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Plan Sponsor Council of America
Part of the American Retirement Association

COVID-19 Impact on 401(k) Plans

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Executive Summary

Despite the turbulent economic conditions thus far in 2020, and speculation that, as a result, companies would stop making contributions to retirement plans, more than 90 percent still plan to make their retirement plan contributions this year, according to PSCA's most recent snapshot survey. And, though eight months into the pandemic we are beginning to see an uptick in plan loans and withdrawals, the majority of plan participants are also continuing to make retirement plan contributions. As things stand today, most responding companies still seem optimistic that the financial impact of the COVID-19 pandemic will be short-lived — though it bears noting that the economic impact varies widely by industry and by region.

Employer Response

Though most companies are not making changes to plan contributions this year, smaller organizations have clearly been more impacted by current conditions and are thus more likely to have suspended or reduced plan contributions — more than one-in-ten (11.5 percent) plans with fewer than 50 participants have made changes to the matching contribution — three times the number of organizations with 5,000 or more participants. (*See Exhibit 1.*)

Most organizations implemented at least one of the optional provisions of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, designed to help relieve the economic impact felt by participants as a result of the COVID-19 pandemic. More than half the responding plans are allowing coronavirus-related distributions (CRDs), and nearly a third are allowing increased plan loan amounts. Half of plans are allowing participants to pause the paydown of existing loans that are due through December 1, 2020 and defer payments for up to a year, though this is significantly more common at large companies (73.3 percent of plans) versus smaller ones (23.1 percent).

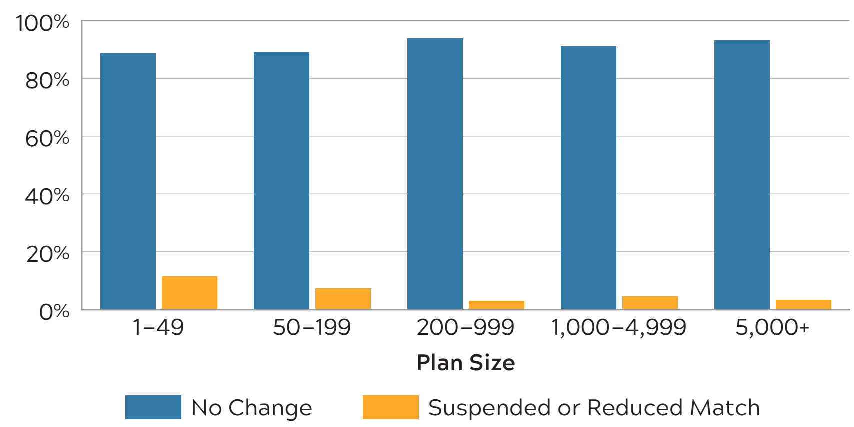
Most organizations (94.9 percent) are not considering any other plan design changes at this time, though more than half are providing education about the impact of plan loans and distributions on retirement savings to participants.

Participant Response

While thus far most responding organizations have still not noted an increase in plan loans or withdrawals, more are noting an increase now than in June, as the economic impact of the pandemic continues, and the Payroll Protection Program and unemployment benefits lapse. A quarter of plan sponsors now indicate an increase in plan loans, up from 13 percent five months ago, while nearly 40 percent of plans noted an increase in withdrawals. *(See Exhibit 2.)*

Among plans offering a CRD, a plurality (38.7 percent) still state that only an average of 1–5 percent of participants are availing themselves of that option, though more are doing so now than was the case in June. *(See Exhibit 3.)*

Exhibit 1: Changes to Employer Contributions as a Result of the COVID-19 Pandemic



Comparison With 2008–09 Financial Crisis

Comparisons with responses during the wake of the 2008 financial crisis are inevitable, and in some ways instructive. In hindsight, the impact of the financial crisis seemed more dramatic, and more targeted in its impact than the current pandemic, which many viewed, certainly at the outset, as being of a more limited duration. Moreover, the government assistance in recent months has been considerably broader-based than the "bailouts" that accompanied the efforts to reassure financial markets in 2008. Perhaps as a result, the response by employers in 2008 was more severe, and more sudden than the more measured response to the current pandemic. Indeed, a snapshot survey conducted by PSCA in 2009 found that four times as many employers moved to suspend matching contributions than have done so thus far in 2020, and more than a quarter of plans suspended or reduced non-matching contributions, compared to only 2.3 percent of plans so far this year. *(See Exhibit 4.)* Interestingly, larger employers were noticeably more likely to suspend contributions in the aftermath of the financial crisis, while the pattern has been just the opposite in the wake of the pandemic.

While not surprising, as a note of caution for the future, it is worth noting that in 2008 companies that suspended their matching contributions experienced a decrease in plan participation to a much greater degree (72.9 percent of companies) than those that did not change their matching contribution (14.4 percent of companies), as well as a decrease in participant deferral rates.

