# HOW **AMERICA** SAVES **2020**: THE CARES ACT

An update on distribution activity and its impact

Vanguard®

# Executive summary

The Coronavirus Aid, Relief, and Economic Security (CARES) Act gives retirement savers added flexibility to access their 401(k) savings. This report looks at how participants have responded, tying it directly to *How America Saves*, the industry's definitive look at Americans' retirement saving habits. As we consider how dramatically COVID-19 has affected the first half of 2020, we feel it's imperative to offer such additional perspectives.

- Of the participants offered the option, 1.9% withdrew assets from their retirement plan through CARES Act provisions through May 31, 2020.
- The median distribution amount was $10,413, and participants withdrew, on average, 60% of their account balance.
- Accessing retirement plan assets early may lead to a shortfall at retirement; however, simple steps in the future can help impacted participants recover.

## Introduction

In March 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law. This wide-ranging law included provisions intended to support the health care system's fight against the coronavirus, as well as directed payments to individuals, expanded unemployment insurance, provided loans to small and large businesses, and offered support for state and local governments. The overall size of this stimulus was about $2 trillion—the largest economic relief effort in American history.

Incorporated within the bill are several provisions that provide flexibility for retirement savers, including coronavirus-related distributions (CRDs). Individuals impacted by the coronavirus[1] are able to withdraw up to $100,000 from their retirement plan penalty-free until December 31, 2020. In addition, the income tax due on these distributions is allowed to be spread over a three-year period, and investors have three years to return the funds to their account.

## CARES Act adoption

Immediately following the bill's passage, Vanguard reached out to discuss the provisions with plan sponsors and provided a form to elect which options they wanted to implement in their plan.

As of May 31, 65% of plan sponsors had returned their completed form. Of those, 99% indicated they are permitting their participants to access retirement funds if needed (**Figure 1**). Of plans allowing access, 83% are extending this option to both active and former employees who still maintain a balance in the plan.

A CRD was initiated by 1.9% of participants offered the option. Of those participants, 91% took one distribution, while 9% initiated multiple distributions over the two months. The average participant distribution was $20,690; the median was $10,413.

**Figure 1.** Plan and participant adoption as of May 31, 2020

| Plan adoption | |
|---|---|
| Percentage of plans that confirmed an election | 65% |
| Percentage of plans that positively elected to offer CRDs | 99% |
| *Number of plans permitting CRDs* | 1,142 |
| Number of plans permitting CRDs to all participants | 943 |
| Number of plans permitting CRDs to active participants only | 199 |
| **Participant adoption** | |
| Number of participants offered | 4,152,347 |
| Total CRDs initiated | 86,373 |
| *Total participants initiating CRDs* | 78,308 |
| 1 CRD | 71,346 |
| 2 CRDs | 6,076 |
| 3+ CRDs | 886 |
| Active participants | 74,287 |
| Participants no longer employed with firm | 4,021 |
| Participant adoption rate | 1.9% |
| Average participant distribution amount | $20,690 |
| Median participant distribution amount | $10,413 |

Source: Vanguard 2020.

[1] An "affected individual" is defined by the CARES Act as someone: (1) who is diagnosed with COVID-19 by a CDC-approved test, (2) whose spouse or dependent is diagnosed with COVID-19 by a CDC-approved test, or (3) who experiences adverse financial consequences due to quarantine, being furloughed or laid off, or having work hours reduced due to such virus; being unable to work due to lack of child care due to such virus; closing or reducing hours of a business owned or operated by the individual due to such virus; or other factors as determined by the Secretary of Treasury.

