PSCA

Plan Sponsor Council of America

Part of the American Retirement Association

Impact of New Hardship Withdrawal Provisions

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Executive Summary

In February 2018, Congress amended the hardship withdrawal rules for 401(k) plans effective January 1, 2019. In September 2019, the IRS finalized its rules on how plan sponsors must amend their plans to comply. In October, PSCA conducted a brief survey of plan sponsors to determine their thoughts on the new rules, actions taken to comply with those new requirements, and whether companies are seeing a change in the number and frequency of hardship withdrawals.

Prevalence

The survey received responses from 145 companies that sponsor a defined contribution plan for employees – companies represented are diverse in size and industry. Most respondents (91.6 percent) allow hardship withdrawals and no respondents have taken action to eliminate them.

Impact

Nearly two-thirds (64.6 percent) of respondents have already adopted the new hardship provisions. Our survey responses confirm that most have implemented not only the required change (eliminating the six-month suspension on contributions), but the majority have also implemented some of the permissible, voluntary changes:

- Eliminate the requirement to take all plan loans before taking any hardship withdrawal,
- Expand the assets available for hardship withdrawals to include earnings on 401(k) contributions, and
- Expand the list of reasons that qualify for a hardship withdrawal.

Most survey respondents (72.6 percent) have not seen any change in the number of hardships since the new provisions were implemented. Fewer than 20 percent (17.8 percent) indicated an uptick in hardships in 2019 – of those that did most (92.3 percent) are not considering any further changes to hardship withdrawal provisions at this time while fewer than two percent are considering eliminating hardship withdrawals.

One respondent stated, "the increase in the number of hardships in 2019 was minimal, we have continued to have substantially more loans than hardships in our plan." Another indicated, "we are already experiencing an uptick in hardship withdrawals and expect this trend to continue."

Perceptions

About half of respondents stated that they are "OK" with the provisions to allow hardships for casualty losses associated with federal disasters, whereas more than 20 percent think it's a wonderful idea, and 23 percent are mostly good with it, but concerned about possible implications.

Reactions of plan sponsors are mixed regarding eliminating the requirement for participants to take a loan before taking a hardship withdrawal:

- Nearly 30 percent state that it is a bad idea or that the bad outweighs the good,
- A third say they are OK with it, and
- A third say they are mostly good with it but worried about implications or that it is a wonderful idea.

The area of most agreement among sponsors is that they think eliminating the post-withdrawal 6-month suspension of elective deferrals is a wonderful idea – indicted by 60 percent of respondents. One respondent stated, “I think it’s a great idea to remove the 6-month suspension. It’s a good idea to get participant’s right back into the plan if possible.”

Voices

Plan sponsors indicated additional thoughts regarding the new provisions, including:

- Instead of a hardship distribution, if there is a great need, why not a withdrawal with a penalty? I do not like the responsibility of having a participant prove there is a need.
- We have elected to keep the documentation requirement because participants are used to providing this and we feel it might deter excessive hardship loans vs no documentation required at all.
- IRS needs to provide some guidance to demonstration of financial stress situations. Being a manufacturing firm, associates often live pay-check to pay-check and when have a major household breakdown, like HVAC or something they have no options to pull from 401k as a hardship.

Detailed data tables on the results follow.

Data Tables

Table 1: Respondents by Number of Plan Participants

	Number of Plan Participants					
	1-49	**50-199**	**200-999**	**1,000-5,000**	**5,000+**	**All Plans**
Number of Plans	12	29	32	36	36	145
Percentage of Plans	8.3%	20.0%	22.1%	24.8%	24.8%	100%

Note: Due to sample size, the 1-49 and 50-199 categories have been combined for the remainder of the results.

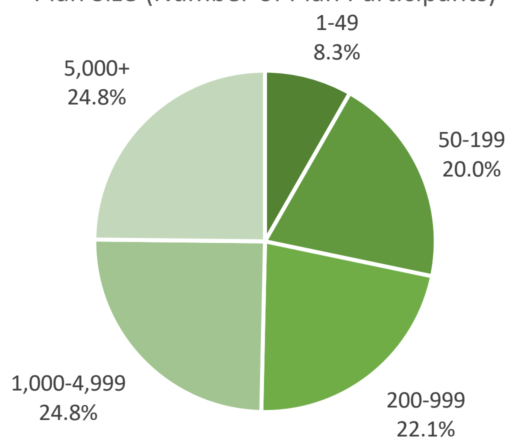

Table 2: Approximate Plan Asset Size of Respondents

Total Assets	Number of Plans	Percentage of Plans
Less than $10 million	27	18.6%
$10-50 million	32	22.1%
$50-100 million	19	13.1%
$100-250 million	14	9.7%
$250 million - $1 billion	30	20.7%
$1 billion or more	23	15.9%
Total	145	100.1%

