



Always Designing
for People®



ADP Retirement Services

RETIREMENT PLAN LOANS AND WITHDRAWALS: EMERGENCY EXPENSES AND DEBT DRIVE UTILIZATION



METHODOLOGY

ADP commissioned Retirement Insights, LLC to develop and conduct a survey of retirement plan participants to gain insight into their current financial situation, spending, and loan and withdrawal activity in their 401(k) accounts. The survey included a national sample of 500 401(k) participants and was completed in April 2025.

Objective

The research objective is to gain insight into the perspectives of retirement plan participants that take loans and withdrawals from retirement savings.



EVERYDAY EXPENSES DIMINISH WORKERS' ABILITY TO SAVE FOR RETIREMENT

Over the past five years, inflation, the rising cost of living, high interest rates and shifting economic conditions have created a challenging financial environment for many Americans. Employer retirement plans are a benefit meant to help workers achieve a secure financial future. However, research findings indicate that everyday expenses, debt and other financial obligations can diminish workers' ability to save for retirement. Workers without financial safety nets like an emergency fund or other savings tend to tap into retirement accounts out of necessity through loans and withdrawals.

Key insights

- Twenty-five percent of survey respondents view their current financial situation as poor, okay or uncertain.
- Debt, saving for retirement and saving money are top financial concerns.
- Unexpected expenses and debt are most cited reasons for taking loan and withdrawals.
- Some participants chose a withdrawal because their plan didn't offer a loan feature, and some did not understand the penalties involved.

Everyday expenses continue to stretch budgets

The majority (75%) of survey respondents consider their financial situation to be good to excellent. Still, 1 in 4 describe their current financial situation negatively as poor, okay or uncertain, and nearly 4 in 10 say they live paycheck-to-paycheck. Respondents say debt (22%), saving for retirement (18%), saving money in general (18%), and keeping up with daily living expenses (16%) are top financial concerns.

Fifty-seven percent say housing costs, like rent or mortgage payments, consume the most of their income. Other big ticket living expenses include food (44%), utilities (34%), and auto loan/lease (17%). Just 14 percent rate taxes as a top expense, which could be a low estimation of their top expenditures. Considering that 55 percent of survey respondents report incomes between \$75,000

and \$149,000, and the marginal federal tax rate is 22 percent for these earners, the cost of taxes is a top expense that can be reduced. Leveraging tax deferred savings — a key benefit of 401(k) plans — could reduce current income taxes for participants while they save for retirement.

As incomes top \$75,000, retirement savings become possible

An income of \$75,000 or more seems to be the income threshold that transitions individuals from “just getting by” to having extra money for financial goals like saving for retirement and unexpected expenses. Those earning less than \$75,000 are focused on financing their daily expenses and paying debt. A higher income would enable increased retirement saving (41%), paying off debt (27%), and boosting emergency savings (14%).

Overall, retirement plan contribution rates are low

Two in three respondents contribute 6 percent or less to their 401(k) plan, which for many may be well below the rate needed to secure their retirement. Seventy percent of respondents would rather save for retirement over spending today — 61 percent say they would reduce their nonessential spending to save \$5,000. But 1 in 5 would need to see bigger savings for them to sacrifice their current lifestyle.

Emergency expenses and debt fuel loans and withdrawals

Twenty one percent of survey respondents have taken a loan and 17 percent have made a withdrawal from their retirement accounts. With both loan and withdrawal activity, the money was most often needed to pay for an emergency expense, to reduce debt, to make a large purchase including medical or education expenses, or for a down payment on a home. Ideally, workers would have an emergency savings account with at least three to six months of their monthly income to pay for unexpected expenses. In the absence of savings, retirement plan loans or withdrawals are likely a better alternative to using a high interest credit card to cover expenses. Eighty percent of those surveyed plan to continue making 401(k) plan contributions in the future.

