Commentary March 2026

How America withstands financial hardships

A primary objective for American workers is to achieve financial wellness by having the resources to manage day-to-day needs while still being able to plan for future goals. Retirement savings play a critical role in helping individuals build long-term financial security, and employers have supported this effort through features such as automatic enrollment, automatic contribution escalation, target-date funds, and advice. Together, these plan design innovations have increased participation rates, boosted savings levels, and improved asset allocation decisions among workers. As a result, retirement plan structures are stronger than ever, and participant saving and investment behaviors are at record highs.

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Still, strong plan design and positive saving behaviors represent only part of the financial wellness picture. Another key aspect involves allocating portions of income for both expected and unexpected future needs. In the absence of emergency savings outside of retirement plans, participants may turn to their retirement accounts to cover unexpected expenses—often through hardship withdrawals. While these withdrawals can provide necessary funds, they also carry penalties, reduce retirement savings, and potentially create long-term financial challenges. Balancing retirement savings with the need for liquidity in emergencies is therefore crucial for American workers.

In recent years, there has been a noticeable uptick in the proportion of participants initiating hardship withdrawals. While macroeconomic pressures such as inflation and rising interest rates may contribute to increased financial strain among households, trends in retirement plan designs and services are also influencing participant behavior. This commentary explores the rising use of hardship withdrawals, the plan provisions driving these patterns, and key considerations for plan sponsors.

Background

The landscape for Americans without emergency savings accounts is a concerning one. Many individuals and families are living paycheck to paycheck, with little to no savings to fall back on if faced with an urgent financial need. A recent study by the Federal Reserve shows that 37% of Americans do not have sufficient cash to cover a $400 emergency expense,[1] and a survey of Vanguard 401(k) participants found that 45% have less than $2,000 in emergency savings.[2] These findings highlight the vulnerability of many Americans to unexpected expenses, such as car repairs, medical bills, or job loss, which can lead to financial stress and even bankruptcy.

The lack of emergency savings can also have a negative impact on financial wellness, or the overall health and well-being of an individual's financial situation, including the ability to manage money, make sound financial decisions, and plan for the future. Without emergency savings, individuals may rely on high-interest credit cards or loans to cover expenses, which can lead to a cycle of debt and financial insecurity. They may also turn to their retirement savings. While defined contribution plans are designed as long-term retirement savings vehicles, participants in these plans may need to rely on hardship withdrawals from their accounts to cover financial emergencies.

of Vanguard 401(k) participants have less than $2,000 in emergency savings.

Hardship withdrawals

Hardship withdrawals from defined contribution plans are generally permitted under certain circumstances, including:

- Medical expenses for the employee, their spouse, or dependents.
- Purchase of a primary residence.
- Payment of tuition, fees, and related educational expenses for the next 12 months of postsecondary education for the employee, their spouse, or dependents.
- Preventing eviction from or foreclosure on the employee's primary residence.
- Funeral costs for the employee, their spouse, or dependents.
- Expenses to repair the employee's primary residence.
- Costs related to a federally declared disaster.

The amount that can be withdrawn is limited to the amount necessary to meet the immediate need, and the withdrawal is subject to income tax and a 10% early-penalty withdrawal for those under the age of 59½.

