

INSTITUTE FOR  
FINANCIAL LITERACY



*Who Went Bankrupt In 2006?*  
*A Demographic Analysis of American Debtors*

A Report Published by the  
Institute for Financial Literacy, Inc.  
May, 2007

Final Version

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Acknowledgments

The Board of Directors of the Institute for Financial Literacy, for their continued support of the mission of financial education, the many wonderful clients who even in their darkest financial hours were willing to participate in this research, and the fine staff of the Institute who on a daily basis go above and beyond to help improve the financial literacy of those they serve.

Mission

The **Institute for Financial Literacy** is a 501(c)(3) nonprofit organization whose mission is to make effective financial literacy education available for all American adults.

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### **FINDINGS AND EXECUTIVE SUMMARY**

- The average American who is in financial distress and seeking credit counseling and financial education is:
  - Caucasian, married, employed, between the age of 35-44 years old, has at least a high school education if not some college, and makes no more than \$30,000 per year.
- The primary reasons for their financial distress include:
  - Overextended on credit, reduction of income or job loss, illness or injury and unexpected expenses.
- Areas of growing concern include:
  - Bankruptcy filing rates for senior citizens
  - Identity Theft's role in bankruptcy filings
  - Women filing bankruptcy at higher rates than men
  - What role education plays in financial management

### **RECOMMENDATIONS**

- Research should be conducted to study the underlying causes for senior citizens filing bankruptcy; policymakers should look to implement potential solutions to assist a population which may not otherwise be able to afford a true "economic fresh start" due to their age.
- Policymakers, law enforcement, businesses and financial educators must continue to work in their respective fields to protect and educate consumers on the issue of Identity Theft.
- Research should be conducted to study why women are filing bankruptcy at greater rates than their male counterparts; policymakers should look to implement potential solutions.

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**Introduction**

In April 2006, the Institute for Financial Literacy released “First Demographic Analysis of Post-BAPCPA Debtors”. This report looked at a sampling of demographic information gathered during the first six months after the enactment of the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 (BAPCPA). The period covered from October 17, 2005 through March 31, 2006.

This report looks at a full year’s demographic information covering the period from January 1, 2006 through December 31, 2006. The results will be compared against the findings from the first report as well as against previous published demographics research.

The Institute for Financial Literacy is a non-profit financial literacy organization based in Portland, Maine. The Institute’s mission is to make effective financial literacy education available to all American adults. The Institute for Financial Literacy accomplishes its mission by developing financial literacy educational materials, publishing the National Standards in Adult Financial Literacy Education, maintaining the Library of Personal Finance and providing professional development and training through the Center for Financial Certifications.

## **Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 (BAPCPA)**

The Institute for Financial Literacy expanded its mission in with the passage of the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 (BAPCPA). BAPCPA incorporated a requirement that individuals must first complete mandatory credit counseling in order to be eligible to file a consumer bankruptcy case into the bankruptcy code<sup>1</sup>. This section reads as follows; “an individual may not be debtor under this title unless such individual has, during the 180-day period preceding the date of filing of the petition by such individual, received from an approved nonprofit budget and credit counseling agency described in section 111(a) an individual or group briefing (including a briefing conducted by telephone or on the Internet) that outlined the opportunities for available credit counseling and assisted such individual in performing a related budget analysis.”<sup>2</sup>

In addition, the law requires that certain debtors in the bankruptcy system must complete a mandatory financial management instructional course in order to receive a discharge of their debts.<sup>3</sup> A married couple filing a joint bankruptcy petition must each complete credit counseling prior to filing and a financial management instructional course prior to discharge as a result of the law’s application of these requirements to “individuals.”<sup>4</sup>

The Institute for Financial Literacy was approved to provide the mandatory credit counseling under section 111(a) in all 94 judicial districts covered by both the United States Trustees Program as well as the six Bankruptcy Administrator<sup>5</sup> districts in the fall of 2005<sup>6</sup>. Likewise the Institute for Financial Literacy was also approved as a provider of the mandatory financial management instructional courses. It should be noted that the 94 judicial districts cover all 50 states as well as the US territories.