Table 3: Percentage of Plans That Currently Allow Hardship Withdrawals

	Number of Plan Participants				
	1-199	200-999	1,000-5,000	5,000+	All Plans
Percentage of Plans	82.9%	93.5%	97.2%	94.3%	91.6%

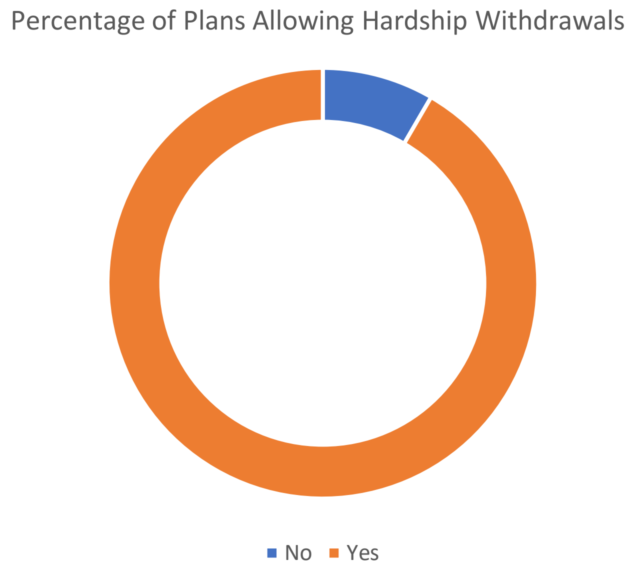

Table 4: Reasons Permitted for Hardship Withdrawals

	Number of Plan Participants				
	1-199	200-999	1,000-5,000	5,000+	All Plans
Purchase of Primary Residence	100.0%	96.2%	93.3%	90.6%	94.7%
Prevent Eviction or Foreclosure	92.0%	96.2%	100.0%	96.9%	96.5%
Post-secondary Educational Expenses	84.0%	88.5%	93.3%	96.9%	91.2%
Medical Expenses	96.0%	96.2%	96.7%	93.8%	95.6%
Major Financial Pressures	60.0%	26.9%	23.3%	28.1%	33.6%
Funeral Expenses	76.0%	76.9%	96.7%	93.8%	86.7%
Natural Disasters	56.0%	50.0%	70.0%	56.3%	58.4%
Casualty Loss for Damage to Principal Residence	60.0%	46.2%	66.7%	75.0%	62.8%
Other	0.0%	0.0%	0.0%	6.3%	1.8%

Table 5: Percentage of Plans That Have Adopted the New Hardship Provisions in the Bipartisan Budget Act of 2018

	Number of Plan Participants				
	1-199	**200-999**	**1,000-5,000**	**5,000+**	**All Plans**
Percentage of Plans	56.0%	61.5%	73.3%	65.6%	64.6%

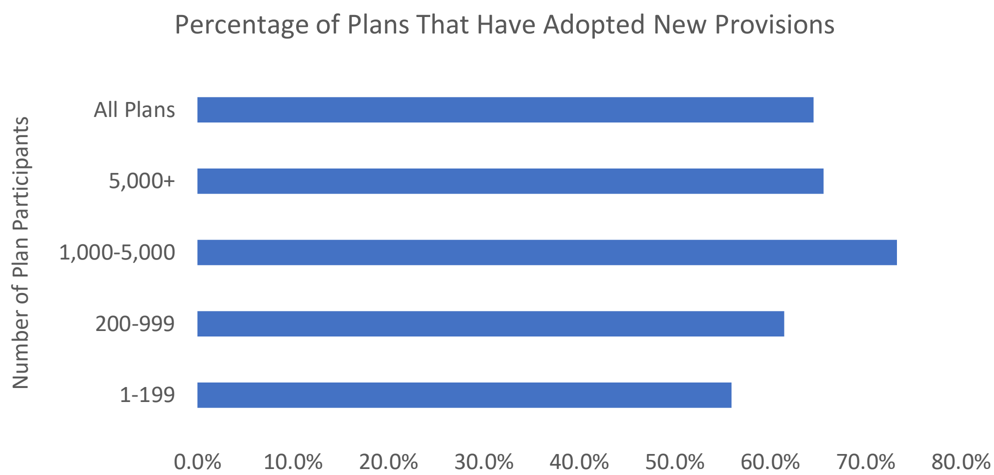

Table 6: Impact on use of Hardship Withdrawals for those that made changes

	Number of Plan Participants				
	1-199*	**200-999***	**1,000-5,000**	**5,000+**	**All Plans**
No Impact	92.9%	75.0%	72.7%	57.1%	72.6%
Increase in Hardship Withdrawals in 2019	7.1%	18.8%	9.1%	33.3%	17.8%
Decrease in Hardship Withdrawals in 2019	0.0%	0.0%	0.0%	0.0%	0.0%
Unsure	0.0%	6.3%	18.2%	9.5%	9.6%

*Small sample size.