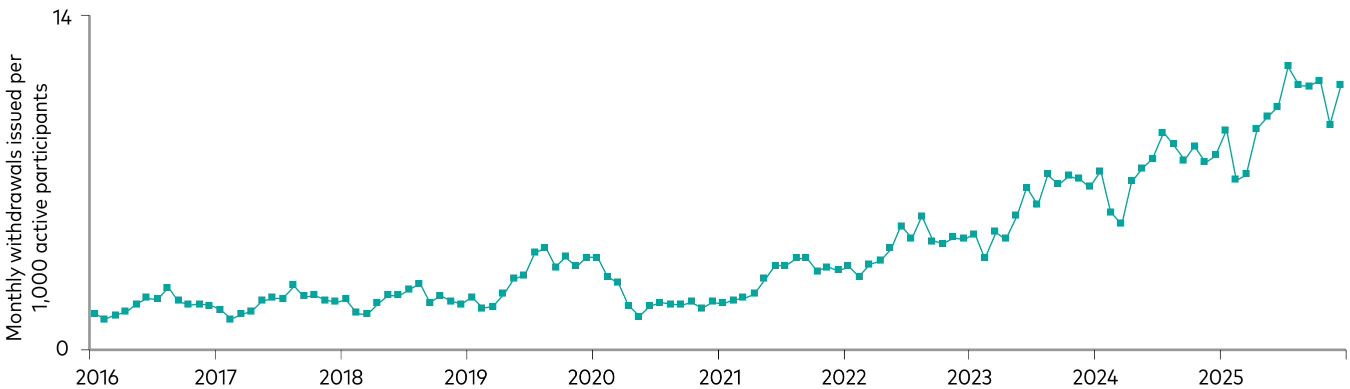
Use of hardship withdrawals

Historically, hardship withdrawal transactions followed a relatively modest, consistent pattern **(Figure 1)**. In the second half of 2019, however, the Bipartisan Budget Act of 2018 introduced changes that expanded access to retirement plan assets for hardship reasons. These changes, intended to ease plan administration and provide participants with greater financial flexibility, led to an immediate increase in withdrawals.

In 2020, hardship withdrawal activity decreased during the COVID-19 pandemic, likely because of the availability of coronavirus distributions in most retirement plans. These distributions carried more favorable tax treatment and did not incur penalties. By the second half of 2021, hardship withdrawal activity reverted to prepandemic levels and has continued to increase in subsequent years.

1 Board of Governors of the Federal Reserve System, 2024.
2 *Emergency Savings Protect Retirement Savings.* Vanguard, 2025.

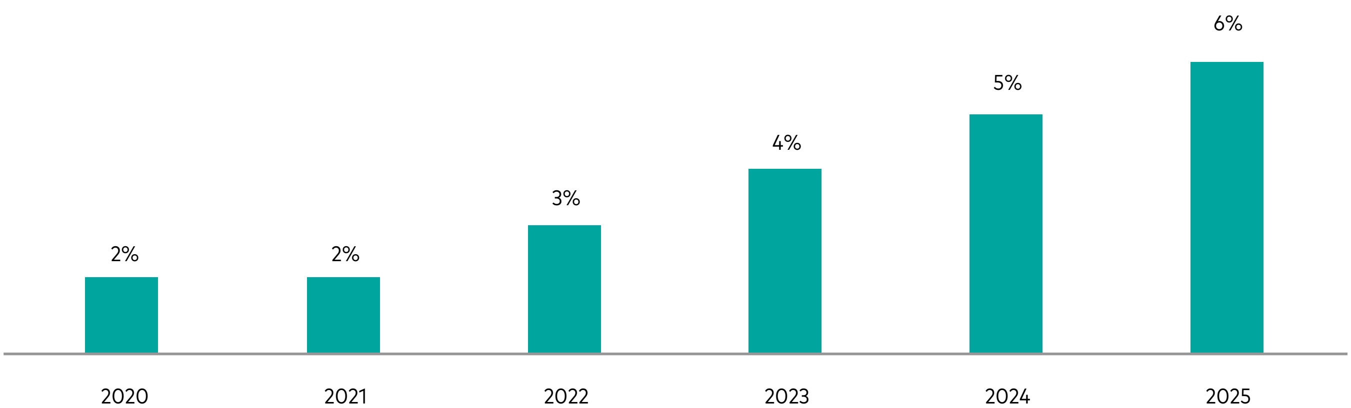
Figure 1. Hardship withdrawal trend



Source: Vanguard, 2026.

As a plan feature, hardship withdrawal provisions are commonplace, with 95% of all defined contribution plans offering them in 2025. Of participants permitted to take hardship withdrawals, 6% initiated at least one in 2025, up from 5% in 2024 **(Figure 2)**.

