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The CARES Act: Selected Data on Coronavirus-Related Distribution and Loan Usage in 2020

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Introduction

Section 2202 of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act; P.L. 116-136) waived the 10% penalty for certain early withdrawals from retirement accounts—referred to as coronavirus-related distributions (CRDs)—and modified rules for loans from defined contribution (DC) plans in 2020 to try to assist those who may have faced financial difficulties due to the COVID-19 pandemic.[1] Retirement plans were permitted, but not required, to adopt CRDs and/or the loan provisions. These provisions—which were similar to those enacted following certain previous federally declared major disasters—expired in 2020 and, as of the date of this report, have not been extended by subsequent legislation.

Following enactment of the CARES Act, some expressed concern about the use of the provisions and the extent to which usage might negatively affect retirement security.[2] Selected data on employers' adoption and individuals' utilization of the CARES Act's CRD and loan provisions in 2020 seems to indicate modest usage of these provisions. This data might be informative to Congress in understanding retirement account withdrawal and loan behavior during disasters.

Withdrawals and Loans from Retirement Plans

To encourage individuals to save for retirement, Congress authorized and provided tax advantages for retirement savings plans, such as 401(k) plans and individual retirement accounts (IRAs). Individuals may withdraw funds from an IRA for any reason, but withdrawals from DC plans must be allowed by the plan and only in certain hardship situations or after reaching a specified age. To discourage early withdrawals, IRA and DC plan distributions to individuals under age 59½ are subject to a 10% early withdrawal penalty. Exceptions apply in the case of death or disability of the account holder or if the reason for the distribution meets (1) an exception in Title 26, Section 72(t), of the *U.S. Code* or (2) a temporary exception in response to certain specified disasters (e.g., certain hurricanes, flooding, wildfires, and COVID-19).[3]

Loans are not permitted from IRAs. However, DC plans may allow participants to borrow from their accounts. The maximum loan amount is the lesser of (1) half of the participant's vested account balance or (2) $50,000. Loans must be repaid in level installments over five years. Longer terms are permitted if loans are used for the purchase or construction of a principal residence. If default on a loan occurs, the outstanding balance is considered a withdrawal, included in taxable income, and subject to a 10% penalty if the account owner is younger than age 59½.

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[1] For more information on these provisions, see CRS In Focus IF11482, *Retirement and Pension Provisions in the Coronavirus Aid, Relief, and Economic Security Act (CARES Act)*.

[2] See, for example, Amanda Umpierrez, "Despite Challenging Year, CRDs and Plan Leakage Were Sparse," PlanSponsor, December 18, 2020, https://www.plansponsor.com/in-depth/despite-challenging-year-crds-plan-leakage-sparse/; and Vanguard, "COVID-19, the CARES Act, and Plan Participants' Response," October 30, 2020, https://institutional.vanguard.com/VGApp/iip/site/institutional/researchcommentary/article/InvComCOVIDCARESPlanParticipantResponse.

[3] For a complete list of disaster-related penalty exceptions, see the Appendix of CRS Report RL34397, *Traditional and Roth Individual Retirement Accounts (IRAs): A Primer*.

Coronavirus-Related Distributions and Loan Provisions in the CARES Act

Section 2202(a) of the CARES Act exempted qualified individuals from the 10% early withdrawal penalty for CRDs of up to $100,000 from qualified retirement plans (e.g., DC plans such as 401(k), 403(b), governmental 457(b) plans, and IRAs) from January 1, 2020, and before December 31, 2020. Unlike hardship distributions, CRDs could be included in taxable income in 2020 alone or included equally over 2020, 2021, and 2022, and the amount of the CRD may be recontributed to an individual's account within three years.[4]

Section 2202(b) modified rules for DC plan loans for qualified individuals by

- increasing the maximum loan balance for loans taken within 180 days of the bill's enactment (March 27, 2020) to the lesser of (1) the participant's entire vested account balance or (2) $100,000; and
- extending the due dates for payments for new or existing loans due on or after the bill's enactment through December 31, 2020, by one year.

Qualified individuals were defined as individuals (1) who tested positive for COVID-19 or those with a spouse or dependent who tested positive for COVID-19; (2) facing financial difficulties due to being quarantined, furloughed, laid off, or unable to work due to lack of child care or reduced work hours as a result of COVID-19; or (3) whose businesses closed or reduced hours as a result of the COVID-19 pandemic. Internal Revenue Service guidance later expanded the definition of *qualified individuals* to include, for example, individuals with reduction in pay and individuals with spouses or household members who faced financial difficulties as a result of the COVID-19 pandemic. See CRS Insight IN11441, *Internal Revenue Service (IRS) Guidance for Coronavirus-Related Distributions, Plan Loans, and Required Minimum Distribution (RMD) Rollovers* for a complete definition of *qualified individuals*.

