

A WHITE PAPER

Retirement as a Last Resort

How Americans cope
with financial need

JULY 2020

NADA Retirement

from



Most employees don't plan on tapping their retirement accounts early, but certain groups of individuals are more likely to do so

Key findings:

1

WHEN IT COMES TO RETIREMENT SAVINGS, MOST EMPOWER RETIREMENT PARTICIPANTS ARE STAYING THE COURSE.

2

REDUCING SPENDING IS THE FIRST ACTION PEOPLE TAKE WHEN FINANCES ARE TIGHT.

3

VERY FEW RESPONDENTS SAID THEY WOULD CONSIDER TAKING MONEY OUT OF THEIR WORKPLACE RETIREMENT ACCOUNT.

4

AS THE PANDEMIC CONTINUES, IT'S IMPORTANT FOR EMPLOYERS TO UNDERSTAND WHO IS AT MOST RISK FOR MAKING DECISIONS THAT COULD HAVE LONG-TERM NEGATIVE EFFECTS.

Many American households are feeling the effects of the COVID-19 pandemic. Chief among those effects is economic instability resulting from business closures, reduced work hours and a soaring unemployment rate. As individuals and families cope with financial difficulty, they may find they need extra help to cover their expenses. Some may tap emergency funds while others are relying on credit cards or assistance from relatives to see them through this time.

Empower conducted a national survey in conjunction with the Harris Poll to discover how employees plan to access money during these uncertain times. Considerations by employees included taking money from their retirement accounts or making changes to their retirement plan contributions. Understanding how people plan to handle financial strain can help employers provide the right tools to help their employees stay on track.

Research methodology

The data in this report comes from two sources:

- Empower data as of June 2020. This data includes all active Empower participants with a defined contribution plan.
- The Harris Poll conducted an online survey, "U.S. financial attitudes and behaviors, Wave 2," on behalf of Empower Retirement in April 2020. A total of 684 U.S. adults ages 18 and older with a defined contribution plan participated.

All the data in this report represents people with defined contribution plans; people without defined contribution plans were excluded from the analysis. All data in this report is from the survey unless otherwise noted.

The measures employees have taken so far



3.5%

OF EMPOWER PARTICIPANTS HAVE CHANGED CONTRIBUTION RATES¹

The vast majority of Empower participants have not taken money from their retirement plans or changed their contribution rates.

Empower participant data shows that very few plan participants have taken a withdrawal from their retirement plan under the CARES Act¹



Only 1.4% of eligible participants completed a CARES Act withdrawal as of June 28, 2020.



Employees in the airline, entertainment and manufacturing industries show the highest initial loan and withdrawal activity.



The average disbursement is 20K; only 4% have taken the maximum disbursement of \$100K.



Participants are withdrawing 44% of their balance on average. 33% of participants are taking 100%.



CARES Act provisions are impacting those with a history of activity as 44% of those taking CARES Act withdrawals have previously borrowed from their accounts.



Only 1,823 employees have taken CARES Act-related 401(k) loans as of June 28.

¹ Empower data, June 2020



Like many respondents, Dan Lah, a 39-year-old IT sales consultant in Indiana, is already taking steps to reduce his spending. He's refinanced his mortgage to take advantage of a lower interest rate. Plus, his family plans to put off most home improvement projects for the time being and order takeout less often.

Although he's feeling the financial impact of a reduced workload, Lah doesn't intend to make changes to his retirement plan — a common response among survey respondents. Most people indicated they haven't altered their contribution rates or taken money from their plans.

Empower participants have been less likely to adjust their retirement plans than Americans in general. This may indicate there is something about the Empower experience that causes participants to stay the course.

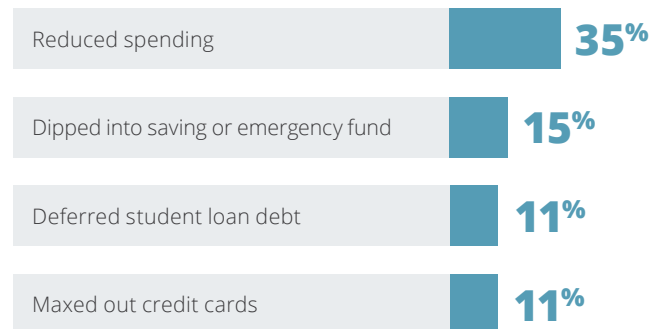
To better understand how Americans might react if they experience financial difficulty due to Covid-19, survey respondents were asked which of the following actions they might take:

- Reduce spending
- Dip into savings or emergency fund
- Defer student loan repayment to a later date
- Stop contributing to my retirement savings
- Sell something I have of value
- Borrow money from a family member or friend
- Max out credit cards
- Take out money from my workplace retirement savings account

