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401(k)s tapped for loans less than in 2007

Hardship withdrawals are up, plan data show

By Lisa Shidler
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Despite reports this year that more people were borrowing from their 401(k) plans to cover daily expenses, the latest data from several plan providers show that the number of loans have fallen in some cases.

However, most companies still show an increase in the number of participants taking hardship withdrawals, but they say that in those cases, most people desperately need the money to prevent home foreclosures.

Companies that have shown a decrease in 401(k) loans so far this year include Boston-based Fidelity Investments, Great-West Retirement Services of Greenwood Village, Colo., New York-based Merrill Lynch & Co. Inc., The Charles Schwab Corp. of San Francisco and Baltimore-based T. Rowe Price Group Inc.

The number of new 401(k) loans overall for the first six months of the year declined by 7%, compared with the first half of 2007, according to data compiled by Hewitt Associates LLC, a Lincolnshire, Ill.-based global human resources firm.

"It does show the decline in the number of new loans, which is contrary to what the press and all of the noise has been showing," said Alison Borland, who is in charge of Hewitt's defined contribution consulting business and is based in Nashville, Tenn.

Retirement leaders began to fear that consumers were borrowing from their retirement funds to pay for expenses, and that hasn't held true, she said. "The good news is, the fears that people who were raiding their 401(k) just to cover daily expenses for food and gas doesn't tend to be happening," Ms. Borland said.

No groups track 401(k) loans on an updated quarterly basis, though major fund companies track their own loan data.

During the past two years, T. Rowe Price said, its loans per total participants have risen about 2% to 3%, but year-to-date through this June, new loans per total participants had fallen 7%, compared with the first half of 2007.

The good news is that the data show that participants are still protecting their retirement savings on the whole, said Stuart Ritter, a certified financial planner with T. Rowe Price.

"There's not a wholesale move to drain retirement accounts, and people aren't mortgaging their future just to get through," he said.

Loans remain historically low at Fidelity Investments, which shows that the percentage of workers initiating a loan during the second quarter was 2.8%, down from 3.1% a year earlier.

Data from Great-West Retirement Services, which combines its loans and hardship withdrawals, show that the new loans and new hardship withdrawals in the second quarter were at 1.1%, compared with 1.15% a year earlier. However, the loans and withdrawals were higher in the first quarter this year, compared with a year ago.

At Schwab, there has been a slight decrease in new loans every quarter since the third quarter of 2007. In the first quarter this year, 0.9% of participants took out new loans from their 401(k) plans, compared with 1% of new participants in the first quarter of 2007.

Vanguard's new loans in the first quarter fell 3.12% from a year earlier.

Although participants at certain companies or in certain parts of the country might be borrowing more money, overall in the past few years, there has been no uptick in loans at Vanguard, said Stephen P. Utkus, director of the Vanguard Center for Retirement Research. "The loans have been uninteresting to us for a couple of years," he said.

At Merrill, the number of general-purpose loans declined 3.8% for the first half, compared with a year earlier. However, residential loans declined 19.8%, and Kevin Crain, managing director for institutional client relationships, thinks the fact that fewer people are borrowing money to purchase homes is directly related to the slumping economy.

But hardship withdrawals at Merrill Lynch soared 22.7% from a year earlier.

Participants have begun to realize that a 401(k) loan should be used only in financial emergencies, and not simply to help fund daily expenses, said Catherine Miller, Richfield, Ohio-based vice president of participant services and advice with Schwab.


Kevin Crain: General-purpose and residential loans have fallen at Merrill.

THINKING TWICE

"If someone's taking a loan, it's their last resort," she said. "I hear a lot of conversations with representatives, and after talking to an employee, once they understand the pitfalls, they think twice about taking a loan."

But plan participants are still taking out loans to pay off credit card debt, according to Allan J. Chappelle, president of Chappelle Consulting Group Inc. in Birmingham, Ala., which has about $500 million in assets. He advises companies about their 401(k) plans and said that employees like the option of borrowing money from their plans.

"When we go over our statistics in our investment review, there are quite a few clients that have more than half of the employees with loans," Mr. Chappelle said.

However, Terrence Morgan, an adviser and president of Oklahoma City-based OK401k Inc., which advises companies on their 401(k) plans, said he hasn't noticed a spike in loans. Mr. Morgan, who handles 401(k) plans for companies in Arkansas, Oklahoma and Texas, among other states, declined to disclose his assets under management but on average works with plans with about $1 million in assets.

"The blue-collar worker here is doing just fine," he said. "The average Joe is not accessing his account like an ATM."

Meanwhile, Ming Hatch, a spokes-woman for Reserve Solutions Inc., didn't return a phone call seeking comment. The subsidiary of The Reserve in New York offers the ReservePlus debit card, which allows investors to tap into their 401(k) plan for loans.

PRUDENCE PREVAILS

While the average 401(k) loan is about $8,000, according to 2006 data from the Washington-based Employee Benefit Research Institute, the average loan through the Re-servePlus program was $4,852 as of March 17 (*InvestmentNews*, April 14).

In the long run, it seems that consumers are being prudent about loans, said Michael Doshier, vice president of marketing for Fidelity.

"We always counsel people to think long and hard whether what you're borrowing the money for is worth it. You don't want to sacrifice a successful retirement for having a newer car," Mr. Doshier said.

E-mail Lisa Shidler at lshidler@investmentnews.com.