

Initial Impacts of Coronavirus on Global Defined Contribution Plans

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▶ EXECUTIVE SUMMARY

This report provides a snapshot of initial policy responses related to participant access to defined contribution (DC) plans in various global markets as of May 15, 2020. For context, while the coronavirus pandemic has affected 188 countries¹, the timing and intensity of the pandemic has varied significantly across the world. Country practices and retirement plan systems vary globally. As such, a country's policy decision may not only reflect their stance towards DC plan assets but also whether the country has a robust safety net or other significant sources of guaranteed income.

▶ FOR FURTHER READING

To learn more about global defined contribution, visit the DCIIA Global Committee's [webinars archive on the DCIIA website](#) (visit Committees / Global Committee).

INTRODUCTION

While the timing of the coronavirus pandemic's arrival and impact on various country populations varied across the globe, related market reversals affected the global economy as the pandemic's nature became clear and investors began to assess the expected economic impacts. Once the market effects began, policymakers in some countries with substantial DC workplace savings systems (notably Australia, the United States and Malaysia) quickly decided to allow plan participants to withdraw cash and/or originate loans.

As the commentary taking place in some countries suggests, these decisions possibly signal that urgent or emergency savings plans delivered at the workplace could be reaching an inflection point in terms of recognized employee need and/or policy acceptance. Workplace savings are no longer seen as only a retirement savings vehicle. They are also beginning to be viewed as a multi-purpose vehicle for savings and for emergency liquidity.

DC plan administrators and regulators in countries around the world acknowledge the need to balance access to emergency liquidity with the long-term integrity of retirement savings plans. For example, in the U.K., the National Employment Savings Trust (NEST) has an emergency liquidity pilot program underway² that is being closely watched by established and emerging DC savings plans.

Stakeholders in DC savings programs worldwide have come to understand that providing emergency liquidity access or loans against long-term savings can instill confidence and encourage higher levels of plan enrollment and savings deferrals.³ There are a number of options for creating emergency liquidity including side car savings programs, social insurance (e.g., unemployment), and other government programs (e.g., paid leave).

Policymakers face a delicate challenge: how to allow plan participants to access DC savings that they own (which is not the case with defined benefit pensions and related first pillar global programs) while ensuring that these short-term withdrawals do not impair the long-term strategy of building retirement savings.

Notwithstanding the potential for emergency access, it's clear that careful calibration of managed savings, managed investments and managed loans and withdrawals has become a vital consideration for plan participants, sponsors, service providers and governments. For example, in the U.S., plan sponsors have generally reinforced the message that plan participants should "stay the course," avoiding hasty investment reallocations in reaction to market volatility. Indications from plan recordkeepers are that participants are proceeding with caution.

According to a recent Vanguard study, "The CARES Act: One month later"⁴, 99% of plans that submitted an election form to Vanguard permitted coronavirus-related distributions (CRD), with 82% extending this provision to all participants—employed and terminated. These withdrawals were undertaken by 0.9% of plan participants. The average withdrawal has been \$19,000 or 60% of their balance. Some 57% of those withdrawing drew down 50% of their balance, with 3% withdrawing the maximum allowance of \$100,000. In terms of loans, Vanguard states that there were only 0.1% of participant-initiated loans based upon the expanded limits. Of these, 20% were in excess of \$50,000; 2% of those with existing loans requested delayed repayment.

The table below lists countries maintaining DC systems and provides a quick status around their adoption of participant withdrawals in response to the coronavirus pandemic:

Emergency Impacts on Global DC Savings Plans: Implementation of Withdrawal Provisions