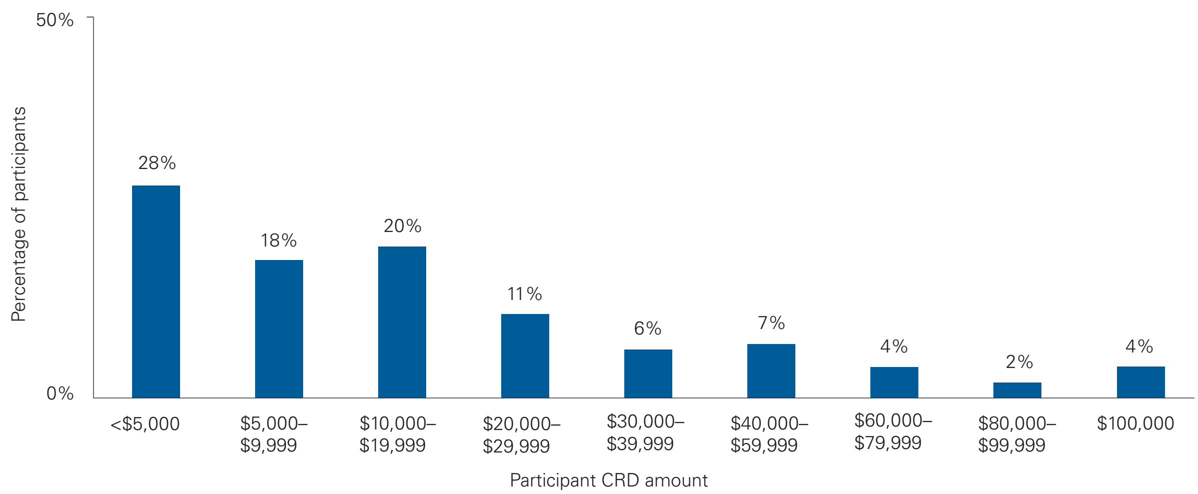
## Distribution amounts

Participants are allowed to withdraw up to $100,000 under the CARES Act until December 31, 2020. Nearly 3 in 10 distributions were for less than $5,000, and two-thirds of all withdrawals were for less than $20,000, as of May 31 (Figure 2).

Withdrawals of more than $30,000 were less common, and only 4% of participants initiated a maximum CRD of $100,000.

**Figure 2.** Distribution of participant CRD amounts

*Participants initiating a CRD through May 31, 2020*



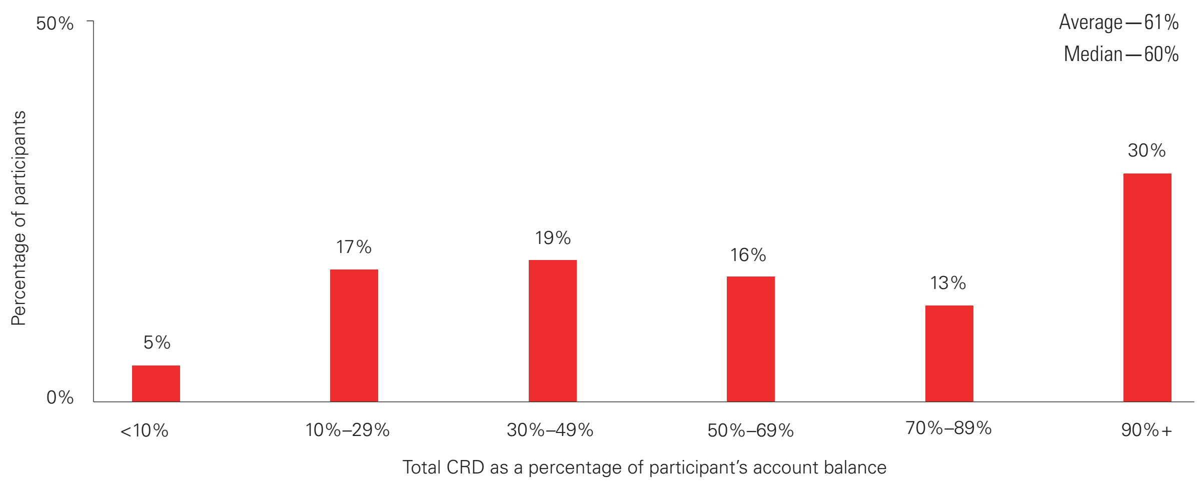

Source: Vanguard 2020.

When examining the distributions based on the percentage of a participant's balance (as of March 2020), the average distribution represented 61% of a participant's total balance (Figure 3). Three in 10 participants initiating a CRD withdrew 90% or more of their account balance, whereas 4 in 10 participants withdrew less than one-half of their balance.

