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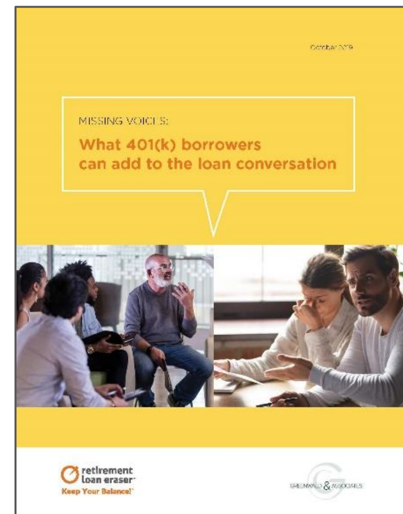
EMPLOYEES STRESSED OVER POSSIBILITY OF 401(K) LOAN DEFAULTS, NEW STUDY BY CUSTODIA FINANCIAL AND GREENWALD & ASSOCIATES SHOWS

New 401(k) loan research highlights the "voice of the participant" on 401(k) loans



DALLAS and WASHINGTON, D.C. – While employees appreciate being able to take 401(k) loans in case of financial emergency—20 percent of all 401(k) participants currently have loans outstanding[1]—the possibility of not being able to repay those loans is stressing employees out, according to a new independent study released today by Custodia Financial, the financial technology innovator whose mission is to prevent loan defaults, and Greenwald & Associates, a third-party market research firm with unique industry expertise in financial services, employee benefits, and healthcare.

Entitled ***"Missing Voices: What 401(k) Borrowers Can Add to the Loan Program Conversation,"*** the study found that while a vast majority of employees with 401(k) loans (91 percent) value the opportunity to borrow from their 401(k) plans, 70 percent believe that losing a job would make paying off a loan more difficult.

Millennial 401(k) participants ages 25-34 reported the most concern that they could not pay back their loans at all if they lost their job (69 percent vs. 54 percent for ages 35-44; 49 percent for ages 45-54; 28 percent for ages 55-64; and 44 percent for ages 65-plus).

The top three reasons participants reported for taking a 401(k) loan were:

1. To make ends meet (25 percent);
2. To pay off a credit card bill or credit card debt (23 percent); and
3. To cover out-of-pocket medical expenses (22 percent).

The study surveyed 500 plan participants who have taken at least one plan loan. Greenwald & Associates also conducted in-depth interviews with a subset of the participants to better understand the context around loan-taking, participant education, and loan defaults.

"The industry is starting to acknowledge loan leakage as a critical retirement readiness, financial wellness, and fiduciary challenge, thanks to recent research and attention from government, including the Internal Revenue Service, Department of Labor, and Government Accountability Office," said Tod Ruble, CEO of Custodia Financial. "Plan sponsors, recordkeepers, and others are attempting to take action, but often without a sufficient understanding of the key stakeholder they're serving: the

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[1] Fidelity Investments, "Building Financial Futures," as of Q2 2019. https://sponsor.fidelity.com/bin-public/06_PSW_Website/documents/Building_Financial_Futures_Q2_2019.pdf

participant. The objective of this research is to provide important borrower feedback to deliver an effective solution."

The majority of participants support the addition of automated loan insurance, and believe that it would reduce their financial stress.

Automated loan insurance repays a borrower's outstanding loan balance if he or she is laid-off, becomes disabled, or dies, preventing the negative consequences of a loan default. A 2018 report by Deloitte showed that the average defaulting borrower loses out on $300,000 of retirement security when taxes, penalties, potential cash-outs, and lost earnings are considered.[2]

- Almost 80 percent of participants find automated, low-cost loan insurance appealing; almost 60 percent believe their employer should add it, with sentiment strongest among those ages 25-44.
- Two-thirds (67 percent) of participants say they'd consider contributing more to the plan if their employer were to add loan insurance.
- Seventy percent of the participants report being financially stressed. Of those who are financially stressed, more than 80 percent say loan insurance would reduce that stress.

"The survey data and interviews with participants clearly show that 401(k) borrowers are under a great deal of financial stress," said Brian Perlman, SVP and Financial Service Practice Lead for Greenwald & Associates. "To illustrate what participants are facing, one woman I interviewed took out a loan from her 401(k) to help her pay out-of-pocket medical costs related to her fibromyalgia. She was later forced to go on disability as a result of her illness and defaulted on her loan. She—and other borrowers—needs a better safety net."

The new report is available on Custodia Financial's website at www.loaneraser.com/missing-from-the-conversation.

About Custodia Financial

Custodia Financial's mission is to prevent loan defaults in 401(k) plans, which are coming into focus as a significant problem harming retirement readiness and financial wellness. Custodia Financial is the innovator behind Retirement Loan Eraser (RLE), an automated loan insurance program that prevents 401(k) loan defaults, protecting plan assets, and immediately improving retirement outcomes. RLE is the only solution available that helps plan sponsors prevent loan defaults by repaying the outstanding loan balance of borrowers losing their jobs, while reducing fiduciary risk. Custodia Financial's team of retirement experts includes former senior executives from Fidelity Investments, Financial Engines, SunGard, Voya Financial, and Wells Fargo.

About Greenwald & Associates

Founded in 1985, Greenwald & Associates is a full-service market research firm with unique industry expertise in financial services, employee benefits, and healthcare. Greenwald & Associates takes pride in their reputation for extensive research knowledge, industry expertise, and commitment to serving the needs of its clients. Greenwald & Associates is an invited member of the Council of American Survey Research Organizations, making them one of the country's leading survey research firms.

[2] "Loan leakage: How can we keep loan defaults from draining $2 trillion from America's 401(k) accounts?", Deloitte, October, 2018.