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<sup>1</sup> Title 11 USC

<sup>2</sup> 11 USC sec. 109(h)(1)

<sup>3</sup> 11 USC sec 727(a)(11) and 1328 (g)(1)

<sup>4</sup> 11 USC 302

<sup>5</sup> The states of North Carolina and Alabama and their six respective judicial districts are not under the authority of the United States Trustees Program, but rather individual Bankruptcy Administrators(BA). Each BA has set its own approval process in place for the approving of a nonprofit budget and credit counseling agency as is required under section 111(a).

<sup>6</sup> The Institute for Financial Literacy has subsequently been re-approved as a provider for a one year period of time, as the initial approvals were for a six-month probationary period only.

## **Methodology**

During the years prior to the passage of BAPCPA there was much rhetoric and little comprehensive research cited with regard to the demographics of consumer bankruptcy. As a result, the Institute for Financial Literacy recognized the importance of establishing a comprehensive, neutral research program to better understand those individuals contemplating bankruptcy, as well as those who eventually seek bankruptcy protection.

It is the intention of the Institute for Financial Literacy to publish out annually the results of its demographic survey, monitor any substantive changes in those results and encourage the research and academic community to use this data to find the causes and possible solutions behind America's ever growing debt problem.

During the development of its credit counseling service and financial management instructional course, the Institute for Financial Literacy incorporated a research component into its delivery platforms to allow large scale data collection and facilitate the establishment of such a research study.

This report will look at a sampling of demographic information gathered during the first full calendar year since BAPCPA's enactment, a time period covering January 1, 2006 through December 31, 2006. It includes a combination of respondents accessing the credit counseling services only, the financial management instructional course only, or both programs. It is not known how many respondents who sought credit counseling services actually filed for bankruptcy as of the date of this writing. It is worth noting that, pursuant to section 109(h)(1), any certificates issued by an approved non-profit budget and credit counseling provider are valid for a 180-day period from the date of delivery. Therefore, a consumer who sought out credit counseling on December 31, 2006 would have until June 29, 2007 to file a bankruptcy petition before being required to retake a credit counseling session.

## **Development of Sample**

The Institute for Financial Literacy has been approved to provide mandatory credit counseling by telephone and Internet as allowed in section 109(h)(1). The Institute is also approved to provide credit counseling in person in its home district of Maine.<sup>7</sup>

Clients learn about the availability of approved providers from one of several sources. The bankruptcy clerks maintain lists of approved providers for their districts and distribute these lists to the general public upon request.<sup>8</sup> The Bankruptcy Administrators and the United States Trustees Program also maintain updated lists of approved providers on their respective websites.<sup>9</sup> Clients may also learn about the new requirements and obtain a list of approved providers in their district during their initial consultation with an attorney.

## **Data Collection Instrument**

During the development of the credit counseling and financial management instructional course programs, the Institute incorporated a voluntary survey tool. At the beginning of the respective programs, the survey gathers demographic information from participants. If a client receives both services from the Institute, the survey information is only gathered once.

Clients taking a program through the Internet for the first time are presented with the Client Survey page before proceeding. Here they read the following statement:

“Before we begin your session we would like to collect some information from you. This information will not be used to personally identify you in any way. The information will be used for statistical research purposes as we evaluate our program.”

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<sup>7</sup> For purposes of this research the sampling of in person sessions was statistically insignificant.

<sup>8</sup> 11 USC sec. 111(a)

<sup>9</sup> The United States Trustees Program website is located at [www.usdoj.gov/ust](http://www.usdoj.gov/ust). The six Bankruptcy Administrators maintain their own individual website, but they can be accessed by a link maintained by the United States Courts at [www.uscourts.gov](http://www.uscourts.gov) .  
[www.financiallit.org](http://www.financiallit.org)

Should a client choose not to complete any part of the survey, they simply move to the next page and begin their respective program.

