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T. Rowe Price Publishes New Study Showing That 401(K) Loans Are on the Rise and Emergency Savings Are Low Amid Inflation in First Half 2023

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New report also shows low exchange activity, especially among target date investors

BALTIMORE, Sept. 26, 2023 /PRNewswire/ -- T. Rowe Price, a global investment management firm and a leader in retirement, has published a report detailing plan sponsors' and participants' reactions to continued inflation and economic challenges in the first two quarters of 2023. The report examines retirement behavioral trends and correlations between the challenging economy with rates of savings for retirement.

401(k) loans are on the rise and have consistently increased since a low in 2020, but have yet to reach pre-pandemic levels. Loans decreased at the beginning of the pandemic, due in part to the special COVID-related distributions. While the current percentage of participants taking loans increased in all age groups, average loan amounts decreased from 2022 to 2023 among all age groups except participants aged 50–59, who also hold the highest loan balances. Participants who take loans or hardship withdrawals are less likely to use the auto-increase service, which automatically increases deferral rates each year.

The study found that most participants are not financially prepared for an emergency, with 70% of participants reporting that they have not saved six months' worth of expenses for an emergency. Further, 46% say that they have less than \$1,000 saved for unexpected expenses. Participants cited rising credit card debt, mortgage payments, and car payments as the top three reasons for an inability to save.

Despite continued inflation in the first half of 2023, participants mostly held their ground with an average deferral rate of 8.5%. The exchange rate has remained relatively stable since 2018, except during the period of market volatility in 2020. Participants who invest 100% in target date investments continue to have the lowest average exchange rate compared with participants who invest partially or not at all in a target date product. The highest exchange activity has been by participants who do not invest in target date products.

The report also found improved participant engagement driven by personalized communications. Participants have consumed a greater amount of digital retirement planning and savings content so far in 2023, specifically educational videos around financial wellness. These popular programs focused on budgeting, retirement readiness, and maximizing 401(k) plans.

Key Highlights:

- Participants were 24 times more likely to stay the course when invested 100% in a target date product.
- Participants were two times less likely to opt-in to auto-increases when taking a loan or a hardship.
- Less than 13% of participants start making catch-up contributions when they're eligible at age 50.
- Participants were five times more likely to seek additional resources and two times more likely to increase their deferral rate after watching a personalized educational video.

"While we are encouraged to see participants continuing to maintain savings levels and take advantage of personalized education, people need help addressing debt, emergencies, and overall financial health" said Rachel Weker, senior retirement strategist for Retirement Plan Services at T. Rowe Price. "Participants need more education to continue improving financial health by balancing competing priorities, like debt and emergencies, with retirement savings."

To view highlights of the report, click [here](#).

ABOUT THE REPORT

The Q2 Reactions Report was published by T. Rowe Price Retirement Plan Services, Inc. This report is part of an ongoing series of participant reactions reports to provide timely data to identify emerging participant trends and share potential actions plan sponsors and retirement professionals can take to support savers. The topical insights are derived from analyzing our full-service universe of retirement plans.

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