

“Another Day Older and Deeper in Debt”: Debt, Financial Distress, and Bankruptcy over the Life Course

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Abstract

This paper examines how the risks of debt, financial distress, and bankruptcy shift over the life course. The paper compares data from the 2007 Survey of Consumer Finances and the 2007 Consumer Bankruptcy Project to illustrate the ways in which bankrupt households differ from typical households. The paper suggests that there are age differentials in the distribution of unplanned events and in the ability of households to use credit markets to limit the adverse effects of those events; as a result, the typical patterns of bankruptcy filers differ by age. The paper relates those effects to a substantial increase in recent decades in the incidence of financial distress and bankruptcy among the elderly.

In the United States, both aggregate debt levels and household debt burdens have risen rapidly in the last two decades (Mishel, Bernstein and Shierholz, 2009; Federal Reserve Statistical Release G.19; Federal Reserve Table 1.54). Scholars of many perspectives have expressed concern about the rise in debt levels. Some attribute the increase to exploitation by lenders who push unneeded, and perhaps even unwanted, credit on consumers (Manning 2000; Ritzer 1995). Others attribute it to a shift that has made debt a part of American culture (Calder 1999). Still others focus on the macroeconomic dependence on consumption-driven growth, which is tied ineluctably to the ready availability of credit (Boyer 2000; Cohen 2003). Whatever the cause, the rise of debt surely reflects an interaction between technological and institutional developments that lower the cost of supplying credit with cultural developments that increase the demand (Braucher 2006). Rising debt burdens also have brought changes to the financial life of Americans: bankruptcy rates are an order of magnitude higher than they were a generation ago (Administrative Office of U.S. Courts), and middle-class wealth is in decline despite the economic prosperity of the late 1990s and early 2000s (Wolff 2007).

Economists for the most part have adopted a sanguine perspective on the rise of consumer debt – one that assumes the increase in debt reflects rational choices by households to smooth consumption over time.¹ Rational households seeking to optimize consumption over the life

¹ E.g., Posner 2008 (“[N]ow that we have efficient debt instruments that in former times did not exist, the role of personal debt * * * is more apparent than it was. Apart from its role in solving short-term

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cycle would borrow during early decades and repay the debt in later decades (Modigliani 1954). From this perspective, the rising level of financial distress is a relatively minor concern.² Rather, the principal concern is to ensure that the remedies for nonpayment of debt are sufficiently onerous to limit the “moral hazard” that might encourage borrowers too easily to seek refuge in bankruptcy (Rea 1984; Adler et al. 2000). An optimal bankruptcy system would balance that risk (which would lower the availability of credit) against the benefits bankruptcy provides in smoothing consumption through mitigating large losses from exogenous shocks (Livshits 2007).

Although there is a rich empirical and theoretical literature about the life cycle model of consumption and borrowing, the literature has not explored the implications of that model for the increased financial distress that necessarily accompanies rising levels of debt and consumption. We do know, among other things, that a substantial group carries large debt burdens as they approach retirement age (Thorne et al. 2009). And that late-life debt holdings are much larger in the United States than in other OECD countries (Girouard 2006). We know very little, however, about how the etiology of financial distress and failure shifts through the life cycle.³

This paper takes up the problem of financial distress from a life-course perspective. Life-course sociology emphasizes the variability of temporal patterning across demographic groups and cohorts (Mayer 2009). Among other things, sociologists have developed models of mobility through the life course, investigating the risks of adverse mobility-generating events such as job loss or illness and of countermobility institutions such as unemployment insurance (DiPrete 2002). Our discussion reflects a simple two-part model of financial distress over the life course. First, distress can arise from any number of events, ranging along a spectrum from wholly exogenous shocks to imprudent financial behavior. Each of those events, we suggest, will have a different relation with the age of the household.⁴ Second, the household that experiences

liquidity problems resulting from delay in the receipt of income, debt enables consumption to be smoothed over the life cycle.”).

² E.g., Posner 2008 (“Of course, debt creates risk for both lender and borrower * * *. But if the risks are understood, it is unclear why the assumption of them should be thought harmful to personal or social welfare.”).

³ Livshits et al. (2007, 2007a) note that the raw per capita bankruptcy filing rates display a hump-shaped pattern, peaking among 25-44 olds with lower filing rates among those above and below that age bracket.

⁴ Although we recognize the heterogeneity among individuals at similar ages (Setterson and Mayer 1997), it is useful to treat chronological age as a meaningful indicator, because it relates to not only to biological development (experience and cognitive ability), but also to biographical characteristics (such as education, employment and occupation, and marital status), and social and institutional trends (e.g., age-based norms about marriage and retirement).

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distress will respond in a variety of ways, the most important of which involve using credit markets to obtain funds to smooth consumption. Here as well, credit product differentiation will relate to age.⁵ The outcomes – recovery, continued distress, or complete failure – are a function of the types of adverse events characteristic of a particular age group and of the credit markets available to households of that age group. Within that model, the bankruptcy regime is a countermobility institution, which can lessen the adverse mobility associated with life course risks.

To illustrate the model, we take advantage of a nationally representative household-level survey of bankruptcy filings, the 2007 Consumer Bankruptcy Project (CBP),⁶ which was conducted at about the same time as the most recent data collection of the Survey of Consumer Finances (SCF).⁷ Because neither dataset has a longitudinal structure, we cannot observe directly how debt burdens grow over time for particular families. We can, however, discern differences in the debt burdens and other indicators of financial distress for families that enter the bankruptcy process at different stages. Those differences, we argue, tell us something about the way in which debt problems and available solutions shift over the life course.

Part I of the paper discusses the conventional model of consumption and debt over the life cycle, emphasizing the developing body of empirical literature qualifying and undermining that model. Part II discusses financial distress, articulating the theory by discussing the ways in which different types of events vary by age. Part III discusses bankruptcy over the life course, using data from the SCF and the CBP to show how different types of financial problems and responses are characteristic of bankrupt households of different ages. In general, the data show how differences between bankrupt households and the general population shift substantially through the life course. Most obviously, excessive credit card debt is largely a problem for the elderly, while problems related to mortgages peak during middle age and fall thereafter. Similarly, the strategies available to those at or near retirement age for dealing with financial distress are different, and in some ways, more limited than those available to middle-

⁵ The causation problems are intricate. For example, different types of credit markets doubtless influence the types of distress, because they affect the incentive to take precautions against distress events. At the same time, the provenance of different types of distress events relates to the availability of credit products by affecting demand.

⁶ Earlier versions of the CBP sampled from five of the 90 judicial districts in the 50 states and the District of Columbia.

⁷ The CBP dataset is based primarily on cases filed in January and February 2007, with the written questionnaire mailed “immediately” after the filing. The SCF interviews were conducted between May and December 2007.

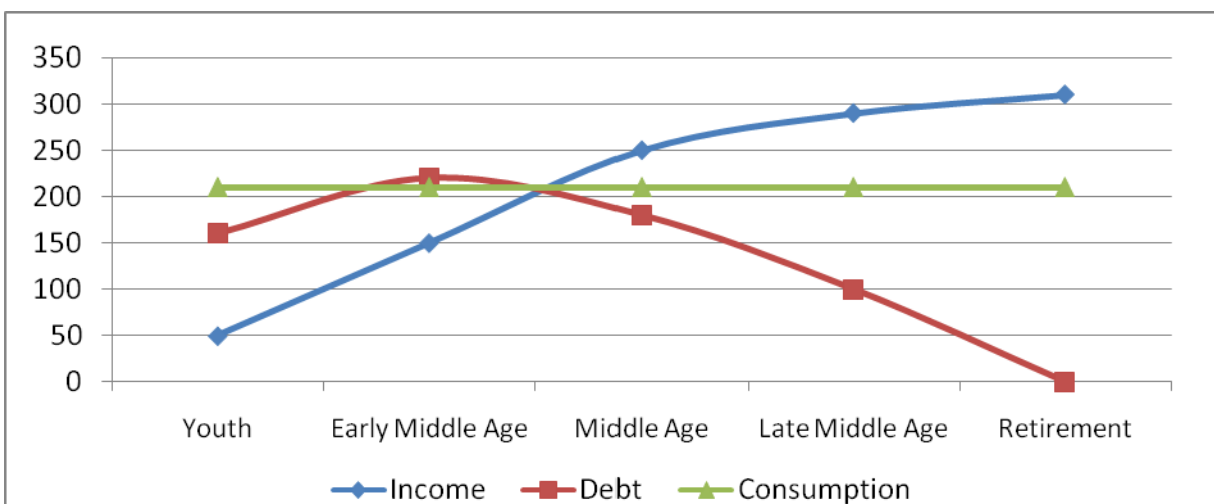
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aged and younger households. Youth, by contrast, are more likely to use higher-cost lending products.