However, participants who accessed a higher proportion of their account balance did not typically take larger distributions. When segmenting participants who initiated a distribution by the percentage of their account balance, the median distribution was between $10,000 and $12,000 for all segments where participants accessed at least 10% of their plan assets (Figure 4). Participants accessing a higher percentage of their account balance tended to have lower balances, were younger, and had less tenure and lower income when compared with those accessing a smaller percentage of their account balance.

**Figure 3.** Distribution of CRDs as a percentage of a participant's account balance

*Participants initiating a CRD through May 31, 2020*




Source: Vanguard 2020.

**Figure 4.** Distribution of CRDs as a percentage of a participant's account balance

*Participants initiating a CRD through May 31, 2020*

| | Total CRD as a percentage of participant's account balance | | | | | | |
|---|---|---|---|---|---|---|---|
| | <10% | 10%–29% | 30%–49% | 50%–69% | 70%–89% | 90%+ | Total |
| Median balance (March 2020) | $91,040 | $54,629 | $28,463 | $16,870 | $13,266 | $9,924 | $20,031 |
| Median CRD amount | $5,267 | $11,000 | $12,000 | $10,210 | $11,068 | $10,632 | $10,413 |
| Median age | 50.9 | 47.6 | 44.4 | 42.3 | 41.3 | 41.2 | 43.6 |
| Median tenure | 17.0 | 14.0 | 9.0 | 6.0 | 6.0 | 6.0 | 8.0 |
| Median compensation | $70,738 | $67,247 | $63,014 | $59,804 | $60,968 | $58,854 | $62,063 |

Source: Vanguard 2020.

## Adoption rates by participant demographics

Participant adoption rates varied by demographics. Participants between the ages of 45 and 54 were the most likely to initiate a CRD, whereas younger and older participants were less likely (Figure 5). Participants with an income between $50,000 and $74,999 were more likely to request a CRD, and participants with lower and higher incomes were less likely. And participants with an account balance between $10,000 and $49,999 were more likely to request a CRD when compared with participants with larger account balances.

When examining adoption by industry, 4.3% of participants in the transportation, utilities, and communications sector initiated a withdrawal, as well as 2.8% of participants in the agricultural, mining, construction, and manufacturing industries (Figure 5). Participants in the business, professional, and nonprofit sector were the least likely to access their plan assets.

**Figure 5.** Participant adoption by demographics

*Percentage of participants initiating a CRD through May 31, 2020*

| | |
|---|---|
| All | 1.9% |
| **Income** | |
| <$15,000 | 1.5% |
| $15,000–$29,999 | 2.9 |
| $30,000–$49,999 | 3.7 |
| $50,000–$74,999 | 4.1 |
| $75,000–$99,999 | 3.7 |
| $100,000–$149,999 | 2.4 |
| $150,000+ | 1.0 |
| **Age** | |
| <25 | 0.9% |
| 25–34 | 1.7 |
| 35–44 | 2.3 |
| 45–54 | 2.5 |
| 55–64 | 1.3 |
| 65+ | 0.2 |
| **Job tenure (years)** | |
| 0–1 | 0.9% |
| 2–3 | 2.1 |
| 4–6 | 2.8 |
| 7–9 | 2.9 |
| 10+ | 3.0 |
| **Account balance** | |
| <$10,000 | 1.8% |
| $10,000–$24,999 | 2.6 |
| $25,000–$49,999 | 2.4 |
| $50,000–$99,999 | 2.0 |
| $100,000–$249,999 | 1.5 |
| $250,000+ | 0.6 |
| **Industry** | |
| Transportation, utilities, and communications | 4.3% |
| Agriculture, mining, and construction | 2.8 |
| Manufacturing | 2.8 |
| Education and health | 1.3 |
| Wholesale and retail trade | 1.2 |
| Finance, insurance, and real estate | 1.2 |
| Media, entertainment, and leisure | 0.9 |
| Business, professional, and nonprofit | 0.6 |

Source: Vanguard 2020.