| | WITHDRAWAL ALLOWED | CORONAVIRUS RELATED PROVISIONS (AS OF MAY 15, 2020) |
|-----------------------|--------------------|---|
| Australia | Yes | Australians rendered unemployed/underemployed may withdraw A\$10,000 (USD\$5,800) from their Superannuation savings plans in 2020 and again in 2021. |
| Canada | No | No withdrawal provisions for Registered Retirement Savings Plans (RRSPs). |
| Chile | No | No withdrawal provisions. |
| Denmark | No | No withdrawal provisions. Government package provides workers with 75% of salaries in coronavirus-impacted businesses; 90% for hourly workers. |
| Hong Kong | No | No special withdrawal provisions. Contingent workers with Mandatory Provident Fund (MPF) accounts can receive a HKD\$7,500 (USD\$968) one-off relief payment. |
| Ireland | No | No withdrawal provisions. |
| Japan | No | No withdrawal provisions. |
| Malaysia | Yes | Malaysians below age 55 will be allowed to withdraw 500 ringgit (USD\$114) per month for 12 months from the Employees' Provident Fund (EPF), for a total of 6,000 ringgit (USD\$1,368). |
| New Zealand | No | The Kiwi Saver program already allows hardship withdrawals for participants struggling to meet expenses, pay mortgages or deal with health care impacts. Applicants need to provide a notarized application and evidence of hardship; given the coronavirus dangers, industry has proposed digital (remote video) notarization. |
| Peru | Yes | Government has authorized withdrawals of up to 3,000 soles (USD\$890) from accounts in three tranches; a bill before Congress would authorize the withdrawal of up to 25% of balances. |
| Singapore | No | Singapore has thus far allowed no withdrawals from the Central Provident Fund (CPF). Opposition political figures have urged that workers be allowed to withdraw S\$500 (USD\$350) monthly. |
| United Kingdom | No | No withdrawal provisions from master trusts. |
| United States | Yes | <p>Plan sponsors are permitted to amend their plans to allow some or all of the following: Distributions in 2020 up to \$100,000 (or 100% of the account balance, if less) to qualifying participants, without the 10% early withdrawal penalty.</p> <p>Participant loans may increase the maximum that may be taken by a qualifying participant from \$50,000 to \$100,000 (or 100% of the account balance, if less). Loans taking advantage of the increased limit must be initiated within 180 days of the enactment of the CARES Act (i.e., before September 23, 2020).</p> |

Further details around each country's response are below. These perspectives are drawn from media accounts and informal surveys of industry colleagues. The situation remains dynamic and recovery strategies and datapoints are subject to change:

AUSTRALIA

Australia has the world's fourth-largest retirement finance market, with some A\$3 trillion in DC superannuation savings assets.⁵ The superannuation industry foresees potential liquidity crunches for some of the smaller, more vulnerable Super plans (particularly in hard-hit industries like travel, hospitality and retail), possibly accelerating a merger trend that has been in evidence over the past few years.⁶

On March 22, 2020, Australia's government announced that unemployed Australians, including those either made redundant this year or facing a 20% reduction in working hours, will be able to withdraw A\$10,000 (USD \$5,800) from their superannuation accounts through June 30 (the end of the current fiscal year), and another A\$10,000 in the first quarter of the new year. According to Australian press accounts,⁷ some 466,000 Australian savers—mostly younger, low-balance members—were approved for hardship early access to their superannuation savings withdrawals through April 24. A significant proportion of older, high-balance workers have also opted to withdraw the full A\$10,000.

The Australian government has estimated that allowing plan participants to withdraw A\$20,000 (USD\$13,000) from their superannuation accounts could result in A\$30 billion (USD\$19.5 billion) in withdrawals. Industry executives have predicted that withdrawals might be twice this high,⁸ with withdrawals focused on the travel, hospitality, and retail sectors. Policymakers allowing this emergency access to funds may well be trying to avoid a freezing of redemptions—as took place with certain superannuation funds during the global financial crisis.⁹ Despite predicting that the superannuation complex might shrink by as much as 25%, the Reserve Bank of Australia has refused, so far, to provide a “liquidity backstop” for the sector.¹⁰

Stressing the role of Australia's A\$3 trillion (USD\$1.9 trillion) in workplace savings for capital markets and infrastructure, the [Association of Superannuation Funds of Australia \(ASFA\)](#) has warned against the government allowing too-easy access to savings. In particular, ASFA called on the government to “stay the course” with respect to a scheduled increase in compulsory superannuation deferrals from the current 9.5% of salary to 12% by 2025.

CANADA

The Canada Revenue Agency is waiving the mandatory one-percent minimum employer contribution to DC pension plans for the remainder of 2020—provided that plans are amended to suspend accruals and that no employer or employee contributions are made for the rest of the year.