I. Debt over the Life Course

The mainstream economic perspective has treated the rise in consumer indebtedness as a reflection of the elimination of constraints that hindered “rational” borrowing necessary to smooth consumption. As a matter of economic theory, the problem is one of “intertemporal consumption”: given rational expectations about future income, what is the optimal pattern of consumption? Although the model would apply to any instance in which income is erratic or changes unexpectedly – such as a layoff, family crisis, or adverse health event – its primary relevance here relates to the hump-shaped profile of earnings over time, which rises steadily until middle age, and then more slowly thereafter, before falling precipitously at retirement. Seminal work in the 1950s by Franco Modigliani and Milton Friedman concluded that a rational response would be to smooth consumption over the life cycle by borrowing in the early years (Modigliani 1954; Friedman 1957). The expectation would be that consumption would fall below current income at some point in middle age so that the debt borrowed in early decades would be repaid completely by retirement. Under this conception, there are not any truly exogenous shocks to wealth, because families will use debt as necessary to ensure the availability of sufficient resources to insure against unfortunate events. Figure 1 illustrates a stylized version of that model.

Figure 1: The Traditional Life Cycle of Consumption and Debt



The idea is that American households experienced marked constraints – credit rationing – until the 1980s. The easing of liquidity constraints during the last three decades permitted

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households, especially younger households, rapidly to accumulate debt to smooth their pattern of lifetime consumption (Barnes and Young 2003).⁸

In recent years, that model has come under attack on various grounds. For example, it is difficult to reconcile the savings rate with the model – because middle-aged and older households have *reduced* their rate of savings in recent decades (Bosworth 1991; Dynan 2004). Still others have challenged the economic perspective on consumption smoothing, emphasizing that increased debt levels cannot be sustained except during persistent periods of robust economic growth (Jappelli and Pagano 1994; Barba and Pivetti 2008).⁹ Our use of that model here is quite different. Although we think that the findings we present in Part III below are in stark tension with its underlying assumptions, our purpose here is not to criticize that model. Rather it is to extend the core intuition – that financial behavior differs critically through the life course. To that end, the next two sections of the paper discuss how the causes of financial distress, the potential responses to mitigate distress, and the resulting financial conditions of those in distress differ by age. Our objective is to examine the way in which social regimes exacerbate and mitigate the consequences of the risks that households confront as they pass through the life course.

II. Financial Distress over the Life Course

Although scholars have not focused on the question from the life course perspective, a great deal of existing empirical evidence suggests that debt holdings and related financial distress shift over the life course. For example, aggregate data about bankruptcy filings suggest that the same decades that have witnessed the surge of consumer debt have witnessed a parallel upturn in bankruptcy filings by the elderly and a downturn in filings by those under 35 (Thorne et al. 2009).¹⁰ It is true that the rate of over 55-filings is much lower than the rate of filings for those in middle age (Livshits 2007a), but the increase for that group is sufficiently provocative to motivate interest in the underlying causes. Figure 2 displays the current filing rates by age,

⁸ Posner emphasizes the efficiency gains that he perceives from this rapid run-up in borrowing (Posner 2008). To be fair, Posner has changed his altered his position somewhat since the crisis. Posner 2009:229-230 (explaining that “excessive borrowing * * * precipitated the current depression”).

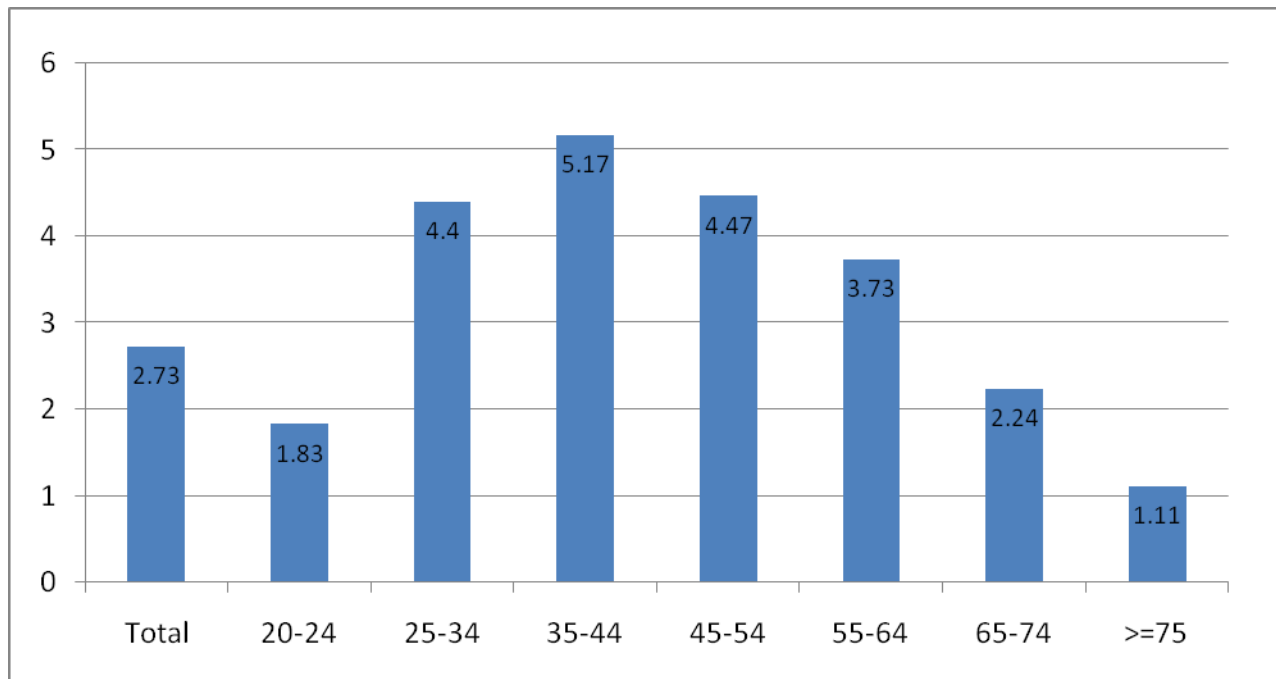
⁹ Barba and Pivetti (2009) attribute rising household debt to the substitution of debt for wages.

¹⁰ One counterexample is Lefgren and McIntyre (2009), which concludes that filing rates are highest for individuals in the late 20s and lowest for individuals in their peak earnings years. We doubt the validity of their counterintuitive conclusion, which rests on the assumption that the proportion of residents of a particular zip code within an age group explains the propensity of that same age group to file. In addition to the measurement question, it is apparent that the age coefficients in Lefgren and McIntyre show no regular temporal pattern, contrary to the expectation in the literature that bankruptcy filings over the life cycle follow an inverse U-shaped curve, see Livshits et al. (2007a) and Agarwal et al. (2009).

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extrapolated from the age of bankruptcy debtors in the 2007 CBP sample.¹¹ As the figure illustrates, bankruptcies are concentrated among people of working age, with the 35-44 age group nearly doubling the overall rate.