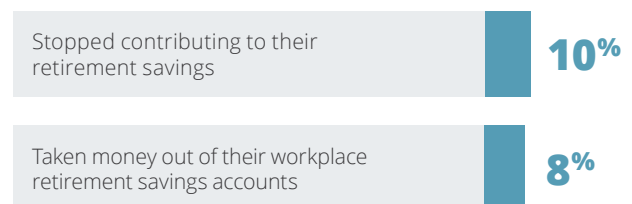
They were also asked to note which of those actions they'd be most likely to take — or which they've already taken — with these responses:

- Have already done
- As a first step
- Would consider
- Have not/would not consider
- As a last resort

The responses indicated that many people have already taken measures to bridge a gap in income or reduce expenses



Very few survey respondents have altered their retirement contributions



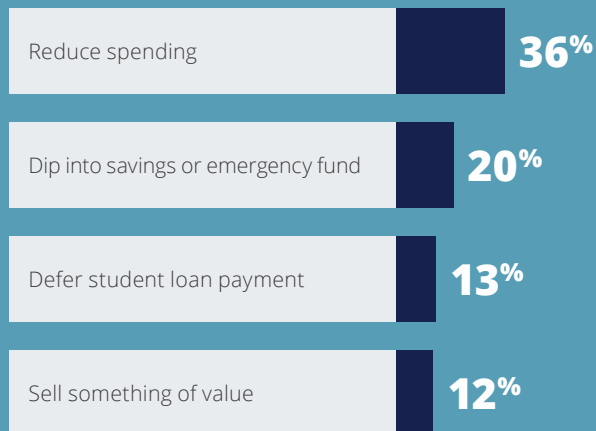
Empower Retirement interview with Dan Lah on March 23, 2020. Testimonials may not be representative of the experience of other individuals and are not a guarantee of future performance or success.

¹ Empower data, June 2020.

Planned first steps for coping with financial strain

Many employees haven't yet taken steps to cope with financial challenges. We asked members of this group what their first steps would be should they need to access additional funds. Their responses are similar to those from people who have already felt financial impacts.

Actions respondents would take as a *first step* if they needed to access money:



And on the topic of retirement:

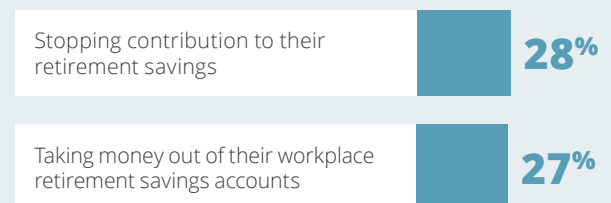


We also asked which actions respondents would consider taking if they needed access to money.

Actions respondents would consider taking if they needed access to money:



And on the topic of retirement:

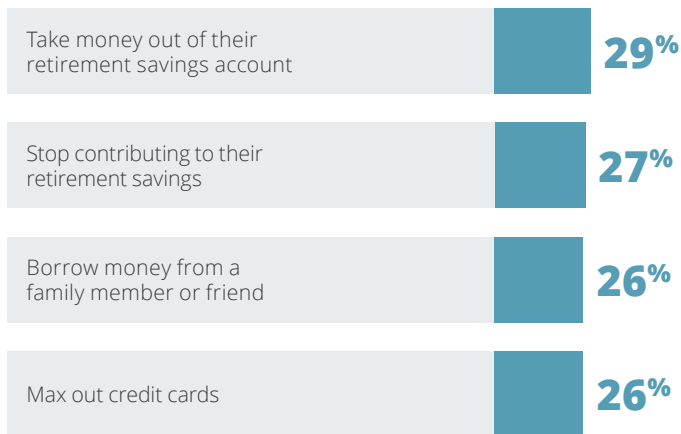


In response to this question, only 16% said they would reduce spending — likely because many people have already done so.

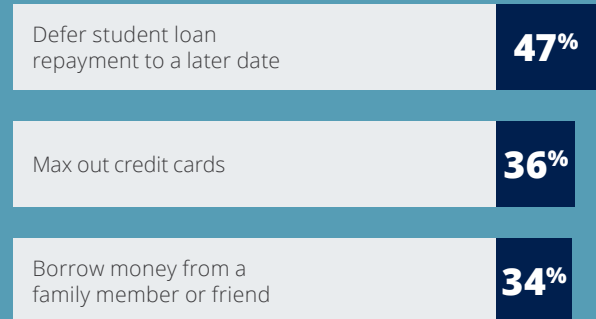
Sources of financial last resort

We asked respondents what their last resort would be for accessing money if they needed it. Their responses suggest most people want to protect their retirement savings — even if they're facing financial trouble. Those surveyed would consider the following only as a last resort.

