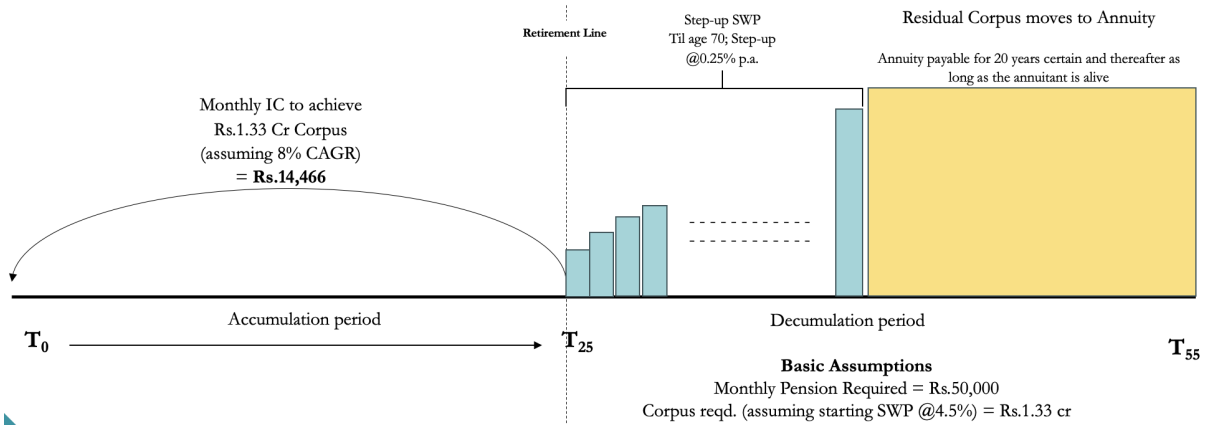


Figure- Desired Pension through mix of Step-up SWP and Annuity

Liability Estimation for achieving "Desired Pension"-

- The Desired Pension shall be paid out payable monthly initially through systematic withdrawal plan (SWP) and later through an annuity.
- Thus, assuming a monthly Desired Pension of Rs. 50,000/- which shall be equivalent to the SWP of 4.5% divided by 12 for the first financial year, we can arrive at the Corpus needed for achieving said desired pension.

$$50{,}000 \times 12 = Rs.\,6{,}00{,}000/-$$

$$This\ is\ equivalent\ to\ the\ annual\ SWP\ of\ 4.5\%, thus:$$

$$Total\ Corpus\ needed = \frac{6{,}00{,}000}{4.5\%} = Rs.\,1{,}33{,}33{,}333.33/-$$

Estimation of Indicative Contribution (IC)-

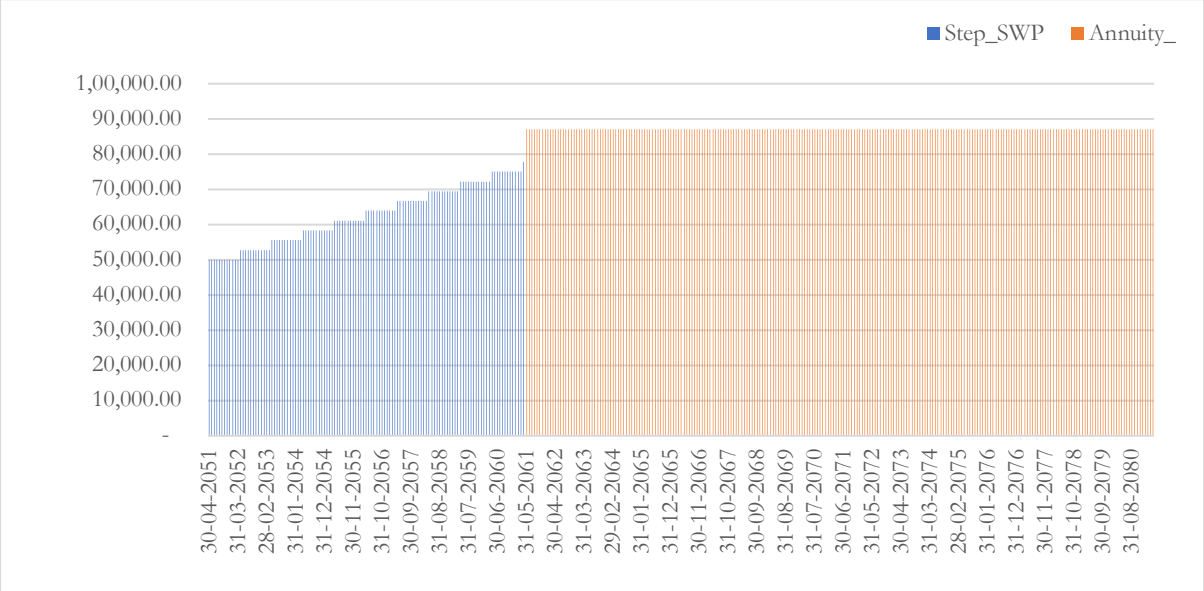
- The monthly Indicative Contribution (IC) as well as the returns generated by managing them need to cover the liability projected for the subscriber as per the above section.
- Thus, to simplify the illustration, assuming a single compounded annual rate of return of 8% on the contribution of the subscriber, the Pension fund would project the Indicative Contribution for the subscriber given his age profile and period of contribution:

S. No.	Component	Value
1	Entry Age	35 years
2	Retirement Age	60 years
3	Exit Rule	100% corpus utilization and no lump sum payment: If corpus to be withdrawn in lump sum (in %) at the time of beginning of decumulation phase, proportionate reduction in Target Pension required and payable to subscriber.
4	Target Pension required	Rs. 50,000 with no lump sum payment
5	No. of contributions	25 x 12 = 300
6	Corpus to be generated	Rs. 1,33,33,333.33/-
7	Assumed CAGR over a period of 25 years	8%
8	Total monthly contribution to achieve Targeted pension of Rs.50,000/-	Rs. 14,465.52/-
	The above calculations hold good only if the contributions are received on a monthly basis and in time during the entire accumulation phase. If there is default or delays in payment of monthly contributions, there will be a penalty to regularize the payment schedule charged proportionately to the period of default on the contribution amount to keep the subscriber on track in their accumulation journey. Such penalty amount is to be credited to the pension account of the subscriber.	

As we withdraw at 4.5% of Corpus at retirement with steps of 0.25% whilst the return on the corpus is assumed to be 6% per annum, the amount withdrawn from the corpus is lower than the return accrued. Thus, over the long term, the corpus shall grow to be larger than what it was at the time of retirement.

Thus, post completion of the first 10 years, when the subscriber annuitizes the entire residual corpus, unless the annuity rates are marginally lower than the final SWR of 7.0% (4.5% + 0.25% x 10), the pension through annuity may be higher than the SWP withdrawn. This is in line with the requirement of increasing pension payouts to maintain lifestyle in the face of inflation.

The same can be visualized from the chart below:



***Note**: In order to maintain simplicity, the indicative calculations have been made ignoring for volatility and periods of downturn or side-wards market movement. These factors shall affect the accumulation of initial corpus which can be higher as well as lower than the conservative assumption of 8%. These factors will also affect the residual corpus which faces periodic withdrawals and is assumed to grow at the further conservative assumption of 6%.*

d. Risk Management and Sustainability

The primary risks include variance in returns at advanced ages and market downturns affecting the corpus. These are mitigated through the Balanced Life Cycle investment pattern, which reduces equity exposure post-45 and the annuity structure, which provides guaranteed payments from age 70 onward, including spousal coverage.

