



## Seeking relief: Bankruptcy and health outcomes of adult women



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### A B S T R A C T

This study examined the impact of declaring consumer bankruptcy on the physical and mental health of adult women and if outcomes differed depending on whether the filer received automatic debt discharge under Chapter 7 compared to a debt repayment plan with Chapter 13. Sample data consisted of women from the NLSY79 cohort who completed the age 40 and 50 health modules as of the most recent wave. Results indicated a negative effect of bankruptcy on self-assessed health, whereas prior health history explained its negative relationship with depressive symptoms. Debt liquidation under Chapter 7 was associated with poor physical health relative to those who did not file and with depressive symptoms relative to Chapter 13 repayment plan filers. Poor health is an unintended consequence for women who seek financial relief through bankruptcy.

### 1. Introduction

During the last decades of the twentieth century and first decade of the twenty-first, the scope of social welfare programs for financially distressed middle-class and near-poverty households have been on the decline. This is the same period in which wealth inequality increased and low-income and middle-class American households experienced some of the largest debt gains in recent history (Pfeffer, Danziger, & Schoeni, 2013; Sullivan, Warren, & Westbrook, 2000). Recent work suggests that the manifestation of poor socioeconomic status and economic disadvantages in midlife is increasingly tied to declines in female life expectancy (Montez & Zajacova 2014). It is therefore important to understand whether programs to improve one's economic status are beneficial as they may have unintended consequences for their overall well being.

Consumer bankruptcy is one of the few social safety nets that offers consumer debt relief (Feibelman, 2005; Sullivan, Warren, & Westbrook, 1999). Bankruptcy is not a rare event. As of 2015 individual non-business or consumer bankruptcy filings totaled approximately 850,000, with one in eight Americans likely to file for bankruptcy during their lifetime (Gerardo & Flynn 2016). Since the late 1970s consumer bankruptcy rates steadily increased surpassing 1 million during the 1990s and peaking just after the Great Recession in 2010 (Tabb, 2006). During that same period both the female single and joint filer bankrupt population surpassed male filers (Sullivan, Warren, & Westbrook, 2000) with families composed of unmarried women with children at greatest risk for declaring (Warren, 2001). Their filing status is often tied to marital status, with single women and women in single income households overrepresented within the consumer bank-

ruptcy population (Sullivan, Warren, & Westbrook, 1999; Warren, 2002). Large shares of those who declare due to changes in family structure are women (Caputo 2008), usually after a divorce or marital separation (Fisher & Lyons, 2006). This is not surprising, given women (and women with children) are more likely to be at risk of poverty and wealth loss related to marital disruption (Addo & Lichter 2013; Holden & Smock, 1991). Despite research indicating that women might be disproportionately affected by bankruptcy-related outcomes, studies tend to group men and women together.

Declaring bankruptcy can be costly—both in the short run, with upfront fees to file, additional court fees, and attorney bills (Porter, 2012), and in the long run, either from wage garnishment, lower earnings, or as a marks on one's credit record that makes future borrowing expensive because of high interest rates (Athreya, 2001; Han & Li, 2011; Maroto, 2012). On the other hand, debt-related financial hardships decrease the availability of resources, reduce the ability to accumulate savings, have been associated with increased perceptions of stress, and may preclude future access to adequate healthcare, all of which can negatively manifest in an women's health and wellbeing (Bridges & Disney, 2010; Kalousova & Burgard, 2013, 2014; Lyons & Yilmazer, 2005). Therefore, the marginal effect of declaring, apart from debt, on one's health is an empirical question, one that I aim to answer in this paper.

Despite the size and scope of bankruptcy in the U.S. there is relatively little research on the impacts of bankruptcy for women filers and even less on health outcomes. The current study used panel data from the National Longitudinal Study of Youth's 1979 cohort (NLSY79) to assess the impact of declaring bankruptcy on the wellbeing of adult women. Analyses evaluated whether a bankruptcy declaration corre-

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sponded with poorer self-assessed and mental health outcomes relative to those who had not experienced bankruptcy after accounting for demographic, social, and economic attributes, as well as prior health status, and selection on observable and unobservable characteristics. Also of interest is whether heterogeneity related to the process of debt discharge within the bankruptcy process, i.e. total discharge of unsecured debts under Chapter 7, liquidation, versus reorganization of debts under Chapter 13, were associated with differential health outcomes among filers. This study sheds light on how indebted adult women who seek financial debt assistance within the legal system fare and whether constraints on the ability to discharge debt at once versus having to repay a portion of it over time matters for their subsequent well being.

## 2. Background and conceptual framework

### 2.1. Background on bankruptcy and bankruptcy population

When a person files for consumer bankruptcy a freeze is put into effect prohibiting creditors from continuing to contact and collect any and all outstanding debts; this is called “the automatic stay.” With the assistance of a court-appointed trustee and often times a bankruptcy lawyer filers select into two very different systems, Chapter 7, debt liquidation, or Chapter 13, debt reorganization. Chapter 7 is the most common comprising almost 70% of all consumer bankruptcy cases. Filers must disclose all their outstanding debts as well as the value of all assets under perjury of law. Upon confirmation by the bankruptcy judge, a chapter 7 filer’s debts are discharged after all non-exempt assets above a given threshold are liquidated with the proceeds distributed to pay back creditors. The entire process takes an average of four months and involves minimal court involvement. Chapter 7 filers seldom meet with judges, rarely use lawyers for representation, and interact primarily with court appointed trustees. Chapter 13 constitutes almost all<sup>1</sup> of the remaining 30% of cases. Filers retain nonexempt property and assets with outstanding secured debts such as homes and vehicles; they use future disposable income to pay down a portion of the debt based on a repayment plan agreed to with the courts and a bankruptcy trustee. All remaining debt is discharged after the repayment plan is complete. Failure to complete a plan results in a dismissal. The process relies on heavy court involvement, higher attorney fees, and lasts an average of 3–5 years. A bankruptcy filing, be it Chapter 7 or a non-discharged or dismissed Chapter 13 filing, remains on one’s credit report for ten years from the filing date (discharged Chapter 13 filings for seven years).