Exhibit 2: Changes in Plan Loan and Withdrawals Since the Onset of COVID-19

	Percentage of Plans	
Change	Loans	Withdrawals
None	58.1%	48.8%
Increase	25.6%	37.2%
Decrease	12.0%	9.3%
Unsure	4.3%	4.7%
	100.0%	100.0%

Exhibit 3: Percentage of Participants Taking a Coronavirus-Related Distribution, When Permitted

	Survey Date	
Percentage	November 2020	June 2020
None	18.4%	14.7%
Less than 1%	34.5%	10.7%
1–5%	37.9%	38.7%
6–10%	4.6%	14.7%
11–15%	0.0%	5.3%
16–20%	1.1%	0.0%
21–25%	1.1%	2.7%
More than 25%	0.0%	4.0%
Unsure	2.3%	9.3%
	99.9%	100.1%

Conclusion

Despite the economic strains of the COVID-19 pandemic, most organizations still remain committed to providing retirement plans and plan contributions for employees. That said, if only 10 percent of the roughly 600,000 employers that currently offer workplace retirement plans suspended or reduced their contributions, the long-term impact on retirement security would be significant. Fortunately, employers are appreciative of this impact. As one respondent noted, "We feel COVID will affect business for a small period of time. Good retirement plans for our employees is a forever need." What this means for 2021 and beyond remains to be seen.

Exhibit 4: Changes to Employer Contributions in 2008–2009 as a Result of Economic Conditions.

	Plan Size by Number of Participants					
Contribution Change	1–49	50–199	200–999	1,000–4,999	5,000+	All Plans
Suspend Matching Contributions	6.1%	11.3%	18.4%%	16.8%	16.0%	14.8%
Reduce Matching Contributions	0.0%	6.5%	6.6%	2.1%%	3.2%%	3.7%
Suspend or Reduce Non-Matching Contributions	26.1%	27.7%	28.0%	20.6%	34.0%	26.8%

Full Data Tables

Demographics

Table 1 | **Respondents by Number of Plan Participants**

	Respondent Breakdown	
Plan Size	**Number of Plans**	**Percentage of Plans**
1–49	26	18.7%
50–199	29	20.9%
200–999	32	23.0%
1,000–4,999	22	15.8%
5,000+	30	21.6%
	139	100.0%

Table 2 | **Respondents by Industry**

	Industry Breakdown	
Industry	**Number of Plans**	**Percentage of Plans**
Construction/Engineering	7	5.0%
Durable Goods Manufacturing	21	15.1%
Financial	23	16.5%
Healthcare	7	5.0%
Insurance/Real Estate	12	8.6%
Non-Durable Goods Manufacturing	5	3.6%
Non-Profit Organization	12	8.6%
Retail/Wholesale Distribution	10	7.2%
Services	13	9.4%
Technology or Telecommunications	8	5.8%
Transportation	3	2.2%
Utility or Energy	3	2.2%
Other	15	10.8%
	139	100.0%

Table 3 | **Types of Employer Contributions Provided as of January 1, 2020**

	Plan Size by Number of Participants					
Contribution Type	**1–49**	**50–199**	**200–999**	**1,000–4,999**	**5,000+**	**All Plans**
Matching Contribution — Guaranteed	60.0%	75.0%	75.0%	50.0%	69.8%	62.8%
Matching Contribution — Discretionary	56.0%	34.4%	34.4%	68.2%	44.2%	38.0%
Non-Matching Contribution — Guaranteed	20.0%	9.4%	9.4%	9.1%	18.6%	13.9%
Non-Matching Contribution — Discretionary	28.0%	12.5%	12.5%	27.3%	20.9%	22.6%
None	4.0%	3.1%	3.1%	0.0%	4.7%	2.2%

Employer Response to COVID-19

Table 4 | **Organizations Adopting the Optional Provisions of the CARES Act by Plan Size**

	Plan Size by Number of Participants					
Provision	**1–49**	**50–199**	**200–999**	**1,000–4,999**	**5,000+**	**All Plans**
Increase plan loan limit to the greater of $100,000 or 100% of the vested account.	19.2%	25.0%	34.4%	36.4%	40.0%	31.2%
Suspend loan payments due on or before December 31, 2020 and defer payments for up to one year.	23.1%	32.1%	62.5%	54.5%	73.3%	50.0%
Allow distributions until December 31, 2020 of the lesser of 100% of the vested account balance or $100,000.	34.6%	35.7%	50.0%	59.1%	90.0%	54.3%
Allow repayment of coronavirus-related distributions during the next three years.	23.1%	25.0%	46.9%	50.0%	76.7%	44.9%
Unsure	7.7%	7.1%	9.4%	9.1%	3.3%	7.2%
None	53.8%	42.9%	18.8%	13.6%	3.3%	26.1%