Conservative assumptions *(eg. 8% return during accumulation, 6% during decumulation)* serve as a buffer against volatility. Pension funds employ actuarial expertise to adjust Indicative Contributions, accounting for market downturns and ensuring alignment with the Desired Pension.

e. Implementation and Regulatory Consideration

Pension funds are responsible for estimating the Indicative Contribution, managing investments across NPS asset classes and structuring the annuity at age 70. Subscribers provide the Desired Pension amount, enabling straightforward planning. Pension funds have flexibility in pricing, promotion and asset under management (AUM) garnering, subject to PFRDA regulations on investments valuation and subscriber protection.

B. Pension Scheme-2 Desired Pension Benefit along with Periodic Inflation Adjustment

The primary objective of Pension Scheme-2 is to provide an assured "Target Pension" with annual inflation adjustments, thus securing subscribers' future payments over a fixed decumulation period.

a. Key Features

The scheme operates within the NPS framework with assurance of pension wealth and/or benefits.
Enables subscribers to define a "Target Pension," paid in the first 12 months post-retirement, with annual inflation adjustments based on the Consumer Price Index for Industrial Workers (CPI-IW), capped at a 0% floor for negative inflation scenarios, for the period after the first 12 months
Requires a monthly Cost Neutral Contribution (CNC), fixed once determined, with an additional 10% buffer to mitigate underfunding risks.
Specifies a decumulation phase of 25 years; upon the subscriber's death, the inflation-adjusted pension passes to the spouse, then to family members per NPS (Exit and Withdrawal) Regulations.
Mandates a minimum accumulation phase of 20 years, with no upper limit, provided the subscriber is at least 18 years old at entry.
Utilizes the Balanced Life Cycle investment pattern during accumulation, post whichthe corpus is split into two pool schemes: Pool Scheme 1 (focused on fixed pension, invested in Government Securities and high-rated Corporate Bonds) and Pool Scheme 2 (for inflation adjustments, with up to 25% equity exposure for growth).
May employ Held-to-Maturity (HTM) valuation to insulate the portfolio from external market events and uses liability-driven investment (LDI) strategies during decumulation to manage risks.

b. Accumulation and Decumulation Phases

- Accumulation: The accumulation phase focuses on wealth maximization to generate a corpus sufficient to cover the assured Target Pension and inflation adjustments. The Cost Neutral Contribution (CNC), including a 10% buffer to mitigate underfunding risks, is invested according to the Balanced Life Cycle pattern, assuming an 8% annual return. The corpus is built using NPS asset classes to ensure long-term growth.
- Decumulation: The decumulation phase spans 25 years, delivering a fixed Target Pension from Pool Scheme 1 (invested in Government Securities and high-rated Corporate Bonds) and an inflation-adjusted component from Pool Scheme 2 (up to 25% equity for growth). Liabilities are discounted conservatively at 4.5% for the fixed component and 5% for the variable component to account for volatility. The portfolio is designed to absorb shocks such as interest rate cycles and market fluctuations and may use HTM valuation for stability.

f. Functional aspects

As the scheme is supposed to offer assurance of benefits, the primary issue is about estimating the nature and quantum of liabilities that are expected. The liabilities shall comprise of the following two components over a period of 25 years:

- Target Pension
- Inflation Adjustment

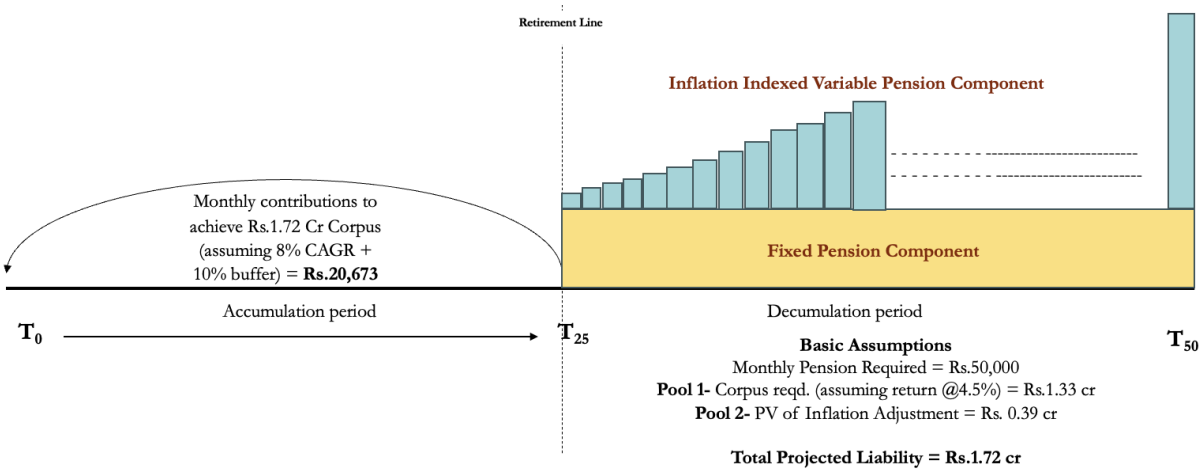
The Value of the Corpus required to cover the Target Pension component as well as the Inflation Adjustment component shall be arrived at basis the projection of various rates by the in-house expertise at Pension Fund.

The minimum monthly Cost Neutral Contribution (CNC) required to generate this corpus shall be a part of the product pricing and shall be arrived at by the Pension Fund basis the following factors:

- Target Pension required by the subscriber.
- Period of Contribution: (minimum 20 years).
- Projection of annuity rates when the subscriber completes accumulation.
- Projection of inflation during the decumulation phase.
- Projection of returns which shall be generated across accumulation phase.

Accordingly, the investment strategy for the accumulation phase and the decumulation phases are going to differ as the objective of each of the phases is different. While the objective during the accumulation phase is to maximize the pension wealth by optimizing the return, the objective for the decumulation phase is to have a stable portfolio which is cushioned to absorb the shocks like interest rate cycle, reinvestment risk and economic conditions including market conditions.

The following figure illustrates the accumulation and decumulation phase of the scheme:



g. Illustration

Liability Estimation-

Let's assume a subscriber has the following requirements:

Sr. No.	Variable	Value
1	Entry Age	35 years
2	Retirement Age	60 years
3	Exit Rule	100% corpus utilization and no lump sum payment: If corpus to be withdrawn in lump sum (in %) at the time of beginning of decumulation phase, proportionate reduction in Target Pension required and payable to subscriber
4	Target Pension required	Rs. 50,000 with no lump sum payment