Figure 2: 2007 Bankruptcy Filings/1000



Source: CBP 2007; US Census Bureau, Population Estimates Program; Administrative Office of the U.S. Courts

A. Age and Wealth

We can observe from the SCF some substantial shifts over the last decade in the pattern of wealth holdings by age.¹² Table 1 illustrates changes since 1989 for net worth, homeownership, and debt. Net worth over the last two decades has been stagnant for households under 45, but has risen with increasing sharpness for the over-45 age groups. Similarly, although the increases are not as sharp, substantially all of the increase in homeownership rates since 1989 has been in households over the age of 65. Those positive changes for older households,

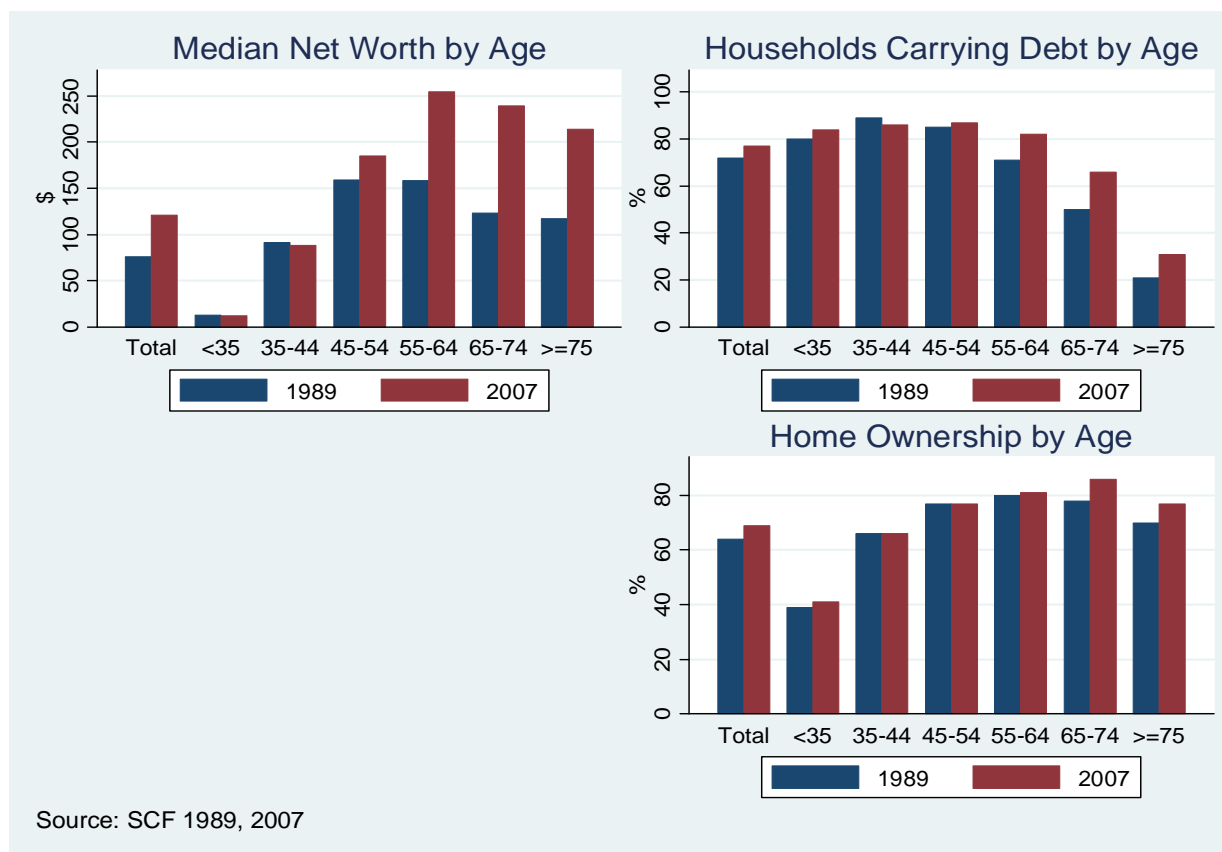
¹¹ We are aware of no other source for the age characteristics of filers and thus assume that the 2007 CBP accurately represents the population on this metric. There are, to be sure, differences between the CBP and the bankruptcy population in terms of the proportion filing via Chapter 7; we cannot exclude the possibility that those differences might correlate with the age of filers.

¹² The 2007 SCF includes 2,915 households from the geographically based random sample and 1507 households from the wealthy list sample. For each household, the SCF administers (usually in person) a detailed questionnaire, with a median interview time of about 80 minutes. SCF protocols include analysis weights that account for the two separate samples and for discernibly different patterns of non-response.

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however, are matched by sharp increases in debt usage for the later age brackets. The changes are particularly remarkable for households over 65: a 30% increase in the share of 65-74 year old households carrying debt and a 45% increase in the share of 75-and-older households carrying debt.

Figure 3: Financial Activity over the Life Course



B. Age and Distress Events

As discussed above, our model involves three distinct stages, all of which are likely to differ through the life course: (1) the occurrence of a distress event; (2) access to the credit market; and (3) resulting financial condition. Although this paper cannot provide a comprehensive analysis of those topics, it is useful in illustrating our model to explain some basic intuitions and hypotheses about how each of those stages differs over the life course. For example, we might think that serious adverse health events become more probable with advancing age (Sullivan, Warren and Westbrook 2000). At the same time, public support for health costs differs substantially by age, as Medicaid is available only to indigent families under the age of 65, but Medicare and related programs provide broad public support for health-care costs above the

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age of 65. The interaction of those effects should not produce a monotonic increase in health-related financial distress with advancing age.¹³

Divorce, by contrast, is a problem that is most serious for middle-aged (and middle-class) households, whose affairs are more likely to be complicated by minor children (Dickerson 2005, 2007).¹⁴ Younger families might be equally prone to divorce, but less likely to have minor children; older families are less prone to divorce (Rindfuss 1991) and less likely to have minor children to complicate untangling of financial affairs. At the same time, as Table 1 illustrates, middle-aged families are more likely than younger families to have wealth resources on which to draw to mitigate the financial complications associated with divorce.

The effects of job loss are particularly complicated.¹⁵ On the one hand, it is easy to see that the effects of globalization on job security fall most heavily on older rather than younger households.¹⁶ And because those households will be closer to retirement, the likelihood of finding a new job is diminished; the risk of permanent departure from the labor market is highest (Buchholz et al. 2006; Warner and Hofmeister 2006; Hofäcker et al. 2006). Conversely, young households are those least likely to have acquired the skills and experience necessary to enter the work force successfully in the first instance, and most likely to be laid off in times of employment contraction (Pew Research Center 2009). If so, the effects of globalization should also fall heavily on the young (Mills and Blossfeld 2006; King 2006; Mills, Blossfeld and Klijzing

¹³ Studies show a strong correlation between medical problems, increased debt burdens, and bankruptcy (Warren, Himmelstein, Thorne, and Woolhandler 2005; Drentea and Lavrakas 2000; Reading and Reynolds 2001; Taylor, Pevalin, and Todd 2007). Of course, economic well-being has many dimensions that relate directly or indirectly to overall well-being, and there is likely to be reverse causality underlying the correlations.

¹⁴ It is difficult to disentangle the relation between family structure and financial distress. Scholars often associate family dissolution with financial distress because of the financial burden of maintaining two households. Thus, Sullivan, Warren and Westbrook (2000:174) report that “[i]t is the trilogy of marriage, divorce, and no remarriage” that relates to financial distress among women. But the frequent movement into and out of cohabiting relationships might also be problematic (Cherlin 2009; Conley and Glauber 2008). There also remains the persistent problem of understanding the causal links between the concepts (Fisher and Lyons 2006).

¹⁵ The effects of debt on labor market outcomes are more complex than this model suggests. Debt has been linked to educational and occupational trajectories (McGill 2006; Millett, 2003) and to women’s labor force participation (Del Boca and Lusardi 2003). It also relates to labor market rigidity (Caplovitz 1968; Leicht and Fitzgerald 2006).

¹⁶ Rapid runups in the costs of education are also part of the story. In recent years, tuition costs have grown faster than the cost of medical care, food, and housing (Lewin 2008). The age-related burden of those costs, however, is difficult to assess, because the costs appear to be borne not only by younger age groups (through increased use of student loans) but also by middle age groups (who finance their children’s education through home equity and other forms of borrowing).