Clients receiving their services by telephone are informed by counselors that the Institute is conducting on-going research, and that the clients are not required to answer any of the questions. Counselors also explain that the information gathered will have no impact on the outcome of the counseling or education session.

If the client agrees to participate, the counselor will read a confidentiality statement and collect the data from the client. The counselor will first identify the category and then read all answer choices in that category. The client then identifies their response and the counselor marks the choice into the data collection instrument.

The categories being surveyed included: Gender, Age, Ethnicity, Educational Background, Personal Income, Employment, Marital Status, and Causes of Financial Distress.

### **Core Sample**

The Institute for Financial Literacy is approved to provide BAPCPA related credit counseling and financial management education in all 50 states and US territories. The sampling for this report contains respondents from all 50 states, the Northern Mariana Islands and Guam.

Twenty four thousand and thirty eight (24,038) clients volunteered to complete the survey in whole or in part, compared with nearly 597,965 new non-business bankruptcy cases filed nationally between January 1, 2006 and December 31, 2006<sup>10</sup>. If all respondents filed bankruptcy petitions<sup>11</sup>, this would represent 4.02% of all new cases filed for the period, and is therefore a statistically significant and relevant sample.

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<sup>10</sup> The US Courts reported a total of 617,660 cases filed in 2006. Of these 19,695 were business filings and exempt from the credit counseling and financial education requirement.

<sup>11</sup> 91% of credit counseling clients received a recommendation to consult an attorney based upon their financial condition. All financial management education clients are already bankruptcy debtors.

It should also be noted that not all respondents answered all survey questions. For purposes of statistical analysis, 100% of the survey participants gave gender information (24,038 responses) while only 97% answered the income question (23,127 responses) and 99% responded to the Highest Level of Education Completed question (23,821 responses.)

### **Protection of Confidentiality**

The Institute for Financial Literacy maintains a client confidentiality policy. Counselors are trained that all information, whether gathered for research or the for the credit counseling or financial management instructional courses, is to be held in the strictest of confidence.

The Institute for Financial Literacy does not report out demographic information individually, only in the aggregate. Client's names or other obvious personal identifiers have been changed or removed to protect clients' privacy.

### **Findings**

#### Gender

A total of 24,038 participants answered the gender question, a 100% response rate. Of these, 53.6% (12,888) indicated that they were female, while 46.4% (11,150) were male. In comparison, the current population of the United States is estimated at 293,655,404,<sup>12</sup> and of that 51% are female and 49% male.

In an article published in October 2001 in the American Bankruptcy Institute Journal,<sup>13</sup> researchers with the Executive Office for the United States Trustee Program (USTP) looked at a sample of chapter 7 debtors who had filed during 2000. Of over 1,900 debtors sampled, it was found that 53% were female and 47% were male.

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<sup>12</sup> Source: Population Division, U.S. Census Bureau Release Date June 2005

<sup>13</sup> See Ed Flynn and Gordon Bermant, *The Class of 2000* 20 ABI Journal 8 (Oct. 2001).

Table 1 compares the findings from the first report published by the Institute, with those results for all of 2006 and compares these finding against US population statistics.

Table 1: Gender

<b>Gender</b>	<b>Percentage of Debtors IFL-1<sup>st</sup> Report</b>	<b>Percentage of Debtors IFL-2006</b>	<b>Percentage of US Adults</b>
Male	46.2	46.4	49
Female	53.8	53.6	51

Compared to the Institute’s first report there is no significant change in data, nor is there any significant deviation in the findings reported out by the USTP in 2001.

What is of interest is the difference between the percentages of women seeking counseling and/or education (53.8%) as compared to their representation of the US population (51%). The question becomes why are women (since at least 2001, when the USTP research was published) financially struggling at greater rates then their male counterparts.

Age

A total of 23,888 participants answered the age question, a 99% response rate. Of these, 3.3% (780) identified as 18-24 years of age; 21% (5,026) identified as 25-34 years of age; 29% (6,922) identified as 35-44 years of age; 24.9% (5,952) identified as 45-54 years of age; 14% (3,355) identified as 55-64 years of age; and 7.8% (1,853) identified as 65 years of age or older.