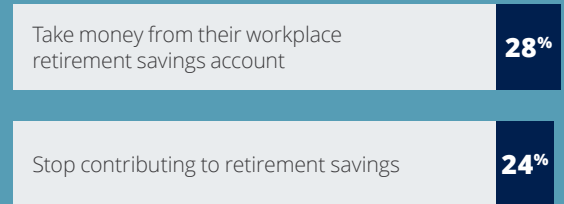
Respondents would consider these steps as a *last resort*:



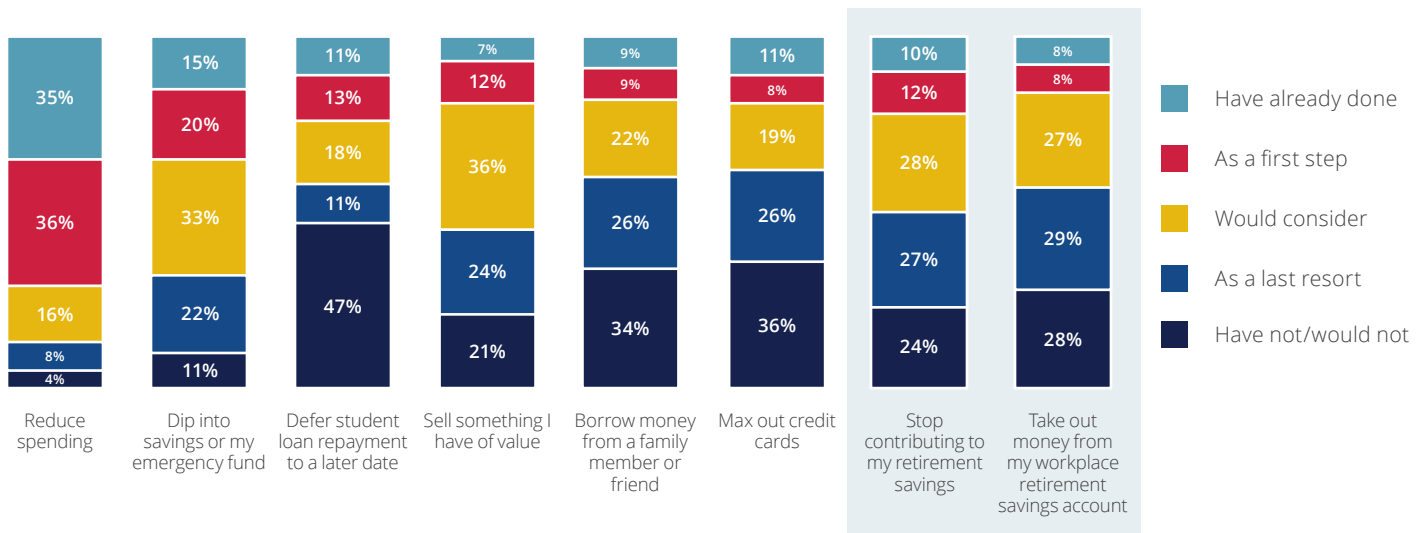
Actions respondents *have not or would not consider*:



When it comes to retirement:






Overall, the data shows that tapping retirement accounts to access money is often a last resort — if it's something employees would consider at all. And remember that very few Empower participants have actually adjusted their retirement savings.



Who's at risk for making changes to their retirement savings plan

While most employees don't intend to take money from their retirement accounts even if they need access to cash, some employees may consider this route. Understanding which employees are most likely to stop contributions or take money out of their accounts can help employers provide the right advice to the most vulnerable employees.

Characteristics and experiences reveal parts of the population are at risk for retirement adjustments

	Have already done	First step	Would consider	Last resort
DEFER STUDENT LOAN	FIRST GENERATION HAVE STUDENT LOAN HAVE/EXPECT TO LOSE JOB AGES 18-44	HAVE STUDENT LOAN	AGE 18-44 EMPLOYED HOUSEHOLD WITH CHILDREN	
STOP CONTRIBUTING TO A WORKPLACE DC PLAN	HAVE STUDENT LOAN HAVE/EXPECT TO LOSE JOB	VETERAN		MAJORITY WOULD NOT CONSIDER THIS OR WOULD ONLY CONSIDER THIS OPTION AS A LAST RESORT
REMOVE MONEY (LOAN/ WITHDRAWAL) FROM WORKPLACE DC PLAN		FIRST GENERATION HAVE/EXPECT TO LOSE JOB	MALES AGE 18-44 EMPLOYED HOUSEHOLD WITH CHILDREN	HAVE PROFESSIONAL ADVICE AT WORK EMPLOYED

Delivering the guidance employees need

While the long-term financial impacts of the pandemic remain unknown, this data provides insight into the coping strategies people may use if they find themselves in need of cash. Employers can use these insights to target their messaging and help employees avoid making decisions that could compromise their financial future.

Employers can reinforce the wise steps many employees are already taking, such as reducing their day-to-day spending and continuing to prioritize retirement contributions. They can also work with their recordkeepers to provide personalized communication, financial wellness tools and one-on-one advice. By giving employees the advice and resources they need to navigate this difficult time, employers can help them stay on track and safeguard their long-term plans.



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