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2006). Thus, those in the middle decades of their careers are least likely to be harmed by globalization.¹⁷

C. Age and Financial Distress

As a result, we expect a distinct set of age-related patterns for financial distress – which would not shift monotonically, but rather in a convex or concave pattern in which the middle decades differ from younger and older decades. Although the SCF does not include household-level data that allows us to identify the reasons for financial health or distress, it does include several variables that are useful proxies for financial distress. For our analysis, we use negative net worth, extraction of home equity, use of payday loans, debt-to-income levels, credit denials, bankruptcies within a five-year period, and missing a payment by more than 60 days as proxies for financial distress.¹⁸

Those variables are likely to reflect financial distress of differing types and severity. Negative net worth, for example, occurs when the amount of debt outstanding exceeds the present value of all assets and arguably is a strong indicator of permanent economic disadvantage. Yet if the household is able to make debt payments, this measure might not reflect serious distress. Similarly, although extracting home equity to pay debts is a step that many families would not take absent a pressing need, it does not involve the desperation indicative of distress; on the contrary, it marks a household with resources to withstand adversity. Use of payday loans might reflect the overextension of mainstream lending products; but it could also suggest discrimination or cultural trends. And late payments could be a marker of serious distress or an indication of financial mismanagement without distress. Debt-to-income levels reflect the burden of overall debt on the income stream; however, this burden might not indicate distress if household assets are substantial. Similarly, credit denials and recent bankruptcies might indicate reduced access to credit markets, which is a precursor to financial distress. Table 1 presents descriptive statistics from the 2007 SCF for the relevant variables.

¹⁷ That is not to say that globalization has not affected mid-career employment volatility. On the contrary, it has increased job mobility and in particular downward job mobility, especially in States where unemployment insurance is constricted (Mills, Johnston, and DiPrete 2006).

¹⁸ For a careful discussion of the difficulties in identifying variables that are useful proxies of financial distress (focused on overindebtedness), see Betti et al. 2007.

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Table 1: Population Characteristics, 2007

	<35	35-44	45-54	55-64	65-74	>=75
Own home (%)	41	66	77	81	85	77
Has Debt (%)	84	86	87	82	66	31
Has Credit Card (%)	59	68	74	79	79	66
Has Credit Card Debt (%)	48	52	54	50	37	19
Cardholders w/ Credit Card Debt (%)	73	71	68	61	45	26
Household Debt (median balance)	\$36,140	\$106,000	\$95,930	\$60,240	\$40,130	\$13,000
Credit Card Debt (median balance)	\$1900	\$3500	\$3600	\$3600	\$3000	\$800
Net Worth (median positive value)	\$24,130	\$118,270	\$214,000	\$280,700	\$260,000	\$219,100
Debt/Income (median positive value)	.91	1.44	1.20	.98	.84	.44
Debt/Income > .4 (%)	56	69	69	57	43	16
Negative Net Worth (%)	21.6	11.9	6.4	4.4	4.4	3.0
Payday Loans (%)	4.9	2.7	2.2	1.6	0.6	0
Extracted Home Equity (%)	3.1	10.6	17.1	13.1	9.6	2.8
Late Pay, 60+ days (%)	7.9	7.4	6.4	4.0	2.9	0.3
Credit Denials (% of applicants)	45	38	23	17	14	11
Bankruptcy Filed in Last 5 Years (%)	4.4	4.8	5.6	3.1	1.0	0.5

Source: SCF 2007
Notes: Weighted calculations

The data suggest that homeowners are more likely to be in the middle and elderly age brackets. Although debtors are more likely to be in the younger age brackets, the use of debt does not begin to drop until after age 65. The use of credit cards is not uncommon in the oldest age groups, but young cardholders are much more likely to be revolvers. High debt burdens are most common in the 35-54 age range, and net worth peaks in the 55-64 age range. The proportion with negative net worth is highest in the lower age groups, as the life cycle model would predict, and the young are more likely to make late payments. There also is reason to think that credit market access is constricted for younger groups, who are more likely to use payday loans and experience credit denials and less likely to extract home equity.

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Table 2: Logistic Regression of Probability of Financial Distress

	Negative Net Worth		Extract Home Equity		Payday Loan		Late 60	
	Coef.	S.E.	Coef.	S.E.	Coef.	S.E.	Coef.	S.E.
<i>Age: (ref <35)</i>								
35-44	-.47	.16	1.14	.25	-.61	.31	.11	.24
45-54	-.98	.19	1.57	.25	-.85	.33	.10	.23
55-64	-1.56	.24	1.29	.25	-1.16	.39	-.42	.30
65-74	-1.86	.31	1.17	.27	-2.23	.74	-1.19	.42
>=75	-2.69	.39	.30	.36	--		--	--
Married	-.38	.15	.30	.14	-.88	.26	.13	.18
<i>Income Percentile (ref < 20)</i>								
20-39.9	-.65	.18	.60	.35			-.06	.24
40-59.9	-1.18	.20	1.20	.30			-.37	.26
60-79.9	-1.87	.26	1.54	.30			-.99	.30
80-89.9	-2.32	.42	1.71	.32			-2.00	.51
90-100	--	--	1.04	.31			-3.23	.79
Log Income					-.15	.06		
<i>Race/Ethnicity (ref. white)</i>								
Black	.68	.16	-.25	.22	.25	.31	.10	.22
Hispanic	.09	.21	-.03	.23	.15	.38	-.27	.30
<i>Education: (ref. no hs)</i>								
H.S./GED	-.67	.20	.07	.24	.01	.38	-.13	.29
Some College	-.19	.21	.08	.25	-.02	.41	.37	.29
College Degree	-.22	.22	-.15	.24	-1.04	.44	-.25	.29
Observations	4241		4241		3807		4241	

Source: SCF 2007

Notes: Coefficients and standard errors are corrected for multiple imputation.
 Bold highlighting indicates results statistically significant at the 0.05 level.

Table 2 summarizes separate models using alternative proxies for financial distress. We use logistic regression to estimate models that predict the logged odds of experiencing those events, using controls for marital status, income, race, and education. The models suggest that age has a significant relationship to financial distress, and most interestingly for us, that age relates differently to each measure. The importance of home equity as a repository of wealth and savings can be seen; thus, the likelihood of having negative net worth declines steadily and significantly for each decade of the life course. Similarly, the extraction of home equity as a response to distress is more common for all ages over thirty-five than it is for those under

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thirty-five; this type of reaction to distress peaks at middle age (45-54) and declines thereafter. Conversely, use of payday loans declines steadily through the life course, presumably reflecting increasing access to less costly sources of financing. Finally, being seriously behind on payments is a problem that is most likely to appear during early and middle age; this is a relatively uncommon occurrence after the age of 55. White households have substantially lower odds of having negative net worth than black households; however, the controls reduce the size of the race coefficients to an insignificant level for the other outcomes.

III. Bankruptcy over the Life Course

Finally, we consider the process that sorts those that have excessive levels of debt and experience exogenous shocks into the bankruptcy system. As noted above, the majority of those that suffer serious financial distress do not use the bankruptcy system. We know relatively little about what differentiates those that seek bankruptcy relief from those that do not. The discussion above suggests, however, that those sorting mechanisms differ by age. The SCF includes measures of prior bankruptcy filings and the year of those filings. The bankruptcy variables provide useful information about the incidence of bankruptcy filing in the population over time. According to SCF 2007, 12 percent of the population has filed for bankruptcy at some point, with nearly 4 percent filing in the past 5 years. However, the measures are less useful for measuring year-to-year variation and cannot be used to observe pre-filing financial condition.

Although these measures are imperfect, we estimated a model (not reported here) to predict self-reported bankruptcy (within the five-year period preceding the survey) based on age, race, education, and whether the respondent has ever owned a home (a proxy for pre-bankruptcy assets).¹⁹ We controlled for current income level. The results suggest that there is an age-related mechanism at work. Recent bankruptcy filing is most common for household heads in the 45-54 age bracket and the likelihood of bankruptcy falls significantly beyond that point. The data do not reveal any statistically significant variations in racial filing patterns or education levels. Those with current incomes above the 60th percentile are much less likely to have filed for bankruptcy. As indicated, however, this analysis cannot account for debt or asset levels at the time of filing.

Nevertheless, bankruptcy filings provide at best a weak proxy for financial distress, and thus are not an ideal vehicle for determining how the bankrupt population differs from the financially distressed population. Bankruptcy is the remedy for financial distress, not its cause, a “countermobility” institution in the terms of the life course literature. Because only a small

¹⁹ All unreported models are available upon request.

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share of those in financial distress use the bankruptcy system, it is difficult to use aggregate data about bankruptcy filings to understand the root sources of distress. Given the difficulty of obtaining detailed information about a representative sample of families in financial distress, our strategy in this paper is to look carefully at data about the balance sheets and experiences of families that have sought refuge in bankruptcy, to compare them to the balance sheets of typical households, and to see how those patterns change over time. Although this will not directly reveal the prevalence of different kinds of financial distress at different points in the life course, the situation of those for whom distress has become severe enough to warrant refuge in bankruptcy tells us a great deal about how financial distress changes through the life course.