In comparison, the current population of the United States shows that 7% (20.9 million) are age 20-24; 14% (40 million) are age 25-34; 15% (44.1 million) are age 35- 44; 14% (41.6 million) are age 45-54; 10% (29.1 million) are age 55-64; and 13% (36.3 million) are 65 years or older. Research conducted by the Consumer Bankruptcy Project in 1991 and 1999 also looked at age and has been cited by the General Accounting Office<sup>14</sup>.

<sup>14</sup> See General Accounting Office, *College Students and Credit Cards*, GAO 01-773, June 2001. [www.financiallit.org](http://www.financiallit.org)

In an article published in December 2001 in the American Bankruptcy Institute Journal,<sup>15</sup> researchers with the Executive Office for the United States Trustee Program (USTP) looked at a sample of chapter 7 debtors who had filed during 2000. In the USTP sample it was found that debtors between the ages of 25 and 44 were filing for bankruptcy at rates which far exceeded their proportion to the population, while debtors 45 to 59 filed at rates corresponding to their proportion of the population. In separate research conducted by the USTP between 1998 and 2000, they found that 4.4% of their sample reported being over the age of 70.<sup>16</sup> When compared to the Institute's findings, there appears to be a statistically significant shift in the age of bankruptcy debtors, the most dramatic of which is seen to be occurring with the population aged 65 and older.

More recently research conducted by two government researchers at the Administrative Office of the U.S. Courts (AO) found that bankruptcy filings by Americans aged 55 and above are rising at a greater pace than that of the general population.<sup>17</sup> Their data compared bankruptcy petitions filed from the years 1994 to 2002. Their findings are consistent with the Institute's findings.

Further research and analysis will be required to determine the nature of these shift and its correlation, if any, with new law.

Table 2 compares the findings from the first report published by the Institute, with those results for all of 2006, along with data compiled by the Consumer Bankruptcy Project. It also shows and compares these finding against US population statistics.

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<sup>15</sup> See Ed Flynn and Gordon Bermant, *Filers Most Likely in 25-44 Age Range*, 20 ABI Journal 10 (Dec. 2001).

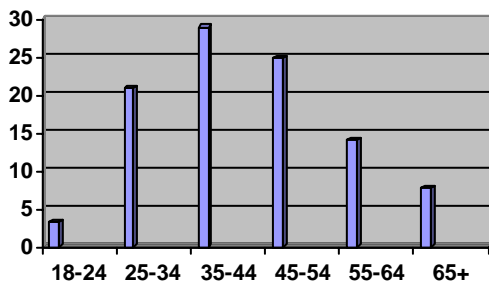
<sup>16</sup> See Ed Flynn and Gordon Bermant, *A Closer Look at Elderly Chapter 7 Debtors*, 21 ABI Journal 3 (April 2002).

<sup>17</sup> See John Golmant and Tom Ulrich, *Aging and Bankruptcy The Baby Boomers Meet Up at Bankruptcy Court*, 26 ABI Journal 4 (May 2007).

Table 2: Comparison of Age Group Data

Age Range	Percentage of Debtors IFL-1 <sup>st</sup> Report	Percentage of Debtors IFL-2006	Percentage of Debtors CBP	Percentage of US Adults
18-24	3.6	3.3	6.9	7 <sup>18</sup>
25-34	22.7	21	29	14
35-44	28.6	29	34.2	15
45-54	22.4	24.9	17.7	14
55-64	13.8	14	8.9	10
65+	8.9	7.8	3.3	13

Compared to the Institute’s first report there has been some shifting within the 25-34 age group, the 45-54 age group and the 65 and older group. Even with the shifting however, there clearly appears to be a bell curve effect around those seeking credit counseling and financial education as is demonstrated by the graph below.