## Plan design

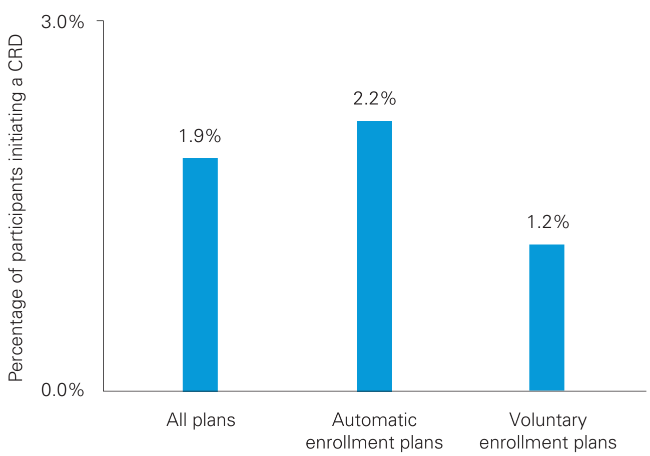
As of year-end 2019, 50% of all plans automatically enrolled their employees.[2] And as larger plans are more likely to implement this plan design, two-thirds of all participants were in plans that feature an automatic enrollment design. When segmenting the participants by plan design, 2.2% of participants in automatic enrollment plans initiated a CRD, compared with 1.2% in voluntary enrollment plans (Figure 6).

Automatic enrollment is a proven plan design feature that improves employee saving and investment behaviors. However, it is important to note that as plans have increasingly implemented automatic solutions in an effort to improve retirement outcomes, more employees now have an additional resource that may be accessed in times of emergency.

Accessing plan assets before retirement should be a last resort for participants. And while a small number have accessed their retirement savings, those participants, who may have faced a financial shock, are better off than those who do not have a retirement savings cushion during this period.

**Figure 6.** Participant adoption by plan design

*Percentage of participants initiating a CRD through May 31, 2020*




Source: Vanguard 2020.

[2] *How America Saves 2020*, Vanguard 2020.

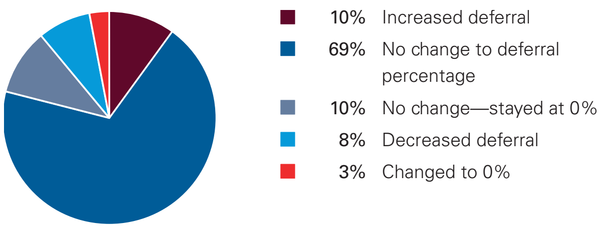
## Impact on deferral rates

Participants accessing their retirement savings were most likely faced with difficult financial situations, yet their overall saving behavior remained relatively stable. Examining the elected deferral percentages from the end of March through the end of May, nearly 80% of participants initiating a CRD either maintained or increased their deferral rate. Ten percent of participants increased their deferral rates, and one-half of these increases were due to annual automatic increases (Figure 7).

Additionally, 8% of participants decreased their deferral amount between the end of March and the end of May, and 3% completely turned off their deferral rate and opted not to defer. Ten percent of participants were not contributing as of the end of March and maintained this election through the two months.

**Figure 7.** Changes in saving behavior (March 31, 2020–May 31, 2020)

*Active participants initiating a CRD through May 31, 2020*




Source: Vanguard 2020.