The CBP includes two kinds of data that are relevant to our project. First, it includes data culled from each debtor's bankruptcy schedules about the debts owed by households at the time they file. By relating that information to the age of the bankruptcy debtors, we can show how debt burdens of those in bankruptcy differ by age. Second, a survey questionnaire includes questions about the reasons for filing and the strategies households used in coping with distress before bankruptcy.²⁰ Those data provides a richer look at how the options available to distressed households shift as the household ages.

A. Selecting into Bankruptcy

First, we consider whether the way in which income, asset, and debt levels shift through the life course differs for those who are in bankruptcy from those in the general population. The panels of Figure 4 display descriptive data on that question for the SCF (representing the general population) and the CBP (representing the bankrupt population).²¹ We use boxplots to illustrate the range of typical bankrupt households and situate them against a marker to show a household far removed from the median for the general population.

²⁰ The core sample is based on a random selection of 5,000 consumer cases during a five-week period beginning the last week of January 2007. An elderly oversample (with age validated through an internet background check) contributed an additional 262 cases. Nearly half of the core sample (2438) returned the eight-page questionnaire mailed to their homes. Non-response bias is a possibility; there appear to be statistically significant differences between respondents and non-respondents in chapter choice, unsecured debts, and income levels. The CBP does not include sample weights to account for the elderly oversample, temporal variation in filing patterns, or variation in response rates. However, we constructed weights to account for the elderly oversample; models using that oversample and those weights qualitatively were consistent with the models reported here.

²¹ The CBP analysis uses the petition as the unit of analysis, relying on household-level data or the first petitioner's characteristics when household-level data is not applicable. Although this approach obscures some of the variation in the characteristics of the bankruptcy population, it facilitates comparison to the SCF data, for which the household is the unit of analysis.

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Figure 4A: Income over the Life Course

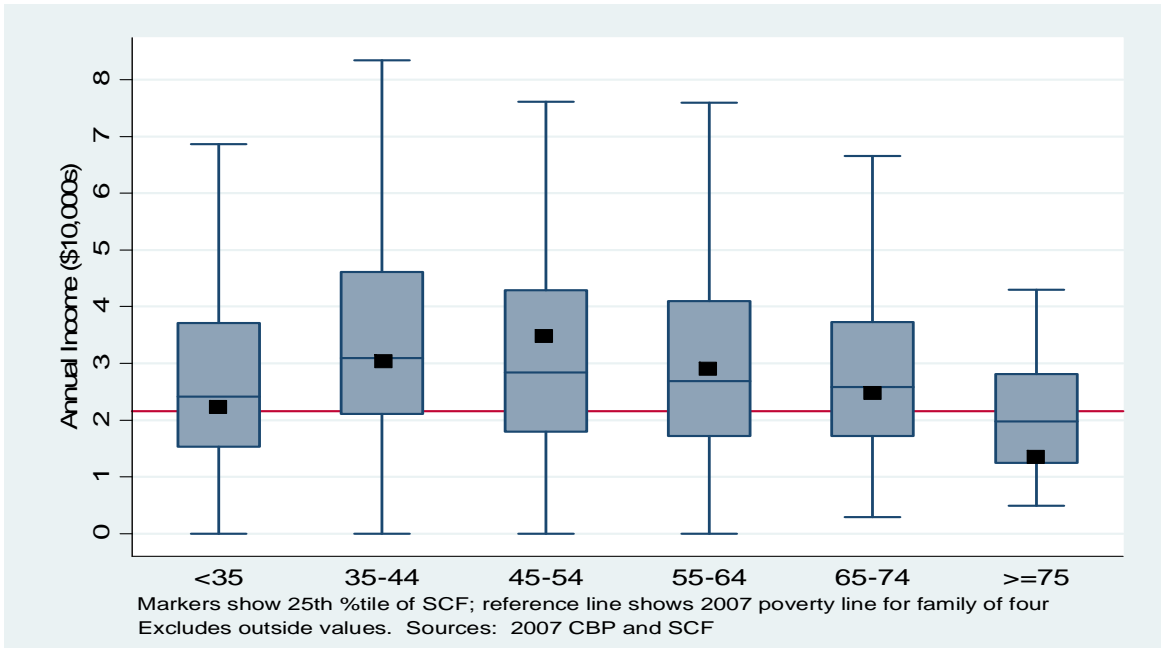
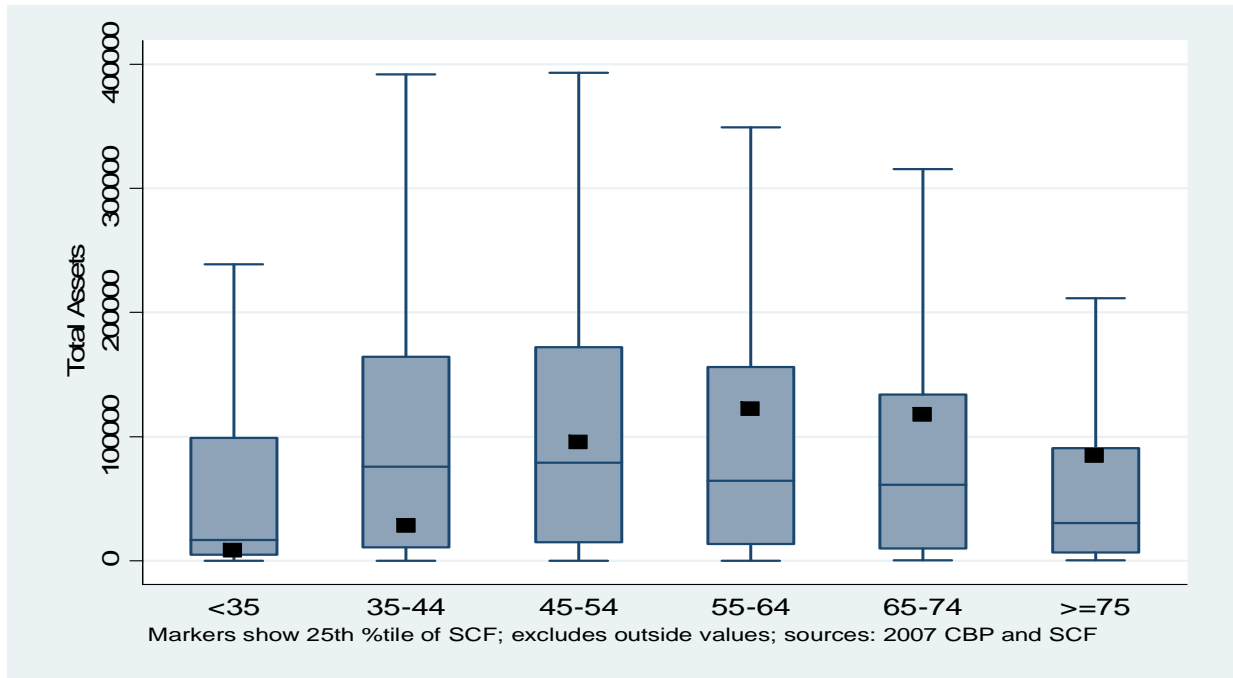


