



Pandemic Heightens Focus on Financial Preparedness

If uncertainty has you focused on short-term saving needs, you're not alone.

December 2020

KEY INSIGHTS

- Workers have been focusing on building up their emergency funds and cutting household expenses during the coronavirus pandemic.
- Retirement saving is still a priority. Savings rates remain steady in workplace plans. Saving outside of employer plans has also gained momentum.
- At the same time, furloughed workers are experiencing more financial stress and expect to withdraw money from retirement accounts within the next 12 months.

The coronavirus pandemic has turned many Americans' savings and financial lives upside down, jolting many both physically and financially in 2020. The accompanying economic downturn caused several industries to temporarily shut down. Many businesses have struggled to open and stay open under new safety guidelines.

While it may be a challenging time to save for retirement, we are encouraged that many of us are saving for the future while shoring up financial reserves.

The pandemic has forced all of us to take a long, hard look at being prepared for the unexpected. When T. Rowe Price fielded its annual Retirement Savings and Spending Study in June 2020, 60% of households who save in 401(k) plans said the pandemic has affected their job

or income, and almost 50% reported increased financial stress. Yet many of us have found resilience in being resourceful. Going back to the basics of budgeting, saving for emergencies, and even saving specifically for health care expenses has made a comeback.

Increased Savings, Reduced Spending

The good news is that prioritizing short-term savings goals hasn't come at the expense of saving for retirement because the average 401(k) contributions have held steady at 8%. In fact, approximately one-third of 401(k) savers cut spending since February in response to market events. The temporary closure and reduced capacity of some businesses, coupled with restrictions on travel, likely accounted for some of the reduced spending.



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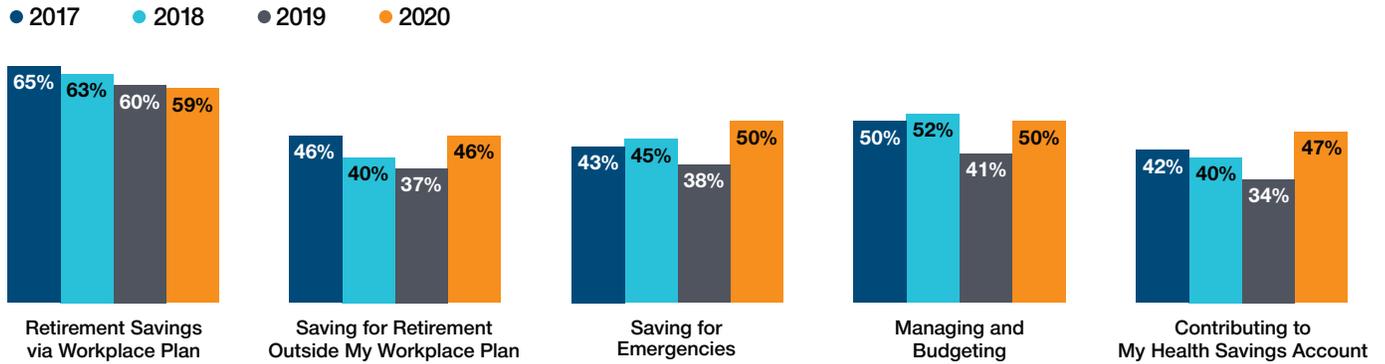
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More Workers Are Prioritizing Saving in Easily Accessible Accounts

(Fig. 1) A look at year-over-year change in “major” financial objectives of 401(k) savers



Source: T. Rowe Price Retirement Savings and Spending Study (2020).

32%

of 401(k) savers say they have cut spending since February 2020

Others might have cut spending because of their loss of income. Whether the drop in expenses was more circumstantial than intentional, 50% of workers reported that managing and budgeting for daily expenses is a major financial objective.

Reevaluating spending needs and developing a budget can help meet short-term obligations while keeping longer-term savings goals on track. This exercise will help as the economy gradually begins to resume pre-pandemic operations and we reassess spending and saving priorities.

Financial Objectives Focus on Saving

Financial experts have long stressed the importance of having an emergency fund that could cover three to six months of expenses in case of a job loss, a decrease in income, or other financial shock. Keeping this money on hand serves as the first line of defense so that individuals aren't tempted to withdraw from retirement savings.

Additionally, the reported increase in those saving for retirement outside of an employer plan may indicate that while it's important to save for the future, being able to easily access the money is also important.

Our survey, which was fielded during the pandemic, asked 401(k) savers what their major financial objectives were. Fig. 1 shows a sizable year-over-year increase in the following areas:

- Saving for emergencies (50% up from 38% in 2019)
- Managing and budgeting for daily expenses (50% up from 41% in 2019)
- Contributing to a health savings account (47% up from 34% in 2019)
- Contributing to retirement savings outside a workplace account (46% up from 37% in 2019)

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Furloughed Workers Are in a Tough Spot

The survey also revealed a group of highly vulnerable workers—the furloughed—who report higher levels of financial stress (62%). Nine out of 10 people who were furloughed in 2020 said they are concerned about losing their job. This group faces not only short-term financial challenges (such as managing day-to-day expenses), but also uncertainty around their financial future and retirement readiness.

Not surprisingly, 57% of furloughed workers now believe they will need to change when they planned to retire because of the coronavirus pandemic compared with 46% of other workers.