While a bankruptcy declaration initiates protection from creditors for all filers, debt discharge and the ability to retain particular assets differs by the chapter choice. Chapter 7 provides complete debt discharge for almost all unsecured non-exempt debts (Hynes, 2004). Exceptions include education loans, child support, and oftentimes, recently acquired debts. Chapter 7 filers usually do not have a lot of assets to retain or the assets they own are exempt. The liquidation process of selling and paying back creditors is rare because many filers do not have assets of value (Athreya, 2001; Sullivan, Warren, & Westbrook, 1999; Gerardo & Flynn, 2016). Alternatively, Chapter 13 offers the opportunity to retain valuable assets and extend the time period to repay debts. For example, most homeowners who declare Chapter 13 bankruptcy do so in order catch up on mortgage payments and prevent losing their homes to foreclosure (Anthony, 2012). Filers hoping to keep their non-exempt assets will be more attracted to Chapter 13, especially if they have steady income. Filers with little to no financial assets, potentially unsteady employment prospects and lots of

unsecured debt will be more likely to file Chapter 7.

In addition to holding more total and unsecured debt than typical US households, bankrupt filers have fewer assets and lower than average household income (Bucks, 2012; Han & Li, 2011). They are more likely to have some college education, but no degree (Warren & Thorne, 2012); and, homeowners comprise a growing share of the bankruptcy population increasing from 43.9% in 1991 to 66.3% in 2007 (Porter, 2012). There is also consistent evidence from the bankruptcy literature that along with education, income, and homeownership, poor health is associated with filing (Domowitz & Sartain, 1999; Himmelstein et al., 2009; Keys, 2010; Maroto, 2012). Interviews of the bankrupt population indicate that it is quite common for filers to indicate prior health problems as a reason for their poor financial situation (Himmelstein et al., 2009). Moreover, poor health, such as health shocks and chronic conditions, also increase the probability of acquiring unsecured consumer and medical debt (Gathergood, 2012; Kim, Yoon, & Zurlo, 2012).

### 2.2. Conceptualizing bankruptcy as a social determinant of health

It is not conceptually obvious whether bankruptcy is beneficial or harmful for well-being. Although socioeconomic resources are theoretically considered essential determinants of later life health disparities (Link & Phelan 1995), the direction of causality, poor health to bad financial states or bad finances to poor health, is often hard to disentangle. Recent research that has attempted to address issues of endogeneity and simultaneity find more support for financial strain contributing to poor health rather than vice versa (Bridges & Disney, 2010; Lyons & Yilmazer, 2005). Gathergood (2012) finds selection into poor debt based on poor mental health explains the difference between those with and without debt, while Meer, Miller, and Rosen (2003) find that what appears to be an improvement in self-rated health after a positive wealth shock actually had very little impact on health after accounting for endogenous relationships. In the case of bankruptcy where debtors may already be in poor health, the health outcomes might be even more difficult to isolate. In a 2011 study, Porter finds Chapter 13 filers reported only immediate short-term stress relief of six months to one-year. Dobbie and Song (2015) analyzed federal court data between 1992 and 2009 and found a Chapter 13 bankruptcy decreased the 5-year mortality rate by 1.2 percentage points. The authors note that their findings indicate higher mortality among dismissed filers are driving results and not necessarily better health outcomes of discharged filers. These studies suggest that both accounting for prior health status and matching filers to the proper comparison group are important for appropriately identifying the bankruptcy and health relationship; both of these are accounted for in this present study. Unfortunately, there is no information on dismissed filers in the current dataset.

Given filers have more total and unsecured debt than typical US households (Bucks, 2012) many report the desire to alleviate consumer debt to reduce stress as a major motivation for filing (Porter, 2011). This is not surprising. The amount of household debt has been associated with poor mental health and increased stress (Drentea, 2000; Drentea & Reynolds, 2012; Houle, 2014; Jacoby, 2002), and the accumulation of unsecured debt with poor health behaviors and poor mental health (Bridges & Disney, 2010; Drentea, 2000; Drentea & Lavrakas, 2000; Richardson, Elliott, & Roberts, 2013; Sweet et al., 2013). Carrying lots of debt or having to allocate income to paying down debt may mean having little to no money to spend on quality health products and services (Kalousova & Burgard, 2013, 2014). Debt can also be stigmatizing and there may be shame associated with seeking assistance (Graeber, 2014; Hyman, 2012). In addition, the societal norms regarding debt and debt-related stigma may contribute to chronic anxiety and stress exacerbating poor health conditions (Sullivan, Warren, & Westbrook, 2006). Assuming debt is correlated with poor health outcomes, filers might have better health than comparable non-filers.

<sup>1</sup> There are two additional but less common kinds of consumer bankruptcy that comprise less than 1% of non-business consumer filings in a given year, Chapter 11-business reorganization, and Chapter 12- family farmer reorganization.

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