Figure 4B: Assets over the Life Course



Financial Distress over the Life Course

Figure 4C: Debt over the Life Course

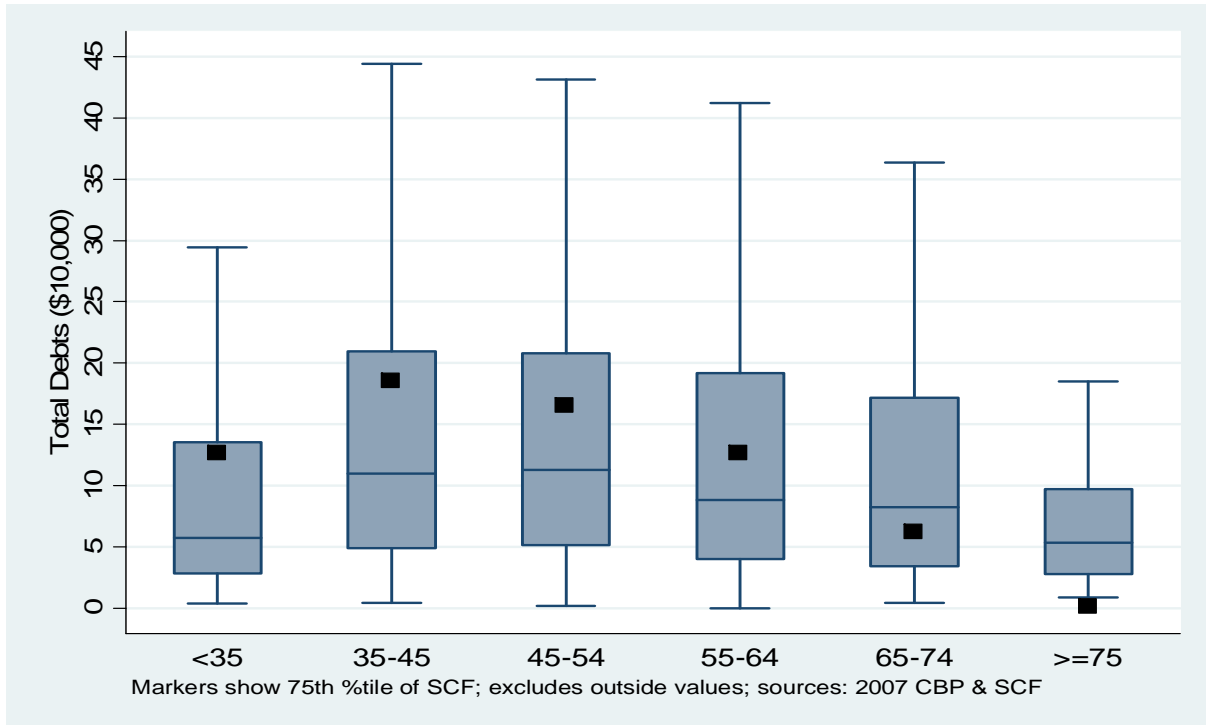
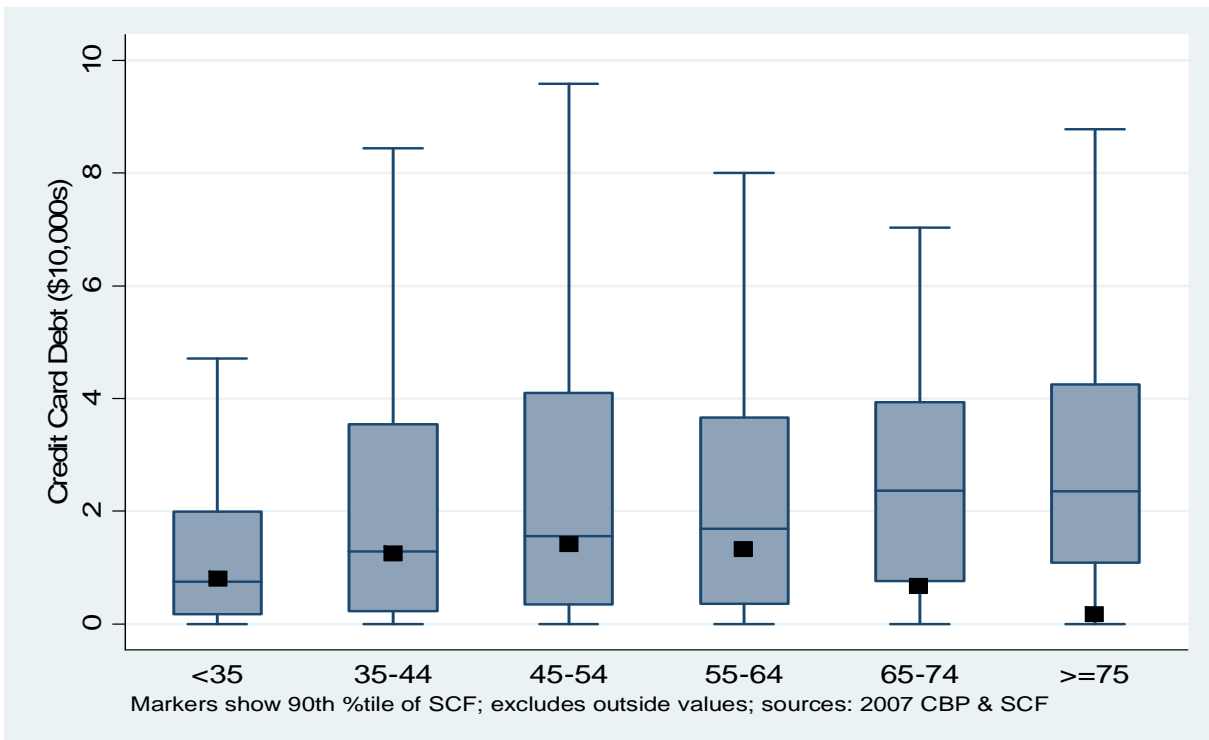


Figure 4D: Credit Card Debt over the Life Course



Financial Distress over the Life Course

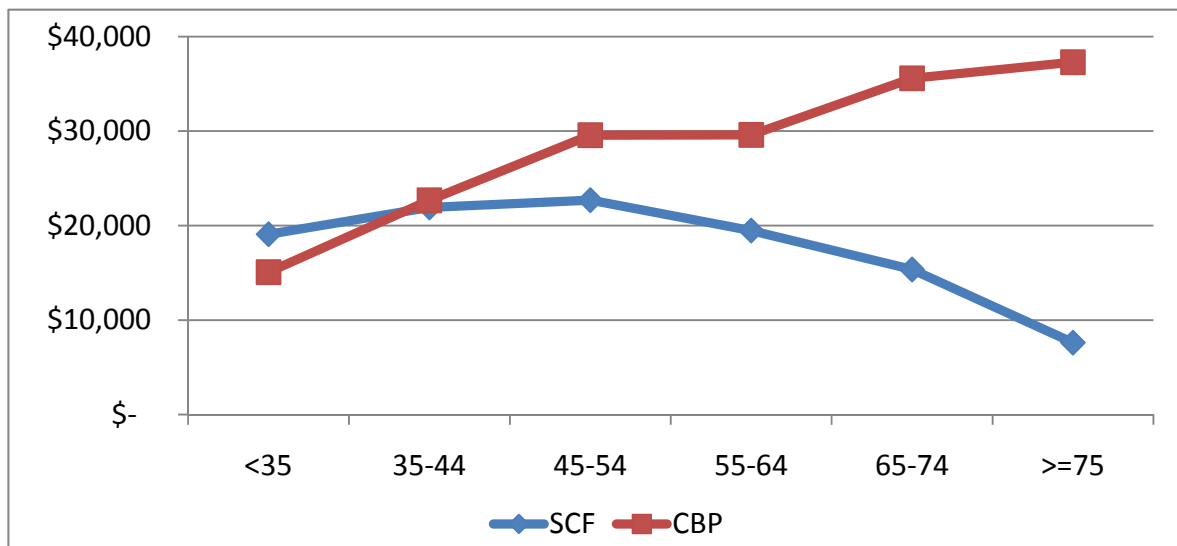
Several things about those figures are noteworthy. The most obvious is that the wealth and income characteristics of the bankruptcy population are more stable across age than those of the general population. Specifically, neither wealth nor income exhibit the prime-of-life peak that is most noticeable in the median SCF data. The homogeneity of wealth and income attributes of filers with respect to age suggests that the typical variations in wealth and income across age do not explain much about bankruptcy incidence over the life course.

The curves say something much different about debt. Although the debt burdens of the bankrupt population are not remarkably different from those of the general population through the mid-career point, the debt burdens for the elderly bankrupt population are much closer to the debt burdens for the middle-aged than in the general population, where typical debt burdens decline rapidly with age. The pattern is most pronounced for credit card debt, where the burdens rise steadily with the age of the bankrupt population, while falling steadily through middle age for even the 90th percentile of debt holders in the general population. For these households, the “consumption-smoothing” model of their debts has failed by early middle age. If there is any single point on which the pattern of financial affairs of bankrupts differs from that of the general population it is in the remarkable amount of credit card debt owed by post-middle-age households.