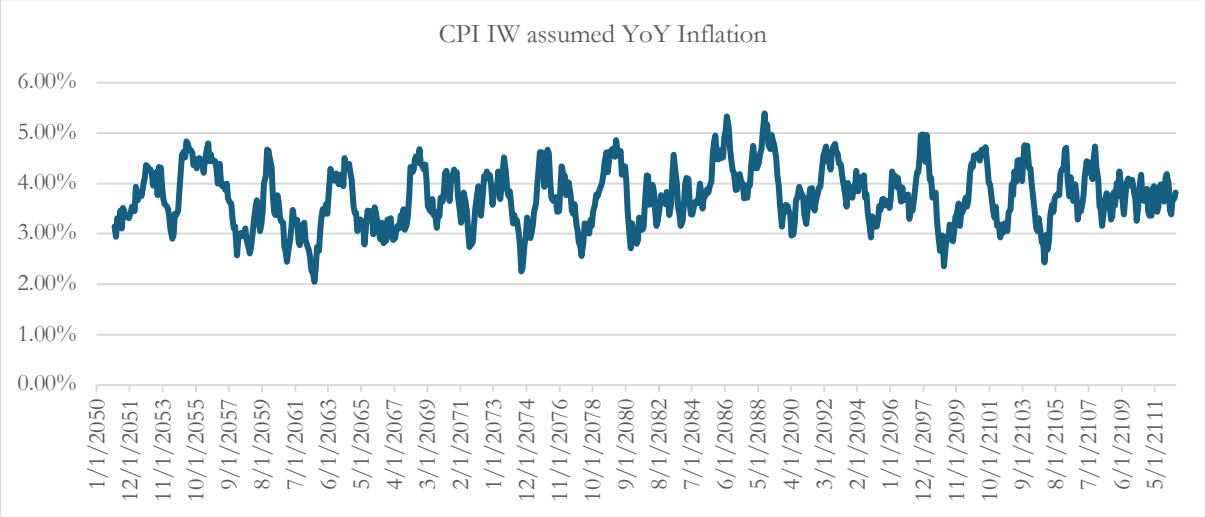
Thus, the above subscriber has an accumulation period of 25 years and a decumulation period of 25 years.

To arrive at the CNC for above subscriber we need to first arrive at the liability that the Pension Fund has to assure-

- The fixed component of an individual's assured pension shall be the Target Pension component which shall be paid from the Pool Scheme 1. Let's take the simplistic assumption that as the country develops, the interest rates in the economy are lower. Thus, the Pool scheme 1, 25 years from now has been discounted at 4.5% to keep the computation conservative.
- The variable component of the assured pension shall be the Inflation adjustment and shall be paid from the Pool Scheme 2. The CPI IW is assumed to be fluctuate between 0-6%, which may be largely on the higher side given the conservative rate of returns assumed on the Pool scheme investments. This scheme has equity allocation which shall increase the volatility of the fund value. Thus, the Pool scheme 2, 25 years from now has been discounted at 5% to keep the computation of the Present Value of the variable liability conservative and provide buffer against volatility and drawdowns.

Figure below shows the inflation assumed to arrive at the variable component of the liability. The Inflation adjustment factor for a given month shall be equal to the following:

$$\boldsymbol{Inflation\ Adjustment\ Factor\ (in\ \%)} = \frac{Average\ of\ CPI\ IW\ of\ past\ twelve\ months - CPI\ IW\ at\ the\ start\ of\ the\ Calendar\ Year}{CPI\ IW\ at\ the\ start\ of\ the\ Calendar\ Year} \times 100$$



Basis these assumptions we have the following liabilities-

S. No.	Component	Value
1	Target Pension Component (Calculated like an annuity w/o ROP purchase as pool shall have similar mandate)	$\frac{(50{,}000 \times 12)}{4.5\%} = Rs.1{,}33{,}33{,}333/-$
2	Present Value of Inflation Adjustment	$\sum \frac{IA_n}{(1.05)^n} = Rs.38{,}82{,}211.70/-$
3.	Total Projected Liability	Rs. 1,72,15,510.60/-

Cost Neutral Contribution (CNC) estimation-

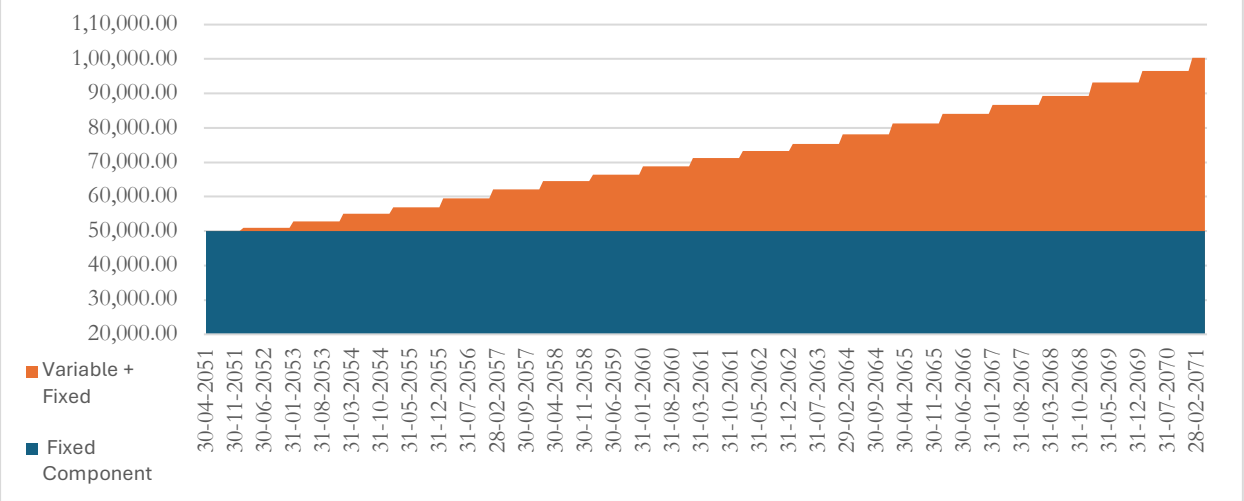
The monthly CNC as well as the returns generated by managing them need to cover the liability projected for the subscriber as per section A above.

Thus, to simplify the illustration, assuming a single compounded annual rate of return of 8% on the contribution of the subscriber, the Pension fund would project the Cost Neutral Contribution for the subscriber given his age profile and period of contribution:

S. No.	Component	Value
1	Entry Age	35 years
2	Retirement Age	60 years
3	Exit Rule	100% corpus utilization and no lump sum payment: If corpus to be withdrawn in lump sum (in %) at the time of beginning of decumulation phase, proportionate

		reduction in Target Pension required and payable to subscriber.
4	Target Pension required	Rs. 50,000 with no lump sum payment
5	No. of contributions	25 x 12 = 300
6	Corpus to be generated	Rs. 1,72,15,510.60/-
7	Assumed CAGR over a period of 25 years	8%
8	Estimated monthly CNC	Rs. 18792.77/-
9	10% additional buffer	Rs. 1879.28/-
10	Total monthly contribution to achieve Targeted pension of Rs.50000/-	Rs. 20,672.05/-*
	The above calculations hold good only if the contributions are received on a monthly basis and in time during the entire accumulation phase. If there is default or delays in payment of monthly contributions, there will be a penalty to regularize the payment schedule and which could be in the range of 12% p.a. charged proportionately to the period of default on the contribution amount. Such penalty amount is to be credited to the pension account of the subscriber.	

The graph below shows the fixed and the variable component of the Inflation-Indexed Target Pension over the course of 25 years-



h. Risk Management and Sustainability

This scheme faces risks such as inflation, longevity, investment volatility and potential underfunding due to economic conditions. Mitigation strategies include liability-driven investment (LDI) approaches, where bond portfolio duration are aligned with liability durations based on interest rate expectations. A buffer on CNC reduces the probability of underfunding, while funding ratios and surplus metrics may be monitored to ensure solvency. Hedging instruments, such as

forward rate contracts and 1–5-year interest rate swaps, may be employed during the decumulation phase. Negative inflation adjustments are capped at 0% to protect subscribers. Pension funds shall have freedom of pricing the contributions based on their internal expertise as well as investment mix of the pool schemes. Thus, the Pension Funds or sponsors may inject additional capital to cover losses in adverse scenarios, ensuring sustainability.

i. Implementation and Regulatory Consideration

Pension funds calculate the CNC based on projections of interest rates, portfolio performance and inflation, incorporating a 10% buffer to mitigate underfunding risks. They implement LDI strategies and hedging instruments (e.g., forward contracts, interest rate swaps) during decumulation. Adequate capital strength is required to support assurances, with potential sponsor contributions in adverse scenarios. Compliance with PFRDA guidelines on risk management, out sourcing and cybersecurity is mandatory.