Age Bell Curve

What is of interest is that the US population does not demonstrate the same bell curve effect between the ages of 25 and 54 but remains rather constant at approximately 14%. The recently published AO research found that between 1994 and 2002 the median age for bankruptcy petitioners has shifted upwards from 37.7 years to 41.4 years respectively<sup>19</sup>. The question therefore is why we are seeing these elevated levels of financial distress, peaking with the 35 to 44 years old group. What has caused this group to seek out assistance and protection in bankruptcy at twice the rate of their representation of the US population?

<sup>18</sup> US Census Bureau collects data from ages 15-19 and 20-24, only the 20-24 data was used.

<sup>19</sup> See note 17.

Ethnicity

A total of 23,710 participants answered the ethnicity question, a 98% response rate. Of these, 15.3% (3,633) identified as African American/Black; 72.6% (17,204) identified as Caucasian/White; 6.6% (1,559) identified as Latino/Hispanic; 2.1% (496) identified as Asian; 1% (239) identified as Native American; and 2.4% (579) identified as Other.

Table 3 compares the findings from the first report published by the Institute, with those results for all of 2006 and compares these finding against US population statistics.

Table 3: Ethnicity

<b>Ethnicity</b>	<b>Percentage of Debtors IFL-1<sup>st</sup> Report</b>	<b>Percentage of Debtors IFL-2006</b>	<b>Percentage of US Population</b>
African American /Black	15.4	15.3	13
Caucasian/White	72.9	72.6	81
Latino/Hispanic	6.1	6.6	14 <sup>20</sup>
Asian	2.0	2.1	4
Native American	1.1	1	1
Other	2.5	2.4	1

There appears to be a statistically significant variation between bankruptcy filings and proportion of the population for both the Caucasian/White and Latino/Hispanic categories. However, this variation may be a result of difference in the data collection instruments, as the Institute respondents may choose only a single ethnicity category, while the US Census Bureau allows those of Hispanic origin to choose a second appropriate ethnicity category.

Education

A total of 23,821 participants answered the question asking their highest level of education completed, 99% response rate. Of these, 4.9% (1174) identified at the Graduate level; 11.2%

<sup>20</sup> Census Bureau allows people of Hispanic origin to self select other race categories as well, the percentages therefore will not total 100%.

(2,675) identified at the Bachelors level; 8% (1,910) identified at the Associates level; 29.9% (7,129) identified at the Some College level; 39.7% (9,449) identified at the High School/GED level; 5.9% (1,399) identified at the Primary School level; and 0.4% (85) identified themselves as having no education.

Table 4 below compares the findings from the first report published by the Institute, with those results for all of 2006 and compares these finding against US population statistics.

Table 4: Education

<b>Education Level</b>	<b>Percentage of IFL Total – 1<sup>st</sup> Report</b>	<b>Percentage of IFL Total- 2006 Report</b>	<b>Percentage of US Population</b>
Graduate	4.7	4.9	8.9
Bachelors	10.7	11.2	15.5
Associates	7.6	8	6.3
Some College	30.8	29.9	21.1
High School/GED	39.7	39.7	28.6
Primary School	6.2	5.9	17.4
None	.3	.4	2.2

There appears to be some statistically significant correlation between educational level and financial distress. Individuals with more advanced education seem to have lower incidents of seeking credit counseling and financial education when compared against their proportion of the US population. The total percentage of respondents holding an associates degree or higher was 24.1%, compared with 30.7% of the US population. Clients with a high school degree/GED or some college constituted 69.6% of the respondents, compared with 49.7% of the US population.

The Jump\$tart Coalition for Personal Financial Literacy administers a nationwide biennial survey to measure the financial literacy levels of high school seniors. In the 2005-06 survey, the results revealed an average score of 52.4 percent, a failing grade by most measures. Further study and analysis is required to determine the correlation, if any, between educational level and financial distress. Such research should ideally integrate an analysis of the effect of earning power and the financial education opportunities at the primary school, high school, and college level.

It should be noted that a statistically significant deviation between the Institute’s findings and the US population was also found with regard to individuals with a primary school education level or lower. However, this deviation may reflect an inability of individuals at these education levels to access the Institute’s programs, which are delivered through the Internet and by telephone. This issue should be studied further to determine whether this deviation is also reflected in actual bankruptcy court filings.