To examine this point more carefully, we estimated Tobit regression models (left censored at 0) to predict the amount of credit card debt held by households in the general population and the bankruptcy population, controlling for age and other demographic variables (marital status, log of income, race, and education). Figure 5 displays the predicted amount of credit card debt for a married household headed by a white respondent with at least a high school education in each age group. The pattern underscores the data in Figure 4D: the credit card debt owed by elderly bankrupt households is remarkably high, whether the benchmark for comparison is bankrupt households of an earlier age or typical households of that age. Where the credit card debt of typical households declines rapidly after they reach 65, the typical credit card debt for bankrupt households increases steadily as the household ages so that it is more than \$35,000 for households over the age of 75.²²

²² In part, the data may reflect a cohort effect, in which the predilection of the current cohort of older households to use credit cards rather than debit cards leaves it more exposed to the risk of credit card borrowing than younger households (Schuh and Stavins 2009).

Figure 5: Credit Cards and Age



B. Coping Strategies and Filing Determinants over the Life Course

A central point of the model discussed in Part II is that both the underlying problems that lead to bankruptcy and the strategies available to mitigate those problems will differ by age. The CBP includes a wealth of information to investigate those questions, including two sets of survey questions asked of bankruptcy filers shortly after their decisions to file – one pertaining to the coping strategies used to defer or avoid filing and the other to the reasons for the decision to file. The coping strategy data (summarized in Table 3) suggest substantial variation through the life course. For example, looking at the descriptive data, the most common strategy for households under 35 is to “work harder.” This strategy is of less value for aging households, which presumably have less flexible employment alternatives. Similarly, the use of pawnshops and payday loans as a coping strategy declines steadily for older households, presumably because of increased access to more conventional credit markets. Interestingly, the use of credit cards as a coping strategy is widespread and steady at 54-56% for all households under the age of 75. However, the data discussed above suggest that this strategy might result in much larger burdens for older households than for younger ones.

The reasons for filing bankruptcy also shed light on the role the bankruptcy process plays at different ages. Not surprisingly, medical issues become steadily more prominent as families age, reaching a plateau for households over the age of 55 (particularly for white, married households). Divorce, by contrast, is a much less common problem for households over 55 than for those under 55. Spending problems are more common for younger households, particularly those that are white and never married. Housing-related problems are most likely to affect middle-aged households, particularly for black household heads. Income decline holds

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roughly steady (53%-58%) for all households under the traditional retirement age of 65. Although we cannot discuss the topic in detail here, it is apparent from the regression models summarized below that these effects differ by racial classification. For the convenience of the reader, we include in the appendix a similar breakdown of the important financial and bankruptcy-related variables for non-Hispanic white, African American, and Hispanic or Latino groups.

Table 3: CBP Characteristics by Age, 2007

	Total	<35	35-44	45-54	55-64	65-74	>=75
Chapter 13 (%)	34	23	39	40	37	32	18
Monthly Income (median)	\$2266	\$2013	\$2579	\$2364	\$2237	\$2153	\$1645
Total Assets (median)	\$50,500	\$16,582	\$75,957	\$78,751	\$64,509	\$61,330	\$30,119
Total Debt (median)	\$86,597	\$57,553	\$109,874	\$112,806	\$88,161	\$82,298	\$53,546
Credit Card Debt (median)	\$13,279	\$7,556	\$12,832	\$15,522	\$16,839	\$23,683	\$23,554
Homeownership (%)	51	34	55	58	61	59	47
Medical Debt (%)	51	59	59	50	45	36	21
Student Loans (%)	17	29	22	14	5	3	2
<i>Coping Strategies (%)</i>							
Work Harder	61	79	72	62	53	26	11
Use 401K	35	29	40	41	45	30	25
Using Credit Cards	51	56	55	54	54	54	46
Pawnshop	32	40	38	35	28	15	16
Payday Loans	25	35	31	23	17	8	9
Selling Home	6	5	8	7	5	7	2
Refinancing Home	24	16	25	31	29	37	25
<i>Reasons for Filing (%)</i>							
Income Decline	52	54	58	54	58	49	33
Medical Issue	53	51	54	59	64	55	63
Divorce	18	19	23	21	12	5	9
Spending	26	35	29	26	20	28	16
Increased Mortgage	16	13	20	18	16	16	12
Can't Refinance	18	13	22	23	21	18	11
Foreclosure	20	15	27	26	22	16	11
Possible Observations	2438	579	588	514	326	115	57

Source: CBP 2007

Finally, we estimate a series of models to predict the reasons for filing, presented in Tables 4 and 5. We use logistic regression to fit models that predict the logged odds of selecting a

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particular reason for filing. The reference category is petitions filed by heads of household under the age of 35. We control for income, assets, homeownership, marital status, and race.

The results suggest that the control variables do not entirely explain the differences in reasons for filing provided by household heads of differing ages. Thus, the probability of attributing the reason for filing to divorce declines steadily with age. It is, for example, about 20% less for families 45-54, 45% less for families 55-64, and 70% less likely for households over the age of 65 than it is for the reference category (households with a head under 35). Medical problems, by contrast, are much more common for middle-aged households than younger households (nearly 10% more likely for families 45-54 and 15% more likely for families 55-64 or over 75). Interestingly, once we add controls, medical problems are no more common for households 65-74 than for the reference category, presumably at least in part because of the access to Medicare. The patterns for income declines and spending are harder to interpret. As a preliminary matter, however, a fall in income (presumably a proxy for layoffs) appears to be a problem before and after the middle-aged peak, perhaps because of limited skills early in life and limited flexibility late in life. The most interesting thing about this outcome is the importance of the race variables. Blacks are 7% less likely and Hispanics 10% less likely to report this problem than whites. Models run separately on blacks and whites (not reported here, but available on request) suggest that the age effects identified in Table 5 are limited to the white bankrupt filers. Although blacks are less likely than whites to report decline in income as a reason for filing, those who report this problem are not concentrated in any particular age bracket. Similarly, spending issues appear to be a problem primarily for the reference class of under 35, never married whites: they are substantially less important for older ages, blacks, and those that are married or divorced.

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Table 4: Logistic Regression of Probability of Reasons for Filing

	Divorce		Medical		Fall in Income		Spending	
	Coef.	S.E.	Coef.	S.E.	Coef.	S.E.	Coef.	S.E.
<i>Age (ref. under 35)</i>								
35-44	-.30	.19	.10	.13	.24	.13	-.14	.14
45-54	-.82	.20	.35	.13	.094	.13	-.19	.15
55-64	-1.84	.25	.57	.16	.29	.16	-.54	.18
65-74	-2.96	.50	.033	.22	-.11	.22	-.078	.24
75 or over	-2.67	.56	.50	.32	-.80	.32	-.90	.43
Income (\$10,000s)	.021	.035	-.017	.025	-.071	.027	.11	.03
Assets (\$10,000s)	.003	.005	-.009	.004	.0063	.0037	-.017	.005
Homeownership	-.40	.15	.020	.11	.032	.11	-.052	.12
<i>Race/ethnicity: (ref. white)</i>								
Black	-.40	.18	-.28	.11	-.28	.11	-.57	.13
Hispanic	-.29	.31	.085	.20	-.27	.20	.31	.21
<i>Marital Status (ref. never married)</i>								
Married	.44	.28	.59	.14	.063	.14	-.41	.15
Divorced, widowed, separated	3.25	.26	.16	.14	-.24	.14	-.52	.15
Other	1.39	.60	.55	.41	.008	.40	-.45	.46
Observations	2037		2037		2037		2037	

Source: CBP, 2007

Notes: Bold highlighting indicates results statistically significant at the 0.05 level.

Interestingly, there is little variation by age in the real-estate related reasons for filing.²³ However, those problems are more prominent for blacks and less prominent for Hispanics compared to white households. In addition, the relation between age and real estate problems varies across racial groups, as the real-estate reasons are significantly higher for the 35-44 and 55-64 age brackets for blacks than they are for whites. Indeed, the data suggest that the paradigmatic black bankruptcy arises out of real-estate problems exacerbated by limited access to conventional credit markets.²⁴ This is consistent with the lower debt levels and higher

²³ A separate set of models (not reported here) limited to Chapter 13 filings buttresses the suggestion that real-estate related problems are not particularly sensitive to age.