C. Pension Scheme-3- Providing Assured Desired Pension through Pension Credits

The primary objective of this scheme is to deliver assured pension benefits through an innovative pension market innovation called **"Pension Credit",** which may be defined as a notional financial unit within the NPS framework that guarantees a fixed monthly pension payout of Rs. 100 for a specified period post-maturity, priced based on the present value of future cashflows. Thus, a Pension Credit (alternately called Credits) ensures predictable retirement income by aligning contributions with a target pension amount through goal-based investing.

The present proposal of Pension Credits builds on the concept of Goal-based investing, where subscribers target a specific pension income. Thus, the Credits are tightly integrated with the behavioural finance framework, enabling subscribers to plan contributions directly linked to a target pension amount, improving financial literacy, contribution persistency and engagement. In the first phase, this consultation paper proposes the introduction of "Pension Credits", a system where individuals can lock in future pension entitlements today. The proposal focuses on three key areas to improve the pension system-

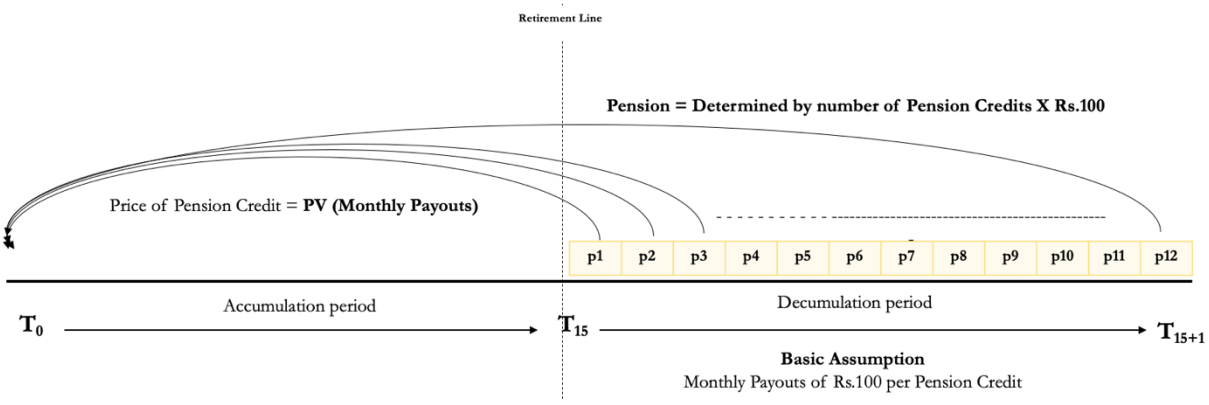
a) ensuring a predictable income for retirees,

b) making benefits easy to understand,

c) providing clear information about future pension entitlements.

Each Credit shall have a fixed terminal value equivalent to Rs. 100 worth of pension payout per month for a fixed period of time. For example, , to achieve a 1 lakh rupees/ month target pension, the subscriber would need to have purchased 1,000 Pension Credits during his accumulation phase.

The price of each Credit today is the Present Value (PV) of these monthly cashflows of Rs. 100, discounted at a long-term rate of return as per the Pension Fund's projection. This rate shall be representative of the rate of return of investment during the accumulation phase arrived at using the internal expertise and actuarial evaluation basis the investment philosophy of the scheme by the respective PFs. Based on how early or late the subscriber purchases these Credits throughout his accumulation phase, will variate the price of the Pension Credit as per the Present Value of these cash flows on that specific day. The following figure represents the accumulation and decumulation phase to arrive at the price of a Pension Credit of a 12 month payout phase.



Since the subscriber has complete visibility on his cashflows during his retirement phase, he has to focus only on accumulating the required number of credits through his accumulation phase to achieve the target pension and not worry about the daily mark-to-market fluctuation in his portfolio value.

a. Key Features

Introduces "Pension Credits," where each credit guarantees Rs. 100 per month post-maturity for a fixed period (e.g., 1, 3, or 5 years).
Requires subscribers to provide inputs on the year of retirement, target pension amount and scheme choice (Aggressive: 75% equity; Moderate: 50% equity; Conservative: 25% equity; Debt-Focused: mix of Corporate Bonds and Government Securities).
Prices credits based on the Present Value (PV) of monthly payouts, discounted at a projected long-term rate of return; pricing varies by purchase timing and includes Performance Levered Price (PLP) and Risk-Adjusted Price adjustments.
Limits accumulation to a maximum of 15 years and decumulation to 1–5 years; credits are managed through pool schemes using HTM or mark-to market accounting, with no NAV or units allocated to subscribers.
Allows pension funds to issue credits for up to 20 maturity periods (e.g., CY2030–CY2050), with each credit maturing in a specific calendar year to commence payouts in January of the following year.
Proposes a potential secondary market for trading pension credits to enhance flexibility and accessibility. For the said purpose, the following standard nomenclature for Pension Credits issued by a PF can be followed- **[PF Name].[Year of Maturity].[Scheme- A (Aggressive); M (Moderate); C (Conservative); D (Debt focused)].[Post maturity payout period].** Thus, a Pension Credit issued by PF1 for a 2040, 5 year payout, investing in Aggressive scheme can be named as- **PF1.40.A.5**; a Pension Credit issued by PF2 for a 2040, 3 year payout investing in Conservative scheme can be named as- **PF2.40.C.3** and a Pension Credit issued by PF3 for a 2040, 1 year payout investing in Debt focused scheme can be named as- **PF3.40.D.1.**

The Pension Credit system is designed to align with subscribers' retirement goals (buyers) as also, offering the pension funds (issuers) operational, financial and strategic advantages.

The benefits may be summarised as follows-

Entity	Benefit
Buyers (Subscribers)	Predictable retirement income
	Simplified goal-based investing
	Enhanced engagement and persistency
	Insulation from market volatility
	Flexible accumulation options
	Tradability of instrument; Secondary market participation

	Improved financial inclusion
Issuers (Pension Funds)	Innovative product offering
	Flexible asset allocation and pricing
	Operational efficiency via pool schemes
	Incentive to outperform
	Enhanced subscriber engagement