Selected Data on Coronavirus-Related Distributions and Loan Usage for DC plans

To obtain data on adoption and usage of the CARES Act provisions, CRS examined reports from various financial services firms, and research organizations and the federal government's Thrift Savings Plan (TSP). As such, this report is not a comprehensive analysis of DC participant behavior. In 2018 (the most recent year for which data is available), DC plans had nearly 106 million participants (about 83 million of which were active participants).[5] In addition, as of the date of this report, CRS has not identified any data on CRD usage from IRAs.

[4] Previous temporary penalty exceptions for certain federally declared disasters also included these income inclusion and recontribution rules.

[5] See Employee Benefits Securities Administration, "Private Pension Plan," January 2021, p. 3, https://www.dol.gov/agencies/ebsa/researchers/statistics/retirement-bulletins/private-pension-plan. *Active participants* includes (1) those who are eligible to elect to have their employers make payments to 401(k)-type plans (even if individuals are not contributing) and (2) nonvested individuals who are earning or retaining credited service under those plans.

Financial Services Firms

Financial services firms provide, administer, or keep records for DC plans. Several of these firms published information about CARES Act provision adoption and usage.[6] Differences among financial services firm data regarding employer uptake of CRDs and loan provisions could be due to differences in employer characteristics or other factors.[7]

Based on an analysis of 25.8 million participants, Fidelity—the largest DC plan recordkeeper—found the following:[8]

- 6.3% of eligible participants took CRDs in 2020. Fidelity noted that of the 22% of participants who took money from their plans in 2020, nearly 1 in 4 used the CARES Act.[9]
- In Q4 2020, 9% of participants took money out of their accounts, and CRDs represented 33% of the total dollar amount withdrawn.[10] In Q4 2020, the average CRD amount was $7,600, and the median CRD amount was $1,600.
- 18% of eligible participants had outstanding loans as of Q4 2020, which was lower than the percentage with outstanding loans in previous years.[11]

Empower Retirement—the second-largest recordkeeper with nearly 12 million participants—reported that

- 4.4% of eligible participants took CRDs in 2020 (corresponding to more than 500,000 withdrawals).[12]

Vanguard—the fourth-largest recordkeeper with over 16 thousand plan sponsors covering 5.5 million participants—reported that 73% of its plan sponsors permitted CRDs and that 5.7% of eligible participants in these plans took CRDs. Vanguard also found that

- The average CRD was $15,700, and the median CRD was $6,500. Participants between the ages of 35 and 54 and participants with an income between $30,000, and $75,000 were more likely to take CRDs than were other age and income groups, respectively.[13]

[6] Organizations varied in the information they provided about provision usage. For example, some firms provided data on employer uptake, while others did not. Data points may not be directly comparable from firm to firm.

[7] An April 2020 survey included a question about the actions taken by plan service providers/recordkeepers. It found that, among all surveyed plans, 30.5% of plan service providers/recordkeepers defaulted the plan to incorporate all of the CARES Act retirement account provisions, 57.6% waited for direction as to which CARES Act provision(s) the plan would adopt, and 6% added some provisions by default and waited for direction on others. See Plan Sponsor Council of America, CARES Act Snapshot Survey, https://www.psca.org/research/cares_snapshot.

[8] See Pensions & Investments, "DC Record Keepers," https://researchcenter.pionline.com/v3/rankings/dc-record-keeper/datatable?utm_content=special_report.

[9] See Fidelity Investments, "Building Financial Futures," 4th Quarter 2020.

[10] Fidelity Investments, "Building Financial Futures." The remaining two-thirds of the total dollar amount withdrawn was from automatic payments (25%), full payouts (16%), loans (10%), partial withdrawals (14%), and hardship withdrawals (2%).

[11] Fidelity Investments, "Building Financial Futures."

[12] See Empower Institute, "For Retirement Savers, Hindsight Is '2020,'" June 2021, https://www.empower-retirement.com/empower-institute/retirement-savers-hindsight-2020.

[13] Vanguard, "Revisiting the CARES Act and Its Impact on Retirement Savings," January 28, 2021, https://institutional.vanguard.com/VGApp/iip/site/institutional/researchcommentary/article/InvComRevisitCARESActImpact.