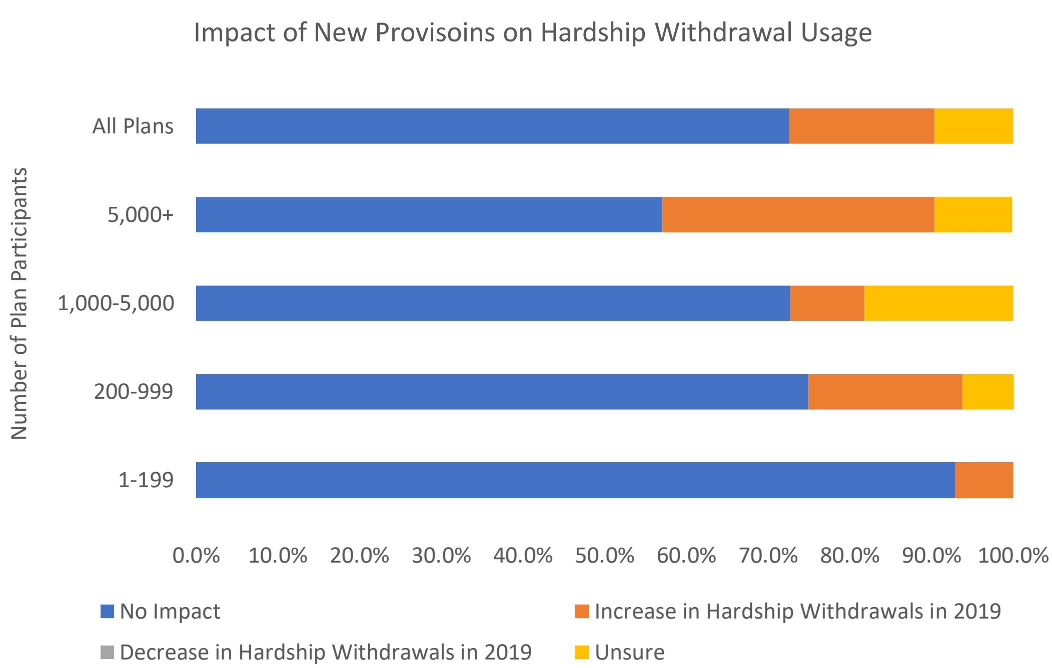

Table 7: Actions Under Considerations to Limit Hardship Withdrawals

Actions	Percentage of Plans
Eliminating Hardship Withdrawals	1.9%
Requiring Educational Counseling	3.8%
Limiting the reasons that Qualify for a Hardship Withdrawal	1.9%
Limiting the Individuals Whose will Qualify for a Hardship Withdrawal	1.9%
Limiting the Asset Types available for Hardship Withdrawal	1.9%
Require the Participant take Loans First	3.8%
Other	1.9%
None	92.3%

Table 8: Actions Taken or Planned to Comply with the Bipartisan Budget Act of 2018

Actions	Percentage of Plans
Eliminate the 6-month prohibition on contributions following a hardship distribution.	87.2%
Eliminate the requirement to take all plan loans before taking any hardship withdrawal.	65.1%
Expand the assets available for hardship withdrawals to include earnings on 401(k) contributions.	59.6%
Expand the assets available for hardship withdrawals to include Qualified Non-Elective Contributions (QNEC).	37.6%
Expand the assets available for hardship withdrawals to include Qualified Matching Contributions (QMAC).	30.3%
Expand the List of Reasons that Qualify for a Hardship	52.3%
Expand the number of individuals whose hardship qualifies for a distribution.	31.2%
Other	5.5%

Table 9: Perception of New Hardship Withdrawal Rules

	This is going to be a problem	The bad seems to outweigh the good	I'm OK with it.	Mostly fine, just a bit worried about possible implications.	Wonderful idea.	Unsure
The ability to qualify for a hardship distribution in the case of casualty losses and losses associated with federal disaster areas.	0.0%	3.5%	**48.7%**	23.0%	21.2%	3.5%
Eliminating the requirement for participants to take plan loans first.	9.7%	19.5%	**32.7%**	12.4%	22.1%	3.5%
Eliminating the post-withdrawal 6-month suspension of elective deferrals.	0.9%	5.3%	24.8%	7.1%	**59.3%**	2.7%
The ability to include additional plan account sources (beyond 401(k) pre-tax) in hardship distributions.	2.7%	15.0%	**36.3%**	20.4%	18.6%	7.1%
Changes in the administrative process required to document that a participant has demonstrated the requisite financial need	9.7%	10.6%	**38.1%**	19.5%	7.1%	15.0%