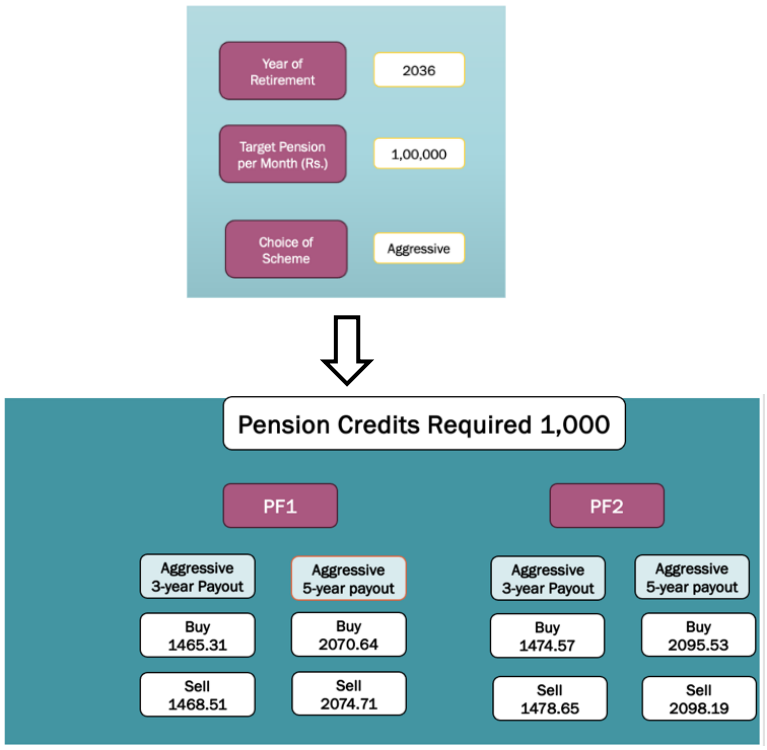
b. Accumulation and Decumulation Phases

The accumulation period as well as decumulation periods are proposed to be kept short in order to minimize the risks involved in price evaluations for longer tenures basis variations in projections of interest rates/long term rate of return, reinvestment risk, liquidity and availability of marketable securities, etc.

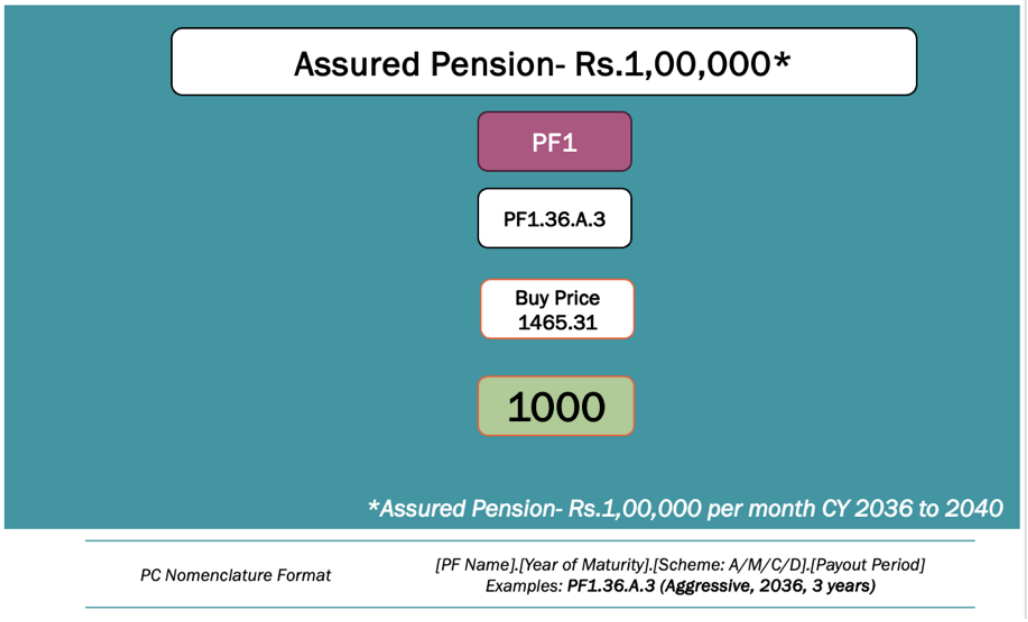
The overall simplicity of the Pension Credit's purchase and allotment process can be encapsulated into 3 small steps-

- Subscriber Inputs
  - Input variables- Year of Retirement (Starting payout year)
  - Desired Target pension per month
  - Choice of Scheme- Aggressive, Moderate, Conservative, Debt-Focused
- Selection
  - Selection of PF as per Credit price list (per PF) from selection screen
- Allotment of Pension Credits

The following figure captures the 3-step Pension Credit buying process for a subscriber-



Contd.



- Accumulation: Subscribers accumulate Pension Credits by purchasing them at a price determined by the Present Value (PNP) of Rs. 100 monthly payouts, discounted at a projected long-term rate of return (e.g., 8%). The period of accumulation for the scheme may be up to 15 years. The price is adjusted to a Performance Levered Price (PLP) based on past performance and a Risk-Adjusted Price incorporating a risk premium (e.g., 10% for Aggressive schemes). These mechanisms are discussed in detail further. Investments align with the chosen scheme (Aggressive, Moderate, Conservative, or Debt-Focused), leveraging NPS asset classes.

  At any moment of time, the subscriber of a Pension Credit would have a clear idea about the Credits in his account, the maturity date of his Credits and the Pension receivable per month.

  The sample SOT for such a subscriber may be as follows. The following SOT further shows that with additional purchases of Credits for the forthcoming periods i.e. 2037 onwards, the subscriber can achieve higher assured desired pension. The total pension received shall be the sum of cashflows from all maturing Pension Credits, based on their predefined period of pension payout.

PRAN – 4315XXXX1002

Calendar Year (CY)	Assured Pension in CY	Pension Credits maturing in CY
2036	Rs.1,00,000	1,000
2037	Rs.1,10,000	1,100
2038	Rs.1,20,000	1,200
2039	Rs.1,50,000	1,500
2040	Rs.1,70,000	1,700

- Decumulation: Upon maturity (e.g., January following the maturity year), each Pension Credit provides Rs. 100 monthly payouts for a specified period (1–5 years). Pool schemes manage assets, focusing on reducing downside risk through effective Asset Liability Management. Subscribers are insulated from daily MTM fluctuations of pension wealth, as terminal cashflows are assured , enhancing predictability.

c. Functional aspects

Pension funds shall have freedom in regards to deciding the asset allocation of the scheme/product which shall govern the rate of return on investment which in turn shall govern the present value of one Pension Credit on a given day.

The pension credits will be issued through pool schemes managed by the pension funds. The scheme may follow a Held to Maturity accounting framework or may even follow a mark to market accounting framework. However, there shall be no NAV or units allocated to the end subscriber. This may provide better visibility on assets and liability. The PFs can have different investment strategies for different schemes based on the different functionality while aiming to reduce downside risk and have effective Asset Liability management.

The year in which the Pension Credit finishes its accumulation phase shall be called as the "Year of Maturity" for that Pension Credit. i.e., A Pension Credit maturing in CY2030 shall commence pension payout to the holder from January 2031. The Pension Fund may issue pension credits that mature for future Calendar Years in steps of 1 calendar year each. For example, the Pension Fund may issue Pension Credits with Maturities in CY2030, CY2031, CY2032 and so on. Each tranche of Pension Credits for each type of investment choice(Aggressive/Moderate/ Conservative/Debt-Focused etc.) may be managed as an independent pool scheme.

At a given time, it is proposed that a PF may issue Pension Credits for a maximum of 20 maturity periods. For example, a Pension Fund chose to launch Pension credits and the first of the lot matures at the end of CY2030. Thus, the PF may launch Pension Credits with yearly maturities, the last of which shall mature in CY2050.

On maturity, the Pension credit may provide monthly pension payouts for various periodicities such as 1 year, 3 years, 5 years, etc. For example, a PF may choose to launch a Debt Focused Pension Credit which matures in 2030 and pays monthly payout for a period of 5 years.