In the next six months, 17 percent anticipate taking a loan or withdrawal (16%) from their retirement savings. With a 401(k) plan loan, taxes and penalties don't apply and the borrowed money can be repaid back into the retirement plan account, which often makes loans a better option over withdrawals. Of those that have taken withdrawals in the past, 10 percent took a withdrawal because their plan didn't offer a loan feature or they couldn't afford the loan payments.

Unlike loans, some retirement plan withdrawals cannot be repaid to the participant's account. In addition, if taken prior to age 59 ½, a 10 percent penalty and income tax will apply — requiring participants to withdraw more to cover these costs, which further depletes their retirement savings and penalizes individuals in a time of financial need. Sixteen percent of those that withdrew savings in the past didn't understand the penalties that applied.

Expanded withdrawal options

The SECURE (Setting Every Community Up for Retirement Enhancement) 2.0 Act of 2022, includes provisions that remove restrictive penalties to enhance flexibility and liquidity in 401(k) savings to give plan participants access to their money in emergency situations. For example:

- the emergency withdrawal provision allows participants to withdraw up to \$1,000 per year for emergency expenses without triggering the early withdrawal penalty.
- qualified disaster withdrawals allow participants affected by a federally declared disaster to withdraw up to \$22,000 without incurring the 10% penalty tax. However, they are subject to taxation as income over a three-year period.

Both provision types also allow participants to repay the withdrawals to the plan.



4 in 10 live paycheck-to-paycheck

Conclusion

Plan sponsors can help employees balance saving for their future financial security with affording their current lifestyle through solutions that help remove employees' obstacles to saving. Here are some ways to improve your plan:



- Reviewing your plan health data, including plan leakage numbers, such as loans, withdrawals and distributions, can provide insight into whether your participants are struggling financially.
- Give participants more options. Discuss available SECURE 2.0 Act provisions that support employee financial well-being with your plan provider. Adopting emergency savings accounts and student loan matching contributions can clear hurdles that can negatively affect many workers' ability to save for retirement. Offering plan loan features, emergency and qualified disaster withdrawals would also expand flexibility and liquidity in 401(k) savings to help participants meet their financial needs.
- Promote available financial wellness programs. Many retirement plan providers offer financial wellness resources that teach financial resilience and provide support tools promoting financial literacy, emergency savings, debt relief and other financial goals.
- Enhance plan communications to highlight how tax deferred saving can reduce current income taxes, and ensure participants understand available options, rules and penalties when borrowing or withdrawing money from plan savings.



LET'S TALK. For more information about ADP retirement plans and how we design them to be engaging and easier to manage, visit us at adp.com/401k.

ADP RETIREMENT SERVICES 71 Hanover Road Florham Park, NJ 07932 ■ www.adp.com/401k

ADP commissioned Retirement Insights, LLC to develop and conduct a survey to gain insight and report the perspective of early career workers about their retirement preparations and financial well-being. The survey was completed in April 2025 and included a national sample of 500 401(k) participants, ages 25-65 and earning between \$25,000 and \$199,000.

Nothing in this material should be construed to create or provide for any other relationship between ADP, Inc. and its affiliates and Retirement Insights, including but not limited to joint venture or partnership.

ADP, Inc. and its affiliates do not offer investment, tax or legal advice to individuals. Nothing contained in this communication is intended to be, nor should be construed as, particularized advice or a recommendation or suggestion that you take or not take a particular action. Questions about how laws, regulations, guidance, your plan's provisions or services available to participants may apply to you should be directed to your plan administrator or legal, tax or financial advisor.

Only registered representatives of ADP Broker Dealer, Inc. (ADP BD), Member FINRA, an affiliate of ADP, Inc. One ADP Blvd, Roseland, NJ 07068 or, in the case of certain products, a broker-dealer firm that has executed a marketing agreement with ADP, Inc., may offer and sell ADP retirement products or speak to retirement plan features and/or investment options available in such ADP retirement products.

ADP, the ADP logo and Always Designing for People are trademarks of ADP, Inc. All other trademarks and service marks are the property of their respective owners. Copyright © 2025 ADP, Inc. All Rights Reserved.

99-7656-PS-0825 M-779375-2025-07-28