Figure 2. Participant use of hardship withdrawals

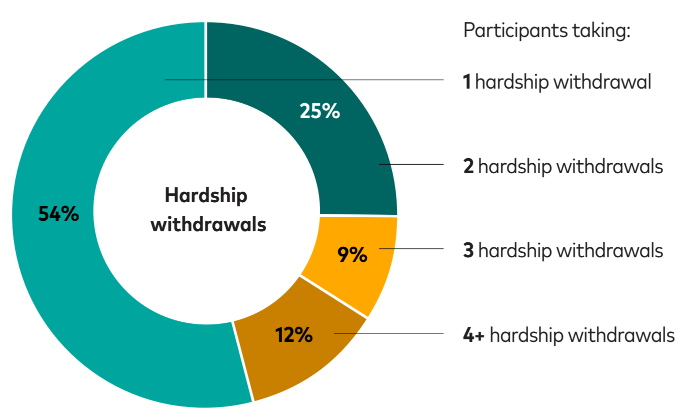


Source: Vanguard, 2026.

Additionally, 46% of participants who initiated a hardship withdrawal in 2025 took more than one throughout the year, including 21% who took three or more **(Figure 3)**.

The median hardship withdrawal amount in 2025 was $1,900. At this level, one or two withdrawals over a 30- to 40-year career are unlikely to affect retirement readiness. However, nearly half of participants who made hardship withdrawals took multiple distributions, essentially using their retirement plans as emergency savings. Frequent hardship withdrawals can, over time, undermine retirement savings.

Figure 3. Hardship withdrawal frequency, 2025
Percentage of participants who initiated a hardship withdrawal



Source: Vanguard, 2026.

Hardship withdrawals by income

Income is a determinant factor in the use of hardship withdrawals. Participants who earn less than $100,000 a year are about 3.5 times more likely to take a hardship withdrawal **(Figure 4)**. And while 40% of all participants earn more than $100,000 a year, they account for just 16% of all hardship withdrawal activity.

Figure 4. Hardship withdrawals by income, 2025

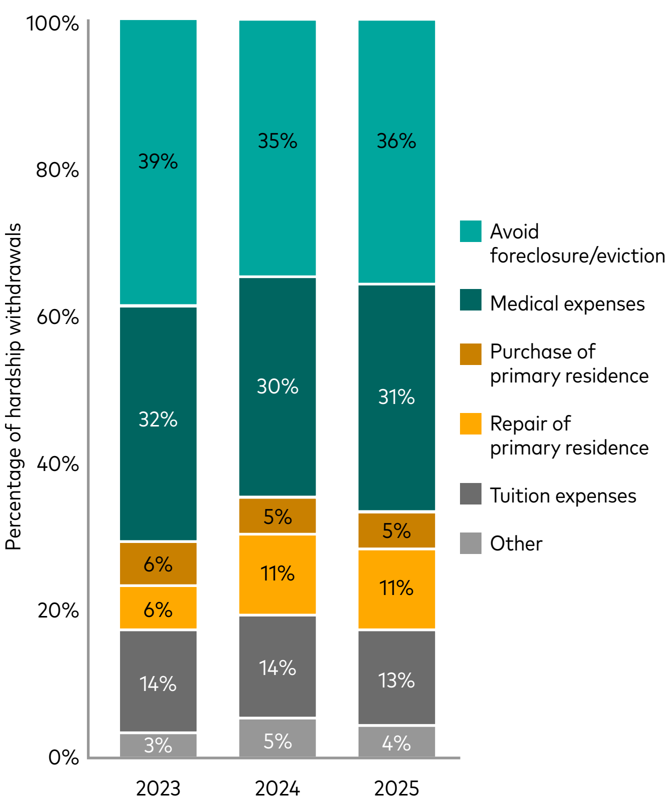
Participant income	Distribution of all participants	Percentage of participants taking hardship withdrawals	Distribution of participants taking hardship withdrawals
<$50,000	24%	9%	35%
$50,000–$99,999	36%	8%	49%
$100,000–$149,999	19%	3%	11%
$150,000+	21%	1%	5%

Source: Vanguard, 2026.