²⁴ As of 2007, nonwhite households became slightly more likely than white households to have debt (Bucks et al. 2009), but the removal of credit limitations has been accomplished in part through the segmentation of credit markets with higher costs for nonwhite households (Briggs 2005; Oliver and Shapiro 2006).

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homeownership rates for black households (Table A1). The latter is particularly notable, given the differential in the general population (see Table A1).

Table 5: Logistic Regression of Probability of Real-Estate Related Reasons for Filing

	Incr. Mtg. Payment		Foreclosure		Can't Refinance	
	Coef.	S.E.	Coef.	S.E.	Coef.	S.E.
<i>Age (ref. under 35)</i>						
35-44	.16	.18	.38	.17	.16	.18
45-54	.099	.19	.32	.18	.19	.18
55-64	-.093	.22	-.011	.21	.076	.21
65-74	-.052	.32	-.40	.31	-.20	.30
75 or over	-.26	.48	-.73	.51	-.67	.51
Income (\$10,000s)	.087	.034	.031	.029	.046	.031
Assets (\$10,000s)	.023	.004	.014	.004	.018	.004
Homeownership	.64	.15	1.46	.15	1.29	.15
<i>Race/ethnicity: (ref. white)</i>						
Black	.49	.15	.80	.13	.35	.14
Hispanic	.09	.30	-.57	.33	-.67	.35
<i>Marital Status (ref. never married)</i>						
Married	.087	.21	.21	.19	.62	.21
Divorced, widowed, separated	.30	.21	.29	.19	.54	.22
Other	-.36	.70	-.17	.60	.32	.62
Observations	2037		2037		2037	

Source: CBP, 2007

Notes: Bold highlighting indicates results statistically significant at the 0.05 level.

Finally, Table 6 reports the results of logistic regressions modeling the characteristics of households that use various coping strategies. For illustrative purposes, we report the models for the use of payday loans, working harder, and refinancing.²⁵ Those models suggest that young, middle age, and older households use different mechanisms to attempt to avert bankruptcy. The young are more likely to use payday loans and to work harder, and those strategies are not attractive or feasible for the old. Refinancing is a strategy most readily available to a particular group of middle-aged homeowners.

²⁵ A separate model on coping through refinancing limited to those reporting that they owned a home included similar age effects.

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Table 6: Logistic Regression of Probability of Selected Coping Strategies

	Payday Loans		More Work		Refinancing	
	Coef.	S.E.	Coef.	S.E.	Coef.	S.E.
<i>Age (ref. under 35)</i>						
35-44	-.29	.14	-.56	.15	-.015	.17
45-54	-.69	.15	-.97	.15	.32	.17
55-64	-1.13	.19	-1.38	.17	.15	.20
65-74	-2.22	.41	-2.58	.26	.59	.26
75 or over	-2.23	.61	-4.15	.61	.052	.40
Income (\$10,000s)	.031	.028	.15	.03	-.0043	.029
Assets (\$10,000s)	-.022	.006	-.0017	.004	.040	.005
Homeownership	.081	.13	-.018	.12	1.25	.14
<i>Race/ethnicity: (ref. white)</i>						
Black	1.05	.12	.13	.12	-.50	.15
Hispanic	.13	.24	.028	.22	-.69	.31
<i>Marital Status (ref. never married)</i>						
Married	.56	.16	.39	.16	.66	.20
Divorced, widowed, separated	.42	.16	.20	.15	.61	.21
Other	-.37	.53	.64	.46	-.52	.78
Observations	2037		2037		2037	

Source: CBP, 2007

Notes: Bold highlighting indicates results statistically significant at the 0.05 level.

IV. Conclusion

The data analyzed in this paper generally allude to the growing importance of several structural shifts in the economy, three of which seem to be paramount. The first is the increased employment volatility (especially for the old and young) that flows from globalization. The second is the continued expansion of credit markets, which has brought both a substantial increase in the amount of debt and a segmentation of credit products. The third is the extended period of economic activity at the end of life, reflected in increased levels of income, assets, and debt for those past middle age.

To be sure, our analysis has limitations. We consider race and class only obliquely. It seems likely that the risks of life course mobility differ by both race and class, even for households of the same age. If the availability of bankruptcy as a countermobility institution is stratified by

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race and class in addition to age, then it might exacerbate the existing link between race and wealth in our society. On that point, the analysis in Figure 4 suggests that the typical bankruptcy filers are not in the core of the middle class; rather, they are predominantly families below the 25th percentile in income and assets. Taking race into account, however, black bankruptcy filers are more likely to come from the middle class than white bankruptcy filers, particularly measured by assets; median assets for black bankruptcy filers are greater than median assets for all black households, but median assets for white bankruptcy filers are only a small fraction of median assets for white households (Table A1).²⁶ The descriptive discussion of those topics here should show the way for further research; indeed, we believe that much of the existing research relies too heavily on the strike-like-lightning quality of bankruptcy within the middle class and thus inappropriately masks the patterning of filing selection processes.

Still, the life-course effects themselves warrant some generalizations. People at all ages are now using credit not only to manage the mismatch of steadily increasing lifetime income with a desire for reasonably stable levels of consumption. They also use credit to respond to increased levels of income and wealth volatility. Insurance is no longer a complete, or even adequate, cushion against predictable shocks to health, livelihood, or savings.

The relatively limited debt burdens characteristic of younger households suggest not frugality, but a lingering market constraint. When younger households experience financial difficulty often the main sources of funding to which they can turn are high-cost options that well might exacerbate financial distress instead of helping the family through the hard times.²⁷

Middle-aged households represent the paradigmatic case for both the bankruptcy system and the credit markets. Households at this age have the most complete access to the full panoply of strategies for avoiding distress. Still, middle-aged households are much more likely to file for bankruptcy each year than those that are younger or older. One possible explanation might be racial variation by age, which would reflect (especially in 2007) problems of access to mortgage markets; although the racial distribution is similar across most age brackets, black filers are much more likely to be middle-aged than white filers.

The situation of older households is the most poignant. Extending economic activity later through the life course is a double-edged sword, as it brings increased wealth and income later in life. The difficulty, of course, is that this strategy is much riskier for the elderly than it is for

²⁶ The education differentials display a similar pattern. Black bankruptcy filers were more likely to have attended college than either white bankruptcy filers or black households overall; at the same time, white bankruptcy filers are less likely to be college educated than other white households (Table A1).

²⁷ The idea that limited credit use can be associated with a greater level of financial distress because it signals limited access to credit is explored in Betti et al. (2007) as a tool for explaining why there are greater levels of overindebtedness in EU countries that have lower levels of borrowing.

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younger households. This is true not only because older households are more exposed to income and health volatility, but also because their responses to those problems are less flexible with advancing age. To be sure, older households have taken full advantage of the increased credit access to cope with those problems. But borrowing continues for a large share of households far past any point where it can be repaid other than by liquidation of wealth. That is a difficult gamble in an economy plagued by increasing asset volatility.

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Financial Distress over the Life Course

Table A1: Characteristics of Population and Bankruptcy Filers by Race, 2007

Demographics	Non Hispanic White		Hispanic or Latino		African American	
	SCF	CBP	SCF	CBP	SCF	CBP
Annual Income (median)	\$51,418	\$27,900	\$35,993	\$25,008	\$30,851	\$26,976
Assets (median)	\$256,000	\$59,060	\$53,700	\$24,029	\$49,200	\$53,916
Total Debt (median)	\$33,000	\$98,529	\$14,000	\$58,722	\$11,540	\$72,607
Credit Card Debt (%)	46	91	47	88	50	79
Student Loans (%)	14	17	14	12	24	23
Medical Debt (%)	n/a	54	n/a	42	n/a	50
Res. Mort. Debt (%)	49	50	37	41	37	54
Homeownership (%)	75	51	49	42	49	56
Education (%):						
No HS	7	9	37	21	15	10
HS - GED	25	31	30	20	35	23
Some College	15	35	13	32	23	40
College Degree	52	25	21	26	27	27
Marital Status (%):						
Never Married	15	16	25	23	35	28
Married	53	47	53	43	31	35
Div – Sep – Wid	31	37	22	32	33	36
Observations	3518 (80%)	1561 (71%)	313 (7%)	119 (5%)	410 (9%)	484 (22%)

Source: SCF 2007 & CBP 2007