Financial Well-being and the Role of the CARES Act

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Numerous families faced considerable financial difficulties as a result of the pandemic crisis. The Federal government approved the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) in late March 2020 to mitigate the consequent economic shock for US families. Specifically, under section 2202 of the CARES Act, qualified individuals could take up to $100,000 in coronavirus-related payments from their eligible retirement plans before reaching the age of 59.5 without incurring the 10% early withdrawal penalty.

Following the policy guideline, we selected qualified respondents for purposes of section 2202 of the CARES Act based on their adverse financial consequences experiences since March 1st (the onset of the coronavirus outbreak), such as job loss, layoff, being told not to work any hours, reduced working hours, or unpaid leave. The July 2020 supplement to the 2019 Survey of Household Economics and Decision-making (SHED) was used. This research analyzed 2,235 respondents who were not retired, able to pay all their bills, and were under the age of 59 ½. The analysis of this study was conducted using a survey data design methodology, utilizing the SHED dataset's sample weights.

The results from the logistic regression analyses revealed that individuals who qualified for the CARES Act were more likely to take advantage of penalty-free early withdrawals from their retirement accounts. The results also showed that withdrawals from retirement savings accounts were inversely associated with respondents' subjective financial well-being for ineligible individuals. In comparison, early withdrawals had no statistically significant impact on the subjective financial well-being of eligible individuals under section 2202 of the CARES Act.

This study confirmed that the CARES Act was an effective strategy for aiding eligible individuals who experienced adverse financial consequences due to COVID-19, such as reduced wages or layoffs. Individuals were able to preserve their standard of living when they could withdraw funds from their retirement accounts during the pandemic without incurring the 10% additional tax penalty. On the psychological side, section 2202 of the CARES Act provided eligible individuals who endured financial difficulties with an effective option for maintaining their sense of financial well-being.

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