Reasons for hardship withdrawals

Over the past few years, the most common reason for hardship withdrawals has been to prevent foreclosure on or eviction from a primary residence. In 2025, 36% of hardship withdrawal requests were initiated for this reason **(Figure 5)**. Another one-third of requests were initiated to cover medical expenses, consistent with the previous two years. The distribution of reasons for taking hardship withdrawals has remained largely unchanged, indicating that the overall increase in withdrawals reflects a proportionate rise across all reasons rather than a change attributable to any single one.

Figure 5. Trends in hardship withdrawal reasons

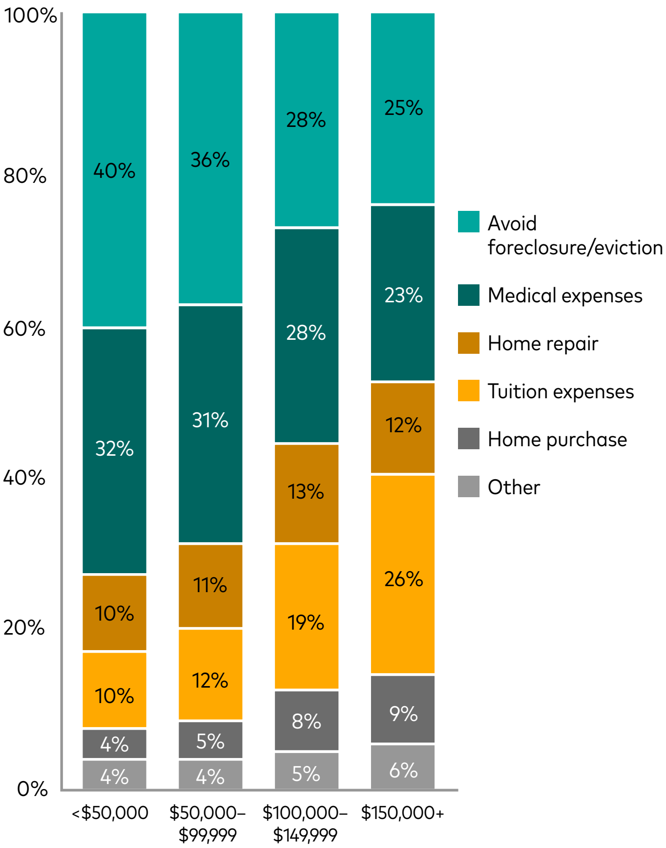


Source: Vanguard, 2026.

While higher-income participants are less likely to initiate a hardship withdrawal, they are more likely to use them for home purchases or tuition payments **(Figure 6)**. By contrast, about 70% of hardship withdrawals by lower-income participants are used for either avoiding eviction from their home or covering medical expenses.

These figures point to the value that financial wellness and education could offer a wide range of participants. For many workers, establishing an emergency savings account could help them prepare for spending shocks. And for others, especially higher-income participants, who are more likely to take hardship withdrawals for investment-related purposes such as tuition or home purchases, educating them on more efficient ways to save for these generally planned expenses could help improve their overall financial wellness and prevent pre-retirement outflows and penalties.

Figure 6. Hardship withdrawal reasons by income, 2025



Source: Vanguard, 2026.

Effect of automatic enrollment

As of 2025, 61% of plans were offering automatic enrollment, a design feature that has significantly improved retirement plan participation rates, especially among lower-income workers. In 2024, 89% of employees who earned less than $50,000 a year, and who worked for a company that offered automatic enrollment, participated in their plan. By comparison, just 35% of employees with similar incomes participated in voluntary enrollment plans.

Because automatic enrollment increases plan participation among lower-income workers, who are also more likely to initiate hardship withdrawals, plans with automatic enrollment tend to have higher hardship withdrawal rates than voluntary enrollment plans **(Figure 7)**. Overall, participants in automatic enrollment plans were about 30% more likely to initiate hardship withdrawals compared with those in plans with voluntary enrollment. Despite these findings, the benefits of automatic enrollment in helping lower-income workers save for retirement far exceed concerns about increased hardship withdrawal use.