It is proposed that Pension Funds may have freedom of deciding allocation to the following asset classes such as:

- Government Securities and Related Investments/Asset Class G
- Debt and Related Investment/Asset Class C
- Equity & Related Investments/Asset Class E
- Alternative Asset Class/Asset Class A
- Short-term debt and related Investments
- Any other as the Authority may permit in the future.

However, guidance shall be provided by the Authority on the permissible Investment Universe, credit rating requirements, types of permissible instruments under these asset classes as it is done under NPS.

d. Risk Management and Sustainability

As the pension funds have to provide the Target Pension to the subscriber, there needs to be an effective risk management framework to ensure resilience of the pool investments.

Due to changing macro-economic environment and interest rate scenarios in the economy, there might be changes in the achieved return versus the projected long-term rate of returns used to initially price the Pension Credit. For example, in a scenario where the general interest rates in the economy go down, so will the long-term rate of return. Thus, the rate which shall be used to discount the Rs. 100/month pension cashflows to arrive at Present Value shall go down as well.

This in turn shall increase the Price of 1 Pension Credit to achieve this monthly pension. In the case where interest rates go up, the PV of pension payouts will go down thus decreasing the Price of 1 Pension Credit. In either scenario, the price paid today to achieve the same pension wealth in the future will change.

Apart from this, for schemes with equity exposure, periods of underperformance and sidewards markets may impact the pool's ability to generate desired returns to achieve the target corpus. Thus, in order to allow pension funds to safeguard themselves against the above-mentioned risks, two features viz. performance levering and risk premium may be introduced.

To address the same, the proposal of Pension Credits will have the provisions of Performance Levering and Risk Premium.

Performance Levering

The "Performance Neutral Price (PNP)" of 1 Pension credit is the price of 1 Pension Credit assuming that the pension fund delivers the assumed long-term rate of return. Periods of underperformance and sidewards markets may impact the pool's ability to generate desired returns to achieve the target corpus. The Present Value of the monthly payouts on any given day are dependent on the future rate of return of investments made today. Pricing a Pension Credit purely using the Present Value method assumes an ideal scenario and does not factor in the variance of performance of the scheme. The liability for the scheme is fixed because of the assurance to pay monthly payouts of Rs. 100 per pension credit, however, underperformance of the scheme may leave the scheme underfunded to cover these future liabilities.

On the contrary, outperformance may create surplus over the PV of the future liabilities. Thus, the price of a pension credit needs to be levered upwards to account for past under-performance and levered downward for past out-performance for purchase of subsequent Pension Credits. This levering can happen on a continuous (daily) basis to arrive at the "Performance Levered Price (PLP)" of a Pension Credit.

The Performance Levering Mechanism shall apply for the issuance of fresh Pension Credits only. The paper further discusses the possibility of the creation of a secondary market for the buying and selling of Pension Credits. The price at which a particular Pension Credit trades in the secondary market may be determined organically through supply and demand via order-matching based price discovery mechanism.

Risk Premium

As stated above, periods of underperformance and sidewards markets may impact the pool's ability to generate desired returns to achieve the target corpus. Primarily, the pension fund may price in a risk premium into the Present Value of a Pension Credit by using a conservative rate assumption. Secondly, the pension fund may collect an additional risk premium as a percentage of the Performance Levered Price of 1 credit relative to the risk exposure of the Pool scheme of choice.

Thus, if the risk premium for an aggressive scheme is set at 10%, then on any given day, the price of 1 credit shall be equivalent to:

$$Risk\ Adjusted\ Price\ of\ 1\ Credit = 1.10\ X\ PLP$$

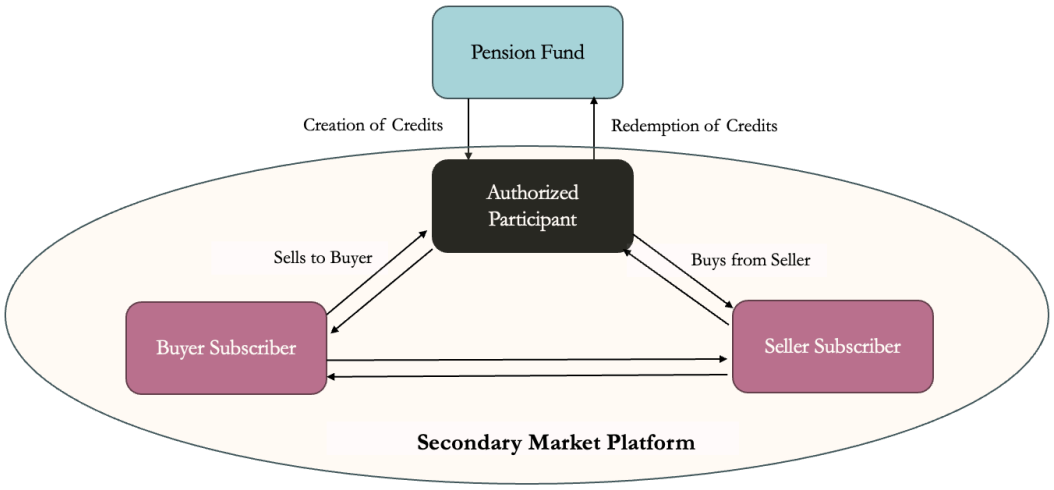
The performance levering mechanism acts as a performance linked risk buffer which ensures that post an underperformance, future credits are issued at higher price to maintain the funded status of credits issued in the past. The risk premium mechanism is an investment philosophy linked risk buffer which ensures the credits are priced at a marginal premium directly proportional to the aggressiveness of the Investment strategy.

The detailed illustration, calculations and pricing methodology along with illustrations are discussed at **Annexure A.**

e. Subscriber Protection Mechanisms

Particulars	**Details**
Transparency and Dashboard	Subscribers will have real-time access to dashboards showing Pension Credits held and the subsequent pension amounts thereby reducing behavioural risk. With the direct congruence of Credits and the terminal price of Rs.100 per Pension Credit, the subscriber would have a clear view of the pension he/she will receive in a particular calendar year (CY) and how much more he/she has to buy to meet his/her desired pension target.
Portability and Choice	Subscribers can diversify their exposures by purchasing credits from multiple PFs for different investment choices.
Withdrawal Rules	Ease of liquidation and tradability of the Pension Credits in the secondary market would assure that subscribers retain monetary flexibility.
Communication	Clear disclosures/disclaimers, subscriber statements explain all risks, assurances, revaluation and risk-premium related provisions.

f. The Way Forward- Development of a Regulated Secondary Market



- The simplification of tracking one's pension journey towards a self-decided target pension may help improve pension coverage, social protection and overall financial inclusion.
- With the creation of Year-wise Tranches of Pension Credits which mature in each Calendar Year, we create a uniform pension product. The uniform nature of this pension product makes it "bearer neutral", i.e. whoever bears the Pension Credit shall receive the cashflows post maturity.
- In such a scenario, there exists a possibility for the creation of a **"Secondary market"** for buying and selling of Pension Credits. This secondary market may be an independent platform in the NPS architecture or may be a part of the existing secondary market infrastructure for retail participants.
- The Pension funds may act as managers of Pension Credits and empanel Authorized Participants to act as Market Makers. The setting up of the market infrastructure and managing the secondary market platform can be deliberated upon.
- The Market Makers may create/redeem Pension Credits and minimize the arbitrage gap in order to keep the Pension Credit trading around its Risk Adjusted Price as published by the Pension Fund.
- Individual subscribers may buy/sell pension credits on this platform. This will help diversify the source of the pension payout while trying to acquire the same at the lowest Risk Adjusted Price.
- A pension fund which prices its Pension Credit on the lower side (using a higher longer-term rate of return) and also performs well in the interim will have the price of its Pension Credit levered downwards making it more attractive to the subscribers and inviting further investment in its Pension Credits.
- This mechanism incentivizes Pension Funds to outperform its own projection as well as other Pension Funds on a consistent basis. As inconsistency of performance may lead its Pension Credit to be relatively cheaper in one period but expensive in another.
- All of these factors may define how further away the subscriber's price their Pension Credits from the declared Risk Adjusted Price on the secondary market platform thus impacting the width of the arbitrage gap.