- Less than 1% of eligible participants took CARES Act loans as of October 30, 2020.[14]

Vanguard asserted that "while there have been negative impacts on retirement readiness, the response from participants has been better than expected, a finding for which plan sponsors can take some credit."[15]

T. Rowe Price, which services more than 2.2 million participants in nearly 6,000 plans, reported that two-thirds of its client plans with assets greater than $25 million adopted at least one of the CARES Act provisions.[16] In addition,

- 6% of participants took CRDs, CARES Act loans, or suspended loan repayments as of September 2020.[17]
- Among participants with outstanding loans (in plans that adopted the loan provisions), 8.2% suspended their loan repayments.[18]

Ascensus, based on a study of retirement plans with 500 employees or fewer, reported that

- Overall, 16.6% of employers adopted CRDs, and 9.9% of employers adopted the loan provisions. Larger employers were more likely to adopt the CARES Act provisions.[19] Ascensus noted that "over the course of 2020, we saw moderate to low employer adoption of CARES Act distribution and loan options relative to early industry projections."[20]
- 4.9% of eligible individuals (i.e., individuals in plans that adopted the CARES Act provisions) took CRDs, and 1.4% of eligible individuals used the loan provisions through September 2020 (when the increased loan limit ended).[21]

Research Organizations

Various research organizations conduct surveys about DC plan recordkeepers and plan sponsors.

- An Investment Company Institute (ICI) survey of a cross-section of recordkeepers representing a range of DC plans that cover more than 30 million

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[14] Vanguard, "COVID-19, the CARES Act, and Plan Participants' Response," October 30, 2020, https://institutional.vanguard.com/VGApp/iip/site/institutional/researchcommentary/article/InvComCOVIDCARESPlanParticipantResponse.

[15] Vanguard, "COVID-19, the CARES Act, and Plan Participants' Response."

[16] T. Rowe Price, "How the Coronavirus Pandemic Is Affecting Retirement Saving," September 2020, https://www.troweprice.com/content/dam/retirement-plan-services/pdfs/insights/research-findings/Coronavirus_Affect_on_Retirement_Saving.pdf.

[17] T. Rowe Price, "How the Coronavirus Pandemic Is Affecting Retirement Saving." T. Rowe Price reported that "although two-thirds of T. Rowe Price's clients have adopted at least one of the CARES Act provisions to date, only 6% of participants have either taken a coronavirus-related loan, coronavirus-related distribution, or suspended their loan repayments."

[18] T. Rowe Price, "How the Coronavirus Pandemic Is Affecting Retirement Saving."

[19] Among plans with 101 or more participants, 45.2% adopted CRDs and 26.3% adopted the loan provisions. Among plans with 25 or fewer participants, 10.2% adopted CRDs and 6.1% adopted the loan provisions. See Ascensus, "The State of Savings," December 2020, https://www2.ascensus.com/wp-content/uploads/2021/03/Ascensus_State-of-Savings_December-2020.pdf.

[20] See Ascensus, "The State of Savings."

[21] Ascensus, "The State of Savings."

participants found that 5.8% of DC plan participants took CRDs.[22] ICI also reported that 14.8% of DC plan participants had outstanding loans at the end of 2020, compared to 16.1% at the end of 2019.[23]

Thrift Savings Plan

TSP, the DC plan for federal employees, is the largest DC plan in the United States. In December 2020, TSP had 4.3 million active participants.[24] TSP adopted both the CRD and loan provisions and found that

- 119,720 participants requested CRDs through December 2020 (corresponding to about 2.8% of active participants).[25]
- 16,663 participants (corresponding to about 0.4% of active participants) took CARES Act loans from June 15 (when TSP adopted the provision) through September 22, 2020 (when the provision ended). An additional 3,028 participants took out loans over $50,000 during this time period.[26]

Data Caveats

Not all CRDs have been included in the selected data provided in this report. For example, qualified individuals who separated from the employers sponsoring their DC plans and received distributions could have treated all or part of the distributions as CRDs, or they could have rolled over their savings to IRAs and then taken CRDs. Qualified individuals who received non-CRD distributions (e.g., a hardship distribution, perhaps because their plans did not adopt the CRD provision) could treat them as CRDs. These distributions would likely not be captured as CRDs.

In addition, data in this report is from selected recordkeeping firms and does not cover all DC plan participants. Though this data may suggest modest usage of CARES Act provisions, a comprehensive analysis of CRD and loan usage in 2020 may benefit from incorporating administrative data (including data on IRA withdrawals).

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[22] See ICI, "Defined Contribution Plan Participants' Activities, 2020," February 2021, https://www.ici.org/pdf/20_rpt_recsurveyq4.pdf.

[23] ICI, "Defined Contribution Plan Participants' Activities, 2020."

[24] See Thrift Savings Fund Statistics December 2020, Federal Retirement Thrift Investment Board Meeting Minutes, January 2021, https://www.frtib.gov/pdf/minutes/2021/Jan/MM-2021Jan-Att1b.pdf. In December 2020, TSP had 3.8 million contributing participants and 0.5 million noncontributing participants. This number does not include the Federal Employees' Retirement System agency contributions only.

[25] Ibid.

[26] See Thrift Savings Fund Statistics Highlights, https://www.frtib.gov/pdf/minutes/2020/Dec/MM-2020Dec-Att1a.pdf.

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