Table 5 | **Changes to Employer Contributions as a Result of the COVID-19 Pandemic**

	Plan Size by Number of Participants					
Contribution Change	**1–49**	**50–199**	**200–999**	**1,000–4,999**	**5,000+**	**All Plans**
None	88.5%	88.9%	93.8%	90.9%	93.1%	91.2%
Suspend Matching Contributions	7.7%	3.7%	0.0%	4.5%	3.4%	3.7%
Reduce Matching Contributions	3.8%	3.7%	3.1%	0.0%	0.0%	1.5%
Suspend Non-Matching Contributions	3.8%	3.7%	0.0%	0.0%	0.0%	0.7%
Reduce Non-Matching Contributions	0.0%	0.0%	0.0%	4.5%	3.4%	1.5%
Considering Changes	0.0%	0.0%	3.1%	0.0%	0.0%	0.7%

Table 6 | **Organizations Making Plan Design Changes as a Result of COVID-19**

	Plan Size by Number of Participants					
Changes Made	**1–49**	**50–199**	**200–999**	**1,000–4,999**	**5,000+**	**All Plans**
Made Changes	7.7%	0.0%	3.1%	0.0%	6.7%	3.6%
Considering Changes	3.8%	0.0%	0.0%	4.8%	0.0%	1.4%
None	88.5%	100.0%	96.9%	95.2%	93.3%	94.9%
	100.0%	100.0%	100.0%	100.0%	100.0%	99.9%

Table 7 | **Percentage of Organizations That Have Communicated the Impact of Loans and Distributions on Retirement Savings to Participants**

	Plan Size by Number of Participants					
Communication to Participants	**1–49**	**50–199**	**200–999**	**1,000–4,999**	**5,000+**	**All Plans**
Have	30.8%	20.7%	46.9%	45.5%	46.7%	38.1%
Have Not Yet, but Working on It	7.7%	24.1%	12.5%	4.5%	16.7%	13.7%
Have Not	61.5%	55.2%	40.6%	50.0%	36.7%	48.2%
	100.0%	100.0%	100.0%	100.0%	100.1%	100.0%

Participant Response to COVID-19

Table 8 | **Change in Plan Loan Activity Since the Onset of COVID-19**

	Plan Size by Number of Participants					
Change	**1–49**	**50–199**	**200–999**	**1,000–4,999**	**5,000+**	**All Plans**
No Change	71.4%	60.0%	63.0%	46.7%	48.3%	58.1%
Increase in Loans	14.3%	16.0%	29.6%	40.0%	31.0%	25.6%
Decrease in Loans	14.3%	20.0%	0.0%	13.3%	13.8%	12.0%
Unsure	0.0%	4.0%	7.4%	0.0%	6.9%	4.3%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Table 9 | **Organizations Noting an Increase in Plan Loans in Third Quarter 2020**

Timing	**All Plans**
Increase Since July 1, 2020	70.0%
Consistent Increase Since Beginning of COVID-19	13.3%
Increase in Loans Prior to July 1, 2020	13.3%
Unsure	3.3%
Total	99.9%

Table 10 | **Change in Hardship or In-Service Withdrawals Since the Onset of COVID-19**

	Plan Size by Number of Participants					
Change	**1–49**	**50–199**	**200–999**	**1,000–4,999**	**5,000+**	**All Plans**
No Change	69.6%	53.6%	42.9%	50.0%	33.3%	48.8%
Increase in Withdrawals	8.7%	32.1%	53.6%	45.0%	43.3%	37.2%
Decrease in Withdrawals	21.7%	10.7%	0.0%	0.0%	13.3%	9.3%
Unsure	0.0%	3.6%	3.6%	5.0%	10.0%	4.7%
	100.0%	100.0%	100.1%	100.0%	99.9%	100.0%

Table 11 | **Percentage of Participants Taking a Coronavirus-Related Distribution, When Permitted**

Percentage	All Plans
None	14.7%
Less than 1%	10.7%
1–5%	38.7%
6–10%	14.7%
11–15%	5.3%
16–20%	0.0%
21–25%	2.7%
More than 25%	4.0%
Unsure	9.3%
	100.1%

Table 12 | **Percentage of Participants Taking a Loan Under the Coronavirus-Related Increased Limits, When Permitted**

Percentage	All Plans
None	21.4%
Less than 1%	31.0%
1–5%	33.3%
6–10%	2.4%
More than 10%	0.0%
Unsure	11.9%
	100.0%

Table 13 | **Distribution Type Used Most by Participants When Offered Both the Increased Loans and the Coronavirus-Related Distributions (CRD)**

Distribution Type	All Plans
More Participants Chose a CRD	54.4%
More Participants Chose a Loan	14.0%
CRD and Loan Rates About Equal	17.5%
Unsure	14.0%
	99.9%