j. Implementation and Regulatory Consideration

Pension funds determine asset allocation and daily pricing (PNP, PLP, Risk-Adjusted Price) for Pension Credits, managing pool schemes to deliver assured payouts. Subscribers purchase credits via a platform, with a potential secondary market involving Authorized Participants as Market Makers and a central counterparty (CCP) to minimize arbitrage gaps. PFRDA oversight ensures compliance with guidelines on permissible assets, credit ratings and risk management frameworks.

Annexure A

Pension Credits- Indicative Calculation Methodology

Step1- The Pension Fund may calculate the Price of a Pension Credit today by summing up the value of the monthly pension payouts post maturity for w periods discounted back to the valuation date. The below illustration ignores complexities such as different spot rates for simplicity of representation. However, the Pension funds may utilize its internal expertise to account for interest rate/periodic return variations based on their view of the markets and the economy in general. We represent this as the Performance Neutral Price (PNP) of a Pension Credit.

$$Performance\ Neutral\ Price\ (PNP) = \sum_{t=1}^{w} \frac{100}{(1+r)^t}$$

Step 2- Pension Fund basis the performance of the scheme in the immediate previous period, shall adjust the PNP to arrive at the Performance Levered Price of 1 Pension Credit on that specific day as follows:

$$PLP\ of\ 1\ Pension\ Credit\ today = \ PNP\ today\ \times \frac{(1+R_t)}{(1+r_t)}$$

Where,

R_t
$= Assumed\ long\ term\ annual\ rate\ of\ return\ brought\ down\ to\ t\ compounding\ periods.$

$$t = can\ be\ daily, weekly, monthly, etc$$

$$r_t\ = Actual\ performance\ of\ the\ scheme\ in\ the\ past\ period\ t.$$

Step 3- Pension Fund basis the perceived risk of the underlying investment philosophy of the investment choice, may add a risk premium over and above the PLP of 1 Pension credit arrived at in Step 2. The price thus arrived at shall be the Risk-adjusted Price of 1 Pension Credit today as follows:

$$Risk\ adjusted\ Price\ of\ \ 1\ Pension\ Credit = PLP\ X\ (1 + \%Risk\ Premium)$$

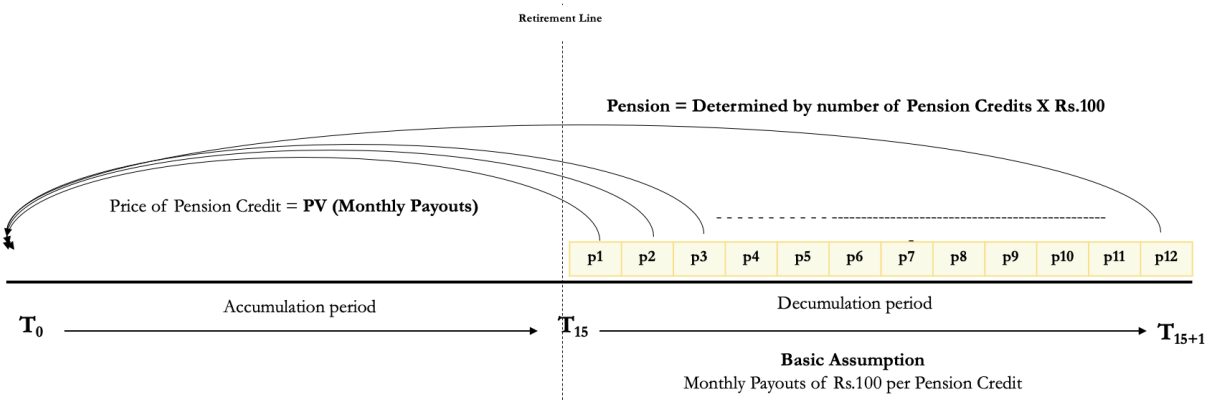


Figure-Accumulation and decumulation phase to arrive at the price of a Pension Credit.

Note: The subscriber may purchase the required credits throughout his accumulation phase, however the PV (Price) of each credit may change based on how close it is being bought to superannuation.

Illustration-

To provide an illustration let's assume the following scenario:

Subscriber inputs on 31-01-2026:

- Year of retirement: 2031
- Target pension on retirement: Rs.1,00,000/-
- Choice of scheme: Aggressive

As the purchase of 1 Pension Credit provides Rs. 100/month on maturity, the subscriber needs to buy 1000 units in his accumulation phase.

- R = The projected long-term rate of return used as discount rate: 8% p.a.
- V =Accumulation period of 5 years.
- ω =Decumulation period of 1 year.
- Investment Choice: Aggressive
- Risk Premium = 10%

Thus, the Pension Credit shall mature in CY2030 and commence pension payout of Rs. 100/month from January 2031 for a period of 1 calendar year. Using the long-term discount rate of 8% p.a. we can arrive at the Performance Neutral Price (PNP) on 31-01-2026:

$$Performance\ Neutral\ Price\ (PNP) = \sum_{t=1}^{w} \frac{100}{(1+8\%)^t} = Rs.788.65$$

The cashflows start from January 2031 only, up to which there are 0 cashflows.

Let us compute the Fair Value of 1 Pension Credit on 28-02-2026:

$$t = 1\ month$$

$$R_t = 0.64\%$$

Thus, the Performance Neutral Price (PNP) at t is computed as follows:

$$PNP_t = PNP_0 \times (1 + R_t)$$

$$PNP_t = 788.65 \times (1 + 0.64\%) = Rs.793.32$$

Scenario 1: Scheme generates a return of 0.25% in the month of February 2026.

$$r_t = 0.25\%$$

The Performance Levered Price (PLP) at t is computed as follows:

$$PLP_t = PNP_t \times \frac{(1+R_t)}{(1+r_t)}$$

$$PLP_t = 793.32 \times \frac{(1+0.64\%)}{(1+0.25\%)} = Rs.796.43$$

The Risk Adjusted Price at t is computed as follows:

$$Risk\ Adjusted\ Price_t = PLP_t \times (1 + R_p)$$

$$Risk\ Adjusted\ Price_t = 796.43 \times (1 + 10\%) = Rs.876.08$$

Scenario 2: Scheme generates a return of 1% in the month of February 2026.

$$r_t = 1\%$$

The Performance Levered Price (PLP) at t is computed as follows:

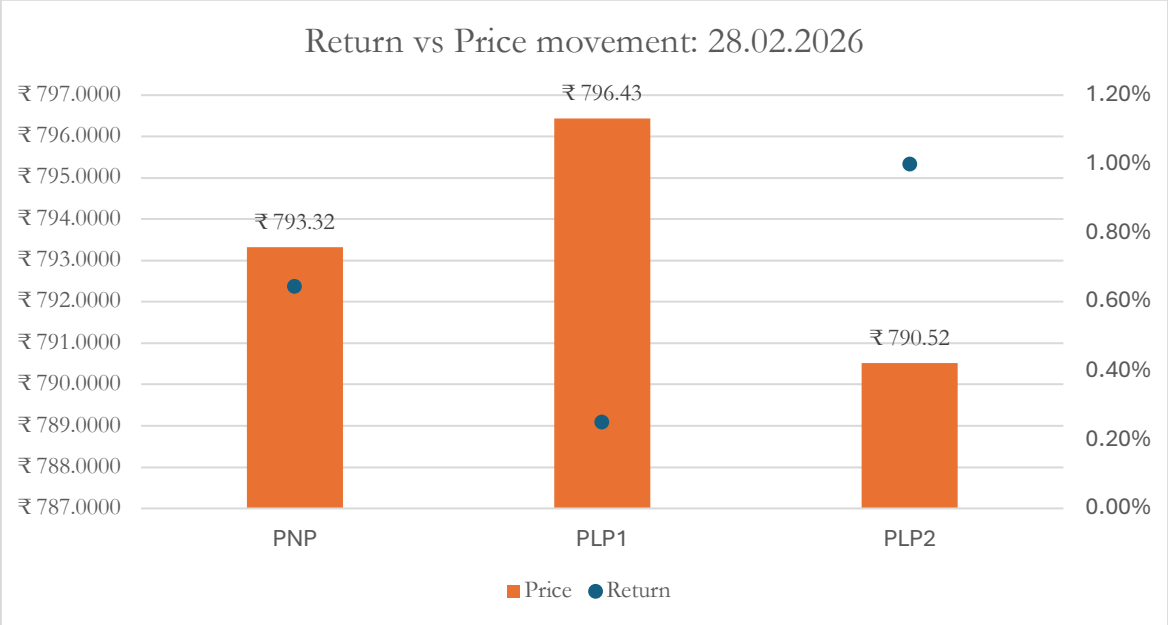
$$PLP_t = PNP_t \times \frac{(1 + R_t)}{(1 + r_t)}$$

$$PLP_t = 793.32 \times \frac{(1 + 0.64\%)}{(1 + 1\%)} = Rs.790.52$$

The Risk Adjusted Price at t is computed as follows:

$$Risk\ Adjusted\ Price_t = PLP_t \times (1 + R_p)$$

$$Risk\ Adjusted\ Price_t = 790.52 \times (1 + 10\%) = Rs.869.57$$

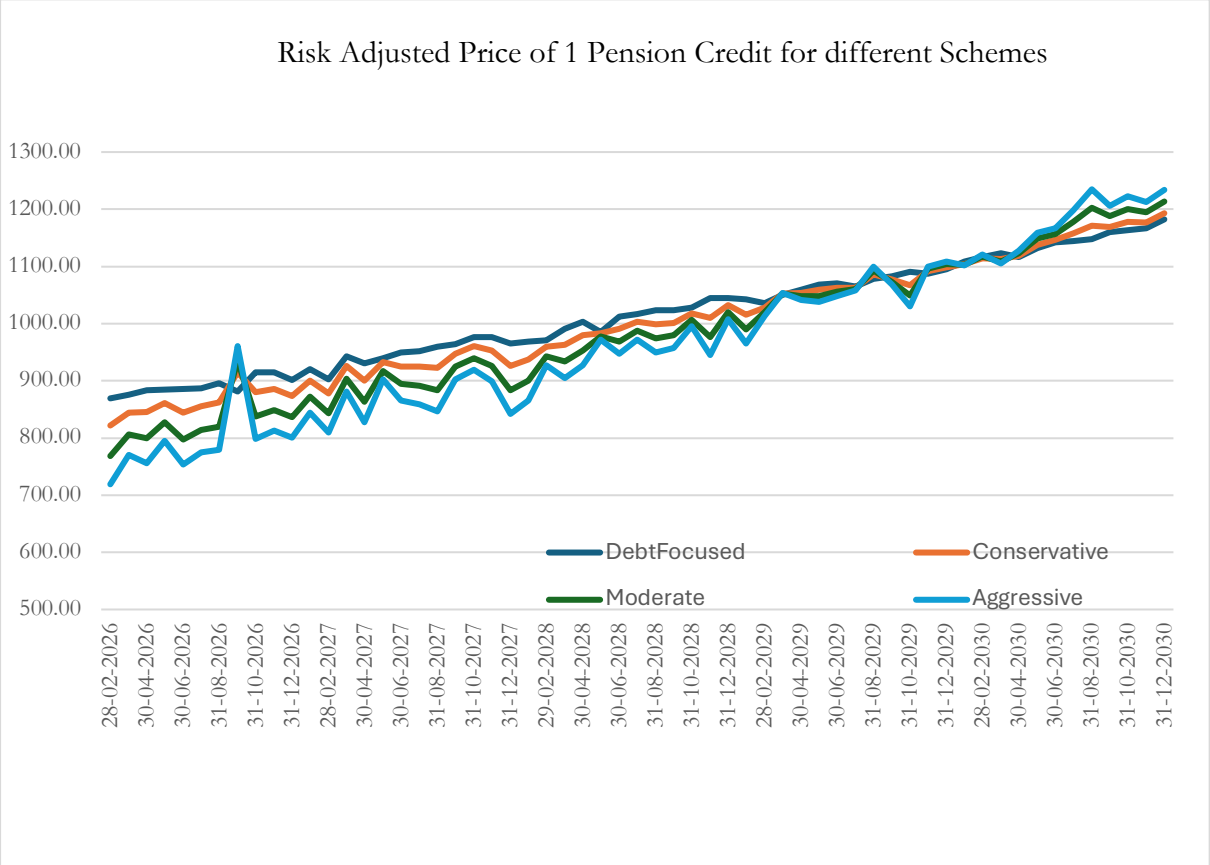


Let's assume a random scenario of historic returns arrived at using the NPS NAV values for asset classes E, C and G of a random PF. We arrive at the PNP, PLP and Risk-adjusted Price of 1 Pension Credit under 4 types of Investment choices with the following indicative asset allocation and risk premium:

Investment Choice	E	C	G	Risk Premium
Conservative	25%	40%	35%	2.5%

Moderate	50%	25%	25%	5%
Aggressive	75%	10%	15%	10%
Debt focused	0%	25%	75%	1%

Then, the change in monthly Risk-Adjusted Prices of Pension Credits for different Investment Choices can be observed from the graph below:



The long-term performance of higher equity allocation is generally said to be higher than debt focused allocation. Thus, in an ideal scenario the price of aggressive scheme's Pension Credit should always trade below the price of the Debt focused pension credit as the discount rate shall be higher for higher equity allocation.

The graph above denotes a scenario where the price of Pension credits is being denoted for a subscriber from 31-01-2026 which is assumed to be the date of initiation of investment in our example. As observed, at the start of his journey, the price Pension Credit of Aggressive Scheme is lower than that of price of Debt Focused Pension Credit. However, as a subscriber progresses further in his investment journey, due to previous performance of his investment choice, the Risk Adjusted Price for subscriber varies over time relative to the investment choice.

As observed from the graph above, there exists higher volatility with higher equity allocation. The variation in the price of a Pension Credit is directly proportional to the amount of equity allocation. This is being factored in using the Performance levering mechanism as well as the risk premium which has bumped up the price of Pension Credit of Aggressive scheme above the price of debt focused Pension Credit in multiple periods.