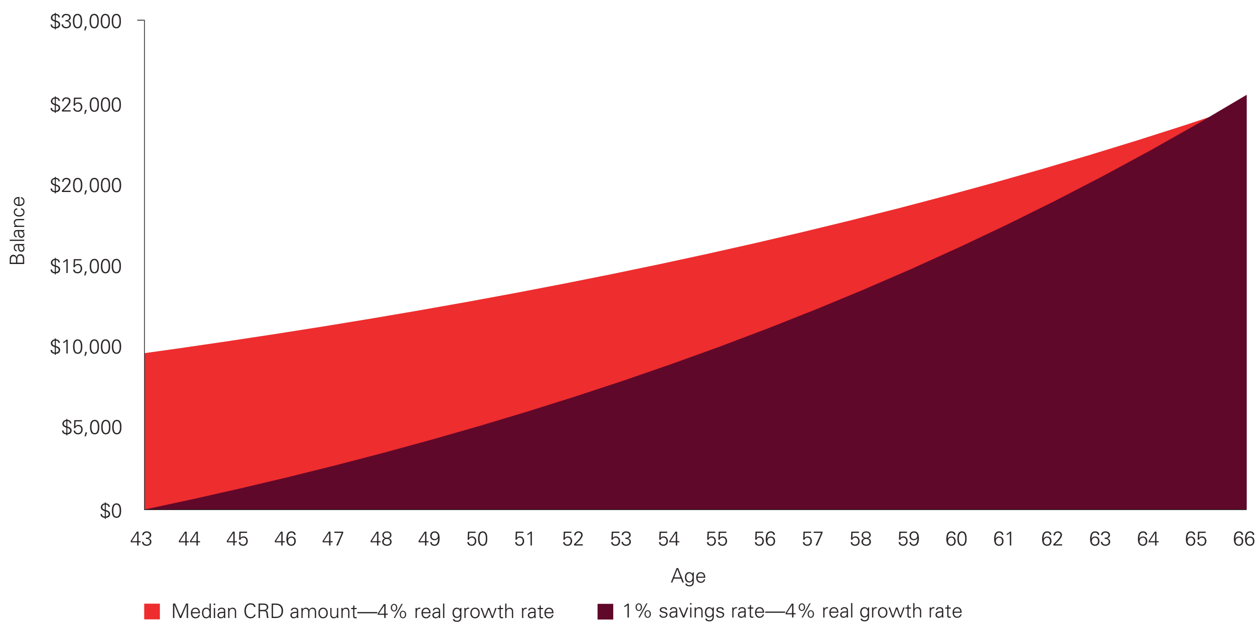
## Impact on retirement

Participants accessing their retirement assets early may experience a shortfall upon reaching retirement. As previously mentioned, the median distribution amount is $10,413, the median age is 43, and the median income is about $62,000. Assuming a real investment return of 4%, the median participant distribution would grow to approximately $25,000 over the next 24 years (Figure 8). For the typical participant, this would represent the future financial impact at retirement.

As affected participants consider how to close this shortfall, the savings increase they may need depends on various factors, including distribution amount, time left until retirement, and earnings. Based on the median amounts, or the typical participant, many could cover this potential shortfall simply by increasing their deferral rate by one percentage point. And while many participants may not be ready in the short term to increase their retirement savings contributions, it is important they recognize this shortfall and, when their financial situation improves, take the appropriate action.

In addition, as the economy stabilizes, plan sponsors may leverage various types of automatic solutions, such as automatic annual increases and undersaver sweeps, to help both participants who accessed their plan assets and those who did not.

**Figure 8.** Impact of CRDs on retirement




Source: Vanguard 2020.

Note: Comparison based on a starting age of 43, with compensation of $62,000. Returns are based on a 4% real return, and compensation is increased annually in both scenarios at a real rate of 1%. This hypothetical illustration does not represent the return on any particular investment, and the rate is not guaranteed. The final account balance does not reflect any taxes or penalties that may be due upon distribution. Withdrawals from a tax-deferred plan before age 59½ are subject to a 10% federal penalty tax unless an exception applies.

## Implications

The world has experienced unprecedented events the past several months. The CARES Act provides additional financial options for workers with retirement savings to navigate these events. While this added flexibility is no doubt helpful, it is also encouraging that the vast majority of participants have not accessed their retirement savings during this crisis and are "staying the course" in preparing for retirement.

And while less than 2% of participants have withdrawn assets, the typical participant accessed about $10,000 and should be able to recover from this early distribution with marginal increases to savings and plenty of time before retirement.

Automatic solutions continue to play an important role in retirement plans. In addition to the many savings and portfolio construction benefits of automatic enrollment, this plan design has also provided many participants with an additional source of emergency money. And as financial situations improve, automatic solutions can serve as an integral plan feature to help participants regain their footing on the road to a successful retirement.

## Methodology

This report is based on a universe of 1,142 qualified plans that elected to allow participants to initiate a CRD, representing 4.2 million participants for which Vanguard directly provides recordkeeping services. Unless otherwise noted, all references to "Vanguard" are to this universe, and all data is as of May 31, 2020. Compensation data is drawn from a subset of Vanguard recordkeeping clients for whom we perform nondiscrimination testing.

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