Figure 7. Hardship withdrawals by plan design, 2025
Percentage of participants taking a hardship withdrawal

Source: Vanguard, 2026.

Impact of a loan requirement

The Bipartisan Budget Act of 2018 eliminated the requirement that participants take a loan before accessing retirement assets through a hardship withdrawal. Since 401(k) loans require a repayment plan (through payroll deductions), this earlier provision may have dissuaded some participants from taking a hardship withdrawal if they had concerns regarding ongoing loan repayments.

In 2025, about one-third of all hardship withdrawal participants had both access to a loan and no outstanding loan balance at the time of withdrawal. Even when looking at participants who took hardship withdrawals for the purchase of a new home—one of the less dire "hardship" reasons—46% had access to a 401(k) loan. While it is understandable that participants facing financial strain may prefer a hardship withdrawal to a loan that requires repayment, 401(k) loans, as an alternative, are more likely to help participants remain on track for retirement over the long term.

As part of Vanguard's digital participant experience, participants who inquire about hardship withdrawals are shown a comparison of hardship withdrawals and loans (when offered), along with a cautionary prompt: "Think carefully before taking a withdrawal from your retirement plan because there can be steep financial consequences. So you may want to consider another option first."

Impact of the administrative process

Vanguard offers plan sponsors three ways to administer hardship withdrawals. They can require documentation, provide a summary offer, or allow self-certification. Historically, all participants who requested hardship withdrawals were required to submit documentation regarding their specific financial need. As of year-end 2025, 10% of plans still require documentation for hardship withdrawals.

On the other end of the administrative spectrum is self-certification, an optional provision included in SECURE 2.0. Under this provision, participants need only certify that (1) the distribution qualifies under a safe harbor reason, (2) the amount of the distribution is not more than the amount necessary to meet the hardship, and (3) no alternative sources of funds are available. In 2025, 3% of plans adopted the self-certification provision.

The most common hardship withdrawal service, used by 87% of plans, is the summary offer. This service does not require participants to supply documentation up front but does require them to have records available should they ever be requested as well as to provide a limited amount of information about the financial hardship.

These three types of services are associated with starkly different behaviors. When documentation is required, only 2.5% of participants initiated a hardship withdrawal, compared with 8.5% of participants who used the most flexible option of self-certification. The commonly offered summary service had a use rate of 6.4% **(Figure 8)**.

While these streamlined hardship provisions provide participants with greater flexibility in accessing retirement assets, plans that offer them experienced a higher rate of hardship withdrawals.

Figure 8. Hardship withdrawals by administrative process, 2025

	Percentage of plans	Percentage of participants taking hardship withdrawals
Self-certification	3%	8.5%
Summary service	87%	6.4%
Documentation required	10%	2.5%

Source: Vanguard, 2026.

Plan sponsor considerations

Plan sponsors should assess how plan design features, such as automatic enrollment, loan policies, and withdrawal administration, affect hardship withdrawal behavior as well as consider the use of financial wellness tools and services and related plan provisions.

Plan design

Automatic enrollment remains one of the most powerful influences on plan health, and the benefits of these designs far outweigh the increase in hardship withdrawals. Most participants receive employer contributions and are provided access to financial wellness tools and education, and for some workers, automatic enrollment may provide a financial safety net in emergencies. While hardship withdrawals may not be ideal, they may be a better alternative to other means of emergency liquidity, such as high-interest credit cards and payday loans.

fewer hardship withdrawals in plans that offer the Vanguard Cash Plus Account.

Plan rules and administration

When considering plan rules and the administrative processes, plan sponsors should weigh administrative efficiency against the potential for increased leakage and ensure that controls align with the needs of their workforce. Key questions include whether participants should be required to take a loan before accessing hardship withdrawals and whether limits on withdrawal frequency or minimum amounts could help to deter habitual use.