Income

A total of 23,127 participants answered the income level question, a 96% response rate. Of these, 41.16% (9,511) identified as earning less than \$20,000.00 per year; 24.5% (5,659) identified as earning \$20,000.00 to \$30,000.00 per year; 15.1% (3,490) identified as earning \$30,000.00 to \$40,000.00 per year; 8.8% (2,040) identified as earning \$40,000.00 to \$50,000.00 per year; 5% (1,152) identified as earning \$50,000.00 to \$60,000.00 per year; and 5.5% (1,275) identified as earning more than \$60,000.00 per year.

Table 5 below compares the findings from the first report published by the Institute, with those results for all of 2006.

Table 5: Self Identified Income of IFL Respondents

<b>Income Level</b>	<b>Percentage of IFL Total – 1<sup>st</sup> Report</b>	<b>Percentage of IFL Total – 2006 Report</b>
Less than 20K	44.6	41.1
20k-30k	24.4	24.5
30k-40k	14.4	15.1
40k-50k	7.7	8.8
50k-60k	4.2	5
More than 60k	4.7	5.5

USTP research has looked at debtors’ financial profiles and found that the average gross income for cases filed in 2000 was \$30,108<sup>21</sup>. This can be compared to other studies the USTP conducted in 1998 and 1999, where they found the gross income averaged \$27,324. However, in

<sup>21</sup> See note 10.

what may be a more accurate comparison, the USTP published a study where household size was also reported. In that study, single occupant households averaged \$14,783 gross income in 1997.<sup>22</sup> In the Institute's data, 65.6% of respondent indicated that their personal income, which did not include spouses or other household contributions, was \$30,000 or less. The majority of available census data is based on median household income, and therefore direct comparison is not made in the above table.

What does appear to be emerging from the data being collected is that the majority of those who are in financial distress and possibly seeking bankruptcy protection appear to fall below the median income as reported by the US Census Bureau. The median household income for the United States in 2004-2005 was \$46,071.<sup>23</sup> The reported state by state ranges fluctuates with Mississippi's median income coming in at a low of \$34,396 and Maryland's at a high of \$59,762. This is relevant with the new Means Testing requirement that BAPCPA put into effect.

The Means Testing is a mathematical calculation which determines whether a debtor may file in either chapter 7 (total liquidation of their debt) or chapter 13 (some repayment of their debts) bankruptcy. There was much concern prior to the enactment of BAPCPA that this new requirement would significantly shift the percentage of debtors away from chapter 7, and into chapter 13. This specific issue has yet to be studied and it is recommended that further research be conducted to specifically determine the impact of the Means Testing on debtors.

### Employment

A total of 23,840 participants answered the employment question, a 99% response rate. Of these, 63.7% (15,186) identified themselves as employed; 13.1% (3,135) identified themselves as unemployed; 9.4% (2,240) identified themselves as retired; 8.3% (1,978) identified themselves as self-employed; 4.5% (1,068) identified themselves as a homemaker; and 1% (233) identified as a student.

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<sup>22</sup> See Ed Flynn, *Low Income Chapter 7 Debtors*, 19 ABI Journal 4 (June 1999).

<sup>23</sup> U.S. Census Bureau, Current Population Survey, 2004 to 2006 Annual Social and Economic Supplements.

Table 6 below compares the findings from the first report published by the Institute, with those results for all of 2006.

Table 6: Employment

<b>Employment</b>	<b>Percentage of IFL Total – 1<sup>st</sup> Report</b>	<b>Percentage of IFL Total – 2006 Report</b>
Employed	61.8	63.7
Unemployed	13.7	13.1
Retired	10.5	9.4
Self-Employed	7.7	8.3
Homemaker	5	4.5
Student	1.3	1

In comparison, USTP research looked at the employment status of debtors during the calendar year 2000. In their findings, USTP reported that 81% of debtors were employed while 19% were unemployed.<sup>24</sup> In a separate study of elderly debtors, the USTP found that in a sample of 884 cases, 39 debtors self identified as over 70 years old, and 99% of those were no longer employed. If it is inferred that these individuals were retired,<sup>25</sup> this would result in 4.4% of the sample being retired.

