COVID-19's Impact on 401(k) Early Withdrawals Among Job Losers

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The COVID-19 pandemic caused an unprecedented spike in job loss, with the unemployment rate jumping from 4.4% in March 2020 to 14.8% in April 2020. At the same time, the CARES Act loosened restrictions on 401(k) withdrawals, allowing penalty-free early withdrawals of up to $100,000. Even before the current pandemic, pre-retirement withdrawals from 401(k) and IRA accounts have been identified as a major force reducing U.S. retirement wealth accumulation.

Although numerous 401(k) administrators have reported that 401(k) withdrawals have been modest during the pandemic (Vanguard, 2020; Fidelity, 2021; T. Rowe Price, 2021), it is unclear whether these calculations exclude employees who lost their jobs and are therefore no longer "participants" in the 401(k) plan. ICI (2021) explicitly excludes such employees. It is not surprising that workers who *continuously* worked at the same employer would be relatively unlikely to withdraw their 401(k) balances, because their labor income had a high probability of remaining little changed, they were receiving government stimulus payments, and opportunities to spend on leisure activities declined. Previous research has shown that job *transitions* are the key point when 401(k) plan balances are most likely to be withdrawn from the retirement savings system.

We propose to study what happened to the 401(k) balances of job *separators* in 2020 using an administrative database of ninety 401(k) plans covering approximately 5 million employees. To what extent did these separators withdraw their 401(k) balances during or shortly after separation? How does this withdrawal behavior vary by 401(k) balance level and by demographic group? (We have age, gender, work tenure, marital status and salary in our administrative data and will use residential zip code identifiers to probabilistically identify people's race and ethnicity.) How does withdrawal behavior differ between job separators in 2020 versus in prior years, both unconditionally and controlling for observable characteristics? Given the large number of employees in our database, we also exploit the fact that *marginal* withdrawal amounts above $100,000 were not eligible for the special withdrawal provisions of the CARES Act (including the elimination of the 10% withdrawal penalty). We can estimate the responsiveness of withdrawals to those statutory provisions using the magnitude of excess mass of withdrawals at $100,000.

This proposal addresses Focal Area #6 (Economic Security of SSA Beneficiaries), Impact of COVID-19, as well as disparities by race and ethnicity.

References

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