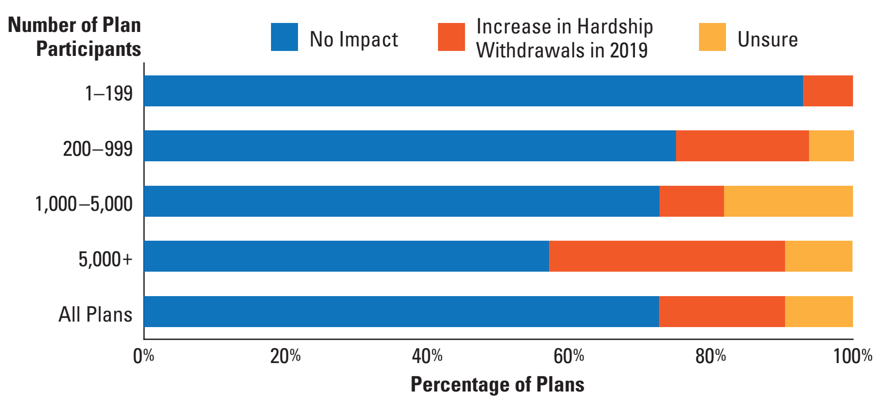
Most 401(k)s Embrace New Hardship Rules

Despite liberalized rules, most have not yet seen an increase in hardship requests.

By Hattie Greenan

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.

Exhibit 1: Impact of New Provisions on Hardship Withdrawal Usage



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.

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 — indicated by 60 percent of respondents.

The full survey is available for download at https://www.psca.org/survey_2019_hardships.

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