There is a statistically significant difference in the rate of unemployed debtors in the Institute survey when compared to the USTP research, even if both employed and self employed respondents are added together, they still only total 72%. There are multiple potential causes for this, and further study and analysis is required before firm conclusions can be established.

### Marital Status

A total of 23,912 participants answered the marital status question, a 99% response rate. Of these, 57% (13,654) identified themselves as married; 21.9% (5,229) identified themselves as single; 15.9% (3,810) identified themselves as divorced; 3.9% (933) identified themselves as widowed; and 1.2% (286) identified themselves as cohabitating.

<sup>24</sup> See Ed Flynn, Gordon Bermant and Karen Bakewell, *Just Recently Hired: Job Tenure Among No-Asset Chapter 7 Debtors*, 21 ABI Journal 4 (May 2002)..

<sup>25</sup> See note 14.

Table 7 compares the findings from the first report published by the Institute, with those results for all of 2006, along with data compiled by the Consumer Bankruptcy Project and compares these finding against US population statistics.

Table 7: Marital Status

<b>Marital Status</b>	<b>Percentage of IFL Total – 1<sup>st</sup> Report</b>	<b>Percentage of IFL Total – 2006 Report</b>	<b>Percentage of USTP</b>	<b>Percentage of US Population</b>
Married	54	57.1	42.9	56.5
Single	24	21.9	33.1	24.8
Divorced	17	15.9	21.7	12.2
Widowed	5	3.9	2.4	6.5
Cohabiting	0 <sup>26</sup>	1.2	n/a	n/a

In comparison, USTP research looked at the marital status of debtors during the period between 1998 and 2000,<sup>27</sup> and the US Census Bureau reports marital status for the population age 18 and older.

In a separate study of elderly debtors, the USTP found that 43.6% of debtors over the age of 70 were widowed,<sup>28</sup> and the US Census Bureau reports that 30.8% of the population age 65 and older is widowed.

Both Institute and USTP findings show that divorced individuals file for bankruptcy at statistically higher rates compared to the general population, and further study is recommended.

### Causes of Financial Distress

During the credit counseling process, clients are asked to pick from a list of common causes of financial distress to self-describe the causes for their current financial situation. Clients are encouraged to choose more than one cause when describing their situations and therefore the percentages will equal more than 100%.

<sup>26</sup> Statistically .008% of the first sample the Institute compiled.

<sup>27</sup> See note 14.

<sup>28</sup> *Id.*

Table 8 below compares the findings from the first report published by the Institute, with those results for all of 2006.

Table 8: Causes of Financial Distress

<b>Cause of Financial Distress</b>	<b>Percentage of IFL Total – 1<sup>st</sup> Report</b>	<b>Percentage of IFL Total – 2006 Report</b>
Overextended on Credit	55.2	62.8
Unexpected Expenses	52.3	57.2
Reduction of Income	46.3	52.2
Job Loss	32.9	36.1
Illness/Injury	30.9	32.7
Divorce	15.2	15.4
Birth/Adoption of Child	7.9	8.7
Death of Family Member	7.8	8.3
Retirement	4.8	5.4
Identity Theft	2.1	2.3

There is a noticeable increase in several categories which indicates that more clients are indicating several causes for their financial distress.

Several of the categories need additional in-depth study in order to better understand what clients are indicating, such as overextended on credit and unexpected expenses. Evaluation must include the underlying factors for these specific circumstances, but with clients indicating over 50% in both categories they are clearly significant and deserve more study.