At the time of publication, no provision had been made for early withdrawals or loans from [Canadian Registered Retirement Savings Plans \(RRSPs\)](#), which are retirement savings plans free of tax until funds are withdrawn—roughly analogous to a U.S. 401(k). RRSPs have two standing programs for early withdrawal: a Home Buyer's Plan and a Lifelong Learning Plan. With both provisions, funds may be withdrawn tax-free and re-contribution is allowable over 10 or 15 years. Notwithstanding the inherent programmed withdrawal structure upon which the Canadian DC system is built, the policy community is actively debating whether government should allow “non-punitive” early access to RRSP savings. Proponents of crisis-related withdrawals stress that crisis-related family obligations are at least as critical as home purchasing or education.

CHILE

Chile has not yet allowed plan participants to withdraw funds from the country's DC retirement savings system, although this has been advocated by political opposition figures. Chile's Central Bank did increase the maximum investment limits on alternative assets for four of the country's five public pension funds from 5% to 15% of AUM. Chile's DC AUM was USD\$171B at the end of March, down from USD\$215B at the end of last year.

DENMARK

Denmark—with DC savings worth in excess of 200% of GDP and routinely cited as among the world's best retirement finance markets¹¹—has allowed no special early withdrawals or loans in response to the coronavirus market crisis. The government has instead negotiated a package between government and “social partners” covering 75% of employee salaries in businesses impacted by the pandemic. Hourly staff may receive 90% of wages.

HONG KONG

The government has urged participants in the [Mandatory Provident Fund \(MPF\)](#) to stay the course and resist “selling low” into the market correction. No special provisions have been announced with respect to crisis-related withdrawals or loan programs. The MPF notes that it has recorded 13 years of positive returns over the past 19 years.

IRELAND

The government has not allowed for withdrawals.

JAPAN

[Japan's Government Pension Investment Fund \(GPIF\)](#) experienced 18 trillion yen (USD\$166 billion) in losses during the first quarter of the year, an estimate by Nomura Securities. No policy announcements have been made with regard to the country's nascent DC savings system.

MALAYSIA

Malaysians below the age of 55 will be allowed to withdraw 500 ringgit (USD\$114) per month from their [Employees' Provident Fund \(EPF\)](#) savings for 12 months, for a total of 6,000 ringgit (USD\$1,368). The [Malaysian Employers Federation \(MEF\)](#) has asked the government to reduce employers' required contributions to the EPF from 12%-13% to 5% and to temporarily exempt them from several taxes. Employee contributions were slashed from 11% of salaries to 7% at the end of February, before being cut again to 4% for the rest of 2020. The government approved 1.17 million applications for EPF withdrawals in April, worth some 572 million ringgit (USD\$132 million).

NEW ZEALAND

New Zealand's [Financial Markets Authority \(FMA\)](#) has expressed concern over a spike in people making hardship withdrawals from their KiwiSaver accounts during the coronavirus outbreak. FMA Chief Executive Rob Everett is urging savers to stay the course during what he called "a period of market destruction that we haven't seen since KiwiSaver got set up." The Financial Services Council—the industry body of KiwiSaver providers—has lobbied government to find practical ways for savers to file for hardship withdrawals that don't involve physical notarization of documents. In press accounts, KiwiSaver fund administrators have also noted shifts to more conservative allocations.

Predicting KiwiSaver participant reactions to the coronavirus market corrections will be difficult because most program participants are experiencing a substantial market correction for the first time. Little can be learned from savers' reaction to the 2008 global financial crisis, for example. KiwiSaver was launched in July 2007, only months before the financial hit. Most participant balances were tiny, and many consisted of only a NZ\$1,000 "kickstart" deposited by government into new accounts.¹²

PERU

Government has allowed DC retirement savers to withdraw up to 3,000 soles (USD\$890) from their accounts in three tranches. A bill before Congress would allow savers to withdraw up to 25% of their savings. Peru's four Pension Fund Administrators (AFPs) manage some 154B soles (USD\$46B).

SINGAPORE

The Singaporean government has offered up a variety of support funds for families and workers. However, thus far it has provided no special access to savings in the country's [Central Provident Fund \(CPF\)](#) DC savings program. This has not kept policymakers from debating the matter. Opposition leaders have urged the government to allow Singaporeans to withdraw S\$500 per month (USD\$350) from their CPF, following the example of Malaysia. Others have called for a one-off withdrawal allowance of S\$5,000 (USD\$3,500). The opposition has also proposed lowering the age (currently 55) at which savers may begin withdrawals from the CPF.