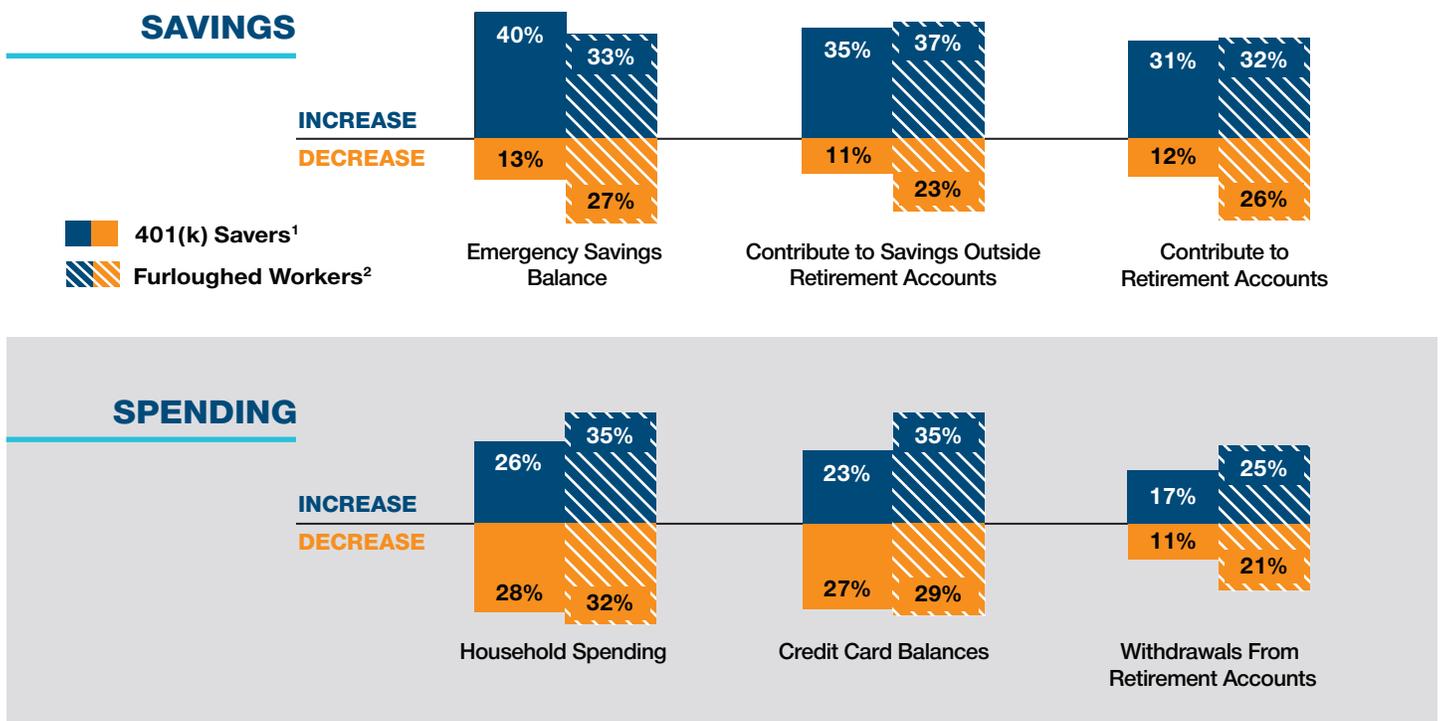
What May Lie Ahead

Looking forward, individuals seem committed to prioritizing short-term savings for the next 12 months, as shown in Fig. 2. Both working and furloughed individuals expect to increase their emergency savings as well as continue to save outside of retirement accounts ahead of contributing to retirement accounts within the next year.

Furloughed workers also foresee needing to withdraw from their retirement accounts (potentially taking advantage of Coronavirus Aid, Relief, and Economic Security (CARES) Act provisions, if eligible) or expect to carry credit card balances more so than those who have not been furloughed.

Focus Continues on Increased Saving and Reduced Spending

(Fig. 2) Over the next 12 months, 401(k) savers and furloughed workers anticipate these financial adjustments



¹ Those who were working part-time or full-time and saving in a 401(k) plan when surveyed June 5-24, 2020.

² 401(k) participants whose job status was 'furloughed' when surveyed June 5-24, 2020.

Source: T. Rowe Price Retirement Savings and Spending Study (2020).

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Steps We Can Take to Address Financial Challenges

Before pausing retirement contributions, consider these options when challenging financial circumstances arise.

1. Stretch short-term available cash by cutting expenses when possible. Discuss payment options with creditors for any short-term relief options. If your spending patterns have changed, it may be a good time to revisit your household budget.
2. Use emergency reserves or other savings outside of retirement accounts to help fund near-term expenses.
3. Explore low-interest rate borrowing options (e.g., home equity line of credit, refinancing a mortgage).
4. Carefully weigh the pros and cons of retirement account loans and withdrawals. While the CARES Act has relaxed some tax consequences for those who qualify for coronavirus-related withdrawals from retirement accounts, accessing these funds now may be at the expense of retirement readiness down the road.
5. Avoid using high-interest credit cards. While we may need to use credit cards for an unexpected expense or for a short time period, using them in perpetuity for daily expenses can cause even more long-term financial stress.

Confidence for the Long Term

We are all learning how to navigate our finances during this unprecedented time. Many of us have been able to continue saving for retirement, while some of us have had to rethink our financial priorities. It's OK to ask for help. Your employer or financial institution may have some information and resources to help you get through a challenging period. Securing your current financial situation may help you feel more confident in the long run. Then, you can refocus on retirement planning once the uncertainty of your situation subsides.

ABOUT OUR STUDY

The Retirement Savings and Spending Study was conducted by NMG Consulting on behalf of T. Rowe Price and included a sample of 3,420 retirement plan participants, 631 individuals without access to workplace savings plans, and 190 furloughed participants. It also included 1,007 retirees who have retired with a Rollover IRA or left-in-plan 401(k) balance. The survey was conducted online from June 5–24, 2020.

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