Reduction of income and job loss are the two largest tractable categories clients indicate when describing their financial distress at 52.2% and 36.1% respectively. These two categories have been studied by both the USTP and the Consumer Bankruptcy Project. The authors of the Consumer Bankruptcy Project “suggest that job-related income interruption is by far the most important cause of severe financial distress for middle-class Americans.”<sup>29</sup> What is of interest is the national unemployment rate for 2006 was reported as 4.6%<sup>30</sup>, the lowest it has been since 2000, yet more than half of those seeking credit counseling and education indicate that they experienced a job loss. This factored with the data indicating that 13.1% of the clients were

<sup>29</sup> Sullivan, Teresa A, Warren, Elizabeth, and Westbrook, Jay Lawrence, *The Fragile Middle Class* (2000), p.75

<sup>30</sup> U.S. Department of Labor Bureau of Labor Statistics [www.bls.gov](http://www.bls.gov)  
[www.financiallit.org](http://www.financiallit.org)

actually unemployed at the time they completed the survey raises questions about the increased vulnerability to financial distress once there is some loss or reduction of income. Further analysis is required to determine the exact correlation and what preventative steps could be taken to minimize the risk of financial distress should such income disruptions occur.

While BAPCPA was being debated by Congress, a study was released indicating that nearly half of all Americans file for bankruptcy because of medical expenses, with 54.5% having “met criteria for ‘any medical bankruptcy.’”<sup>31</sup> In a separate effort, the USTP analyzed medical debt for debtors who filed chapter 7 based on bankruptcy schedules. The USTP found “medical debt did not seem to be a major factor in the vast majority of cases. The average medical debt listed per debtor was \$2,582.00, or about 5.6 percent of the total general unsecured debt.”<sup>32</sup> The Institute’s response rate for “Illness/Injury” was 32.7%, a statistically significant difference from these previously published reports. The correlation between healthcare expenses and consumer bankruptcy is of great concern, and therefore additional research in a variety of sectors should be pursued.

The response rate for Retirement as a cause for financial distress was 5.4% (an increase from the first report of 4.8%), while 7.8% of respondents indicated they are 65 years of age or older and 9.4% indicated that their employment status is “retired”. This raises questions about the overall financial health of the average American senior citizen, and what becomes of those seniors after they file for bankruptcy. A basic tenant of bankruptcy is that consumers are afforded an economic ‘fresh start’ by the discharge of their debt. Therefore, after receiving their discharge, they are able to apply future earning towards their own economic vitality. However, in modern times the question arises whether older individuals exiting the bankruptcy system have sufficient earning power and/or retained assets to recover their self-sufficiency. Additional research looking at why older Americans file bankruptcy and the long term effect on their financial situation is necessary.

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<sup>31</sup> Himmelstein, David U., Warren, Elizabeth, Thorne, Deborah and Woolhandler, Steffie J., "Illness and Injury as Contributors to Bankruptcy" (February 8, 2005). P. 66

<sup>32</sup> See Note 11. The USTP also noted that this figure did not include any medical debts that would have been paid by credit card or personal loans.

The Federal Trade Commission reported that 255,000 Americans were the victims of Identity Theft in 2005. This represents approximately 1/10 of one percent of the American adult population. The Institute's response rate for Identity Theft as a cause of financial distress was 2.3%. Although a small percentage of the population may be affected by this problem, the personal financial consequences for them can be devastating. Policymakers, law enforcement, businesses and financial educators must continue to work in their respective fields to protect and educate consumers about this issue.

## **Conclusion**

The data presented in this report does not lend itself to drawing final conclusions about any topic or issue. It is intended to identify issues requiring additional research and analysis, and to serve as a catalyst for discussion of the causes and effects of financial distress among the academic, legal, governmental, consumer and financial sectors. The validity of data collected in the first six months after enactment of BAPCPA has been supported by this second report as most of the statistics held with minimal variations. We are beginning to see what consumer debtors' look like. The long-term goals of the Institute for Financial Literacy are to construct and maintain a substantial demographic baseline, monitor any substantive changes in the results and report out annually the findings. The research and academic community are encourage to use these findings as a starting point to begin to explore the causes and craft solutions for America's ever growing debt problem.