UNITED KINGDOM

The [Pension Advisory Service \(TPAS\)](#) has urged caution against DC savings withdrawals prior to anticipated market recovery. DC participants age 55 and older have had relatively easy access to their accounts for some time before the coronavirus appeared. In initial guidance, the [Pensions Regulator \(TPR\)](#) has relaxed its minimum 60-day consultation period for companies (with at least 50 employees) and established various criteria for considering a reduction in those savings levels. No tax-incentive provisions for loans or withdrawals have been put into place as yet. The [Financial Conduct Authority \(FCA\)](#) has cautioned advisors that the coronavirus has led more consumers to seek out advice on lump-sum transfers from their DB pension schemes to DC savings plans. The regulator stressed that advisors should only consider such transfers when they can clearly demonstrate that they are in clients' best interest. The 8.6 million-member [National Employment Savings Trust \(NEST\)](#), in which around 35% of new member savings is invested in cash for the first five years, has seen balances only minimally impacted, with initial losses of 17.6%, as compared with a 30% fall in the FTSE 100. Those near retirement have seen reversals of less than 1%.

UNITED STATES

The Coronavirus Aid, Relief, and Economic Security (CARES) Act is a \$2 trillion fiscal stimulus bill aimed at blunting the economic impact of the coronavirus crisis. Providing wide-ranging support to state and local governments, businesses and individuals, it also includes provisions aimed at 401(k) plans and Individual Retirement Accounts (IRAs).

Specifically, the CARES Act allows for several avenues of access to savings, most of which depend on the approval of plan sponsors:

- Suspending required minimum distributions from traditional IRAs and employer-sponsored plans for 2020.
- Waiving the 10% tax penalty for early “coronavirus-related distribution” (CRD) from IRAs and employer-sponsored retirement plans of up to \$100,000 (or up to 100% of the balance) for those under 59.5 years of age if:
 - The individual, their spouse, or their dependent has been diagnosed with COVID-19.
 - The individual experienced adverse financial consequences because they were quarantined, furloughed or laid-off, or because their employer reduced their working hours.
 - The individual experienced adverse financial consequences because they were unable to work due to lack of childcare.
- The CRD must be made on or after January 1, 2020 and before December 31, 2020.
- These early distributions are still subject to standard income tax rates, the repayment of which may be spread over three years, rather than in the year of distribution. No income taxes are due if the withdrawal is repaid within three years. Repayment is considered a rollover distribution.

- The CARES Act also allows participants to borrow up to \$100,000 from their savings (up from a previous maximum of 50%) and up to 100% of vested assets (up from 50%). Plan loans may be taken from March 27, 2020 through September 23, 2020.
- Loans typically have to be repaid within five years, depending on the terms of individual plans. However, if participants can't pay back loans within the time frame designated by the plan, outstanding balances may be taxed like a withdrawal and subject to a 10% early withdrawal penalty for those under 59.5 years of age.

Endnotes

- ¹ John Hopkins University & Medicine, Coronavirus Resource Center, coronavirus.jhu.edu
- ² <https://www.nestinsight.org.uk/nest-insight-launches-sidecar-trial/>
- ³ <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC6781879/>
- ⁴ <https://institutional.vanguard.com/VGApp/iip/site/institutional/researchcommentary/article/InvComCARESActOneMonth>
- ⁵ <https://www.superannuation.asn.au/resources/superannuation-statistics>
- ⁶ <https://www.investmentmagazine.com.au/2020/05/covid-19-triggers-new-merger-talks/>
- ⁷ <https://www.moneymanagement.com.au/news/superannuation/young-low-balance-members-dominate-early-release>
- ⁸ <https://www.michaelwest.com.au/emergency-piggy-bank-superannuations-achilles-heel-exposed-by-virus/>
- ⁹ <https://www.theguardian.com/australia-news/2020/mar/22/australia-is-easing-superannuation-access-for-those-worst-hit-by-coronavirus-but-can-we-afford-it>
- ¹⁰ <https://www.investmentmagazine.com.au/2020/04/rba-warns-super-funds-could-shrink-up-to-25/>
- ¹¹ <https://info.mercer.com/rs/521-DEV-513/images/MMGPI%202019%20Full%20Report.pdf>
- ¹² https://www.nzherald.co.nz/personal-finance/news/article.cfm?c_id=12&objectid=12179312

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