Emergency savings

While more workers are saving and investing in diversified, age-appropriate retirement portfolios, retirement savings alone are not sufficient for financial security. Maintaining an emergency fund outside of retirement accounts is key to covering unexpected costs and protecting retirement assets, as these savings are accessible without a 10% penalty.

In a recent Vanguard study, individuals with $2,000 in savings reported a 21% increase in financial well-being. Having at least three to six months of expenses saved is associated with an additional 13% increase.[3] Helping participants accumulate sufficient cash reserves and liquidity to handle a financial shock is critical to preserving retirement assets. Notably, participants in plans that offer the Vanguard Cash Plus Account are 16% less likely to take hardship withdrawals.

Health savings account integration

Participants often face competing financial priorities, such as balancing savings for a home or a child's education alongside retirement savings. One way plan sponsors support participants in managing these priorities is by offering health savings accounts (HSAs) to help cover medical expenses. At Vanguard, participants in plans with an integrated HSA took withdrawals at a rate that was 69% less than those without an HSA balance. This pattern held across income levels: Participants earning less than $50,000 with an HSA took withdrawals at a rate that was 43% less than those without an HSA balance.

Emergency expense withdrawals

As part of SECURE 2.0, plan sponsors can offer participants the option to withdraw a maximum of $1,000 per year (or the account balance if lower) in the event of an emergency and without an additional 10% early withdrawal penalty. Participants may self-certify their eligibility for this distribution to meet unforeseeable or immediate financial needs relating to personal or family emergency expenses. They can repay the distribution over three years and may not take further emergency distributions during that period until prior emergency distributions have been repaid.

fewer withdrawals when HSAs are integrated.

3 *Emergency Savings May Hold Key to Financial Well-Being.* Vanguard, 2025.

Specific situation withdrawals

Congress has long recognized that in certain circumstances, access to retirement funds may be necessary to prevent further hardship. Examples include withdrawals related to military service, the coronavirus pandemic, or the birth or adoption of a child.

boost in financial well-being reported by individuals with $2,000 in savings.

SECURE 2.0 built on previous event-specific withdrawals by adding several optional in-service provisions that permit participants to access retirement funds without being subject to the 10% early-withdrawal penalty tax and with the ability to repay those withdrawals within three years from the date of distribution. These include a withdrawal for domestic abuse victims (in the amount of the lesser of $10,500 (2026) or 50% of the participant's vested account balance) and a 10% excise tax exemption on distributions to participants under age 59½ with a terminal illness (up to the full vested account balance). A plan may also permit distributions of up to $22,000 for those affected by a federally declared disaster. A disaster distribution would not be subject to the 10% early-withdrawal penalty and may be repaid within three years of distribution. Taxes on the distribution are spread over three years unless the participant chooses otherwise. Plans also may offer special loan provisions to participants affected by a federally declared disaster, including offering loans with an increased limit of up to $100,000 (or full vested balance) and suspending existing loan repayments for up to a year.

Conclusion

Just as automatic enrollment, automatic escalation, and target-date funds have made it significantly easier for American workers to save and invest for retirement, the streamlining of the hardship withdrawal process has made retirement assets more accessible in times of need. Administrative efficiencies and the removal of loan requirements, in particular, have contributed to an increase in hardship withdrawal activity.

At the same time, the absence of emergency savings continues to leave many workers vulnerable to financial shocks. The rise in hardship withdrawals underscores the critical need to balance long-term retirement savings with short-term financial stability. And while these enhancements have made it easier to access funds in an emergency, excessive or unguided use can erode retirement preparedness.

Addressing these challenges requires plan sponsors and participants alike to prioritize emergency savings and integrate financial wellness strategies alongside retirement planning. Educational initiatives, access to health savings accounts, and new provisions under SECURE 2.0 offer valuable tools to help workers manage competing financial priorities while reducing reliance on hardship withdrawals. Ultimately, increased emergency savings and informed decision-making empower individuals to navigate unexpected expenses without jeopardizing their retirement security, supporting both immediate well-being and future financial goals.

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