Class of 2009: The Great Recession's Impact on the American Debtor

Contributing Editor:
Leslie E. Linfield
Institute for Financial Literacy; Portland, Maine
llinfield@financiallit.org

According to the National Bureau of Economic Research (NBER), the U.S. officially entered into a recession in December 2007, and recently announced that the recession ended in June 2009. However, bankruptcy debtors who filed during mid- to late 2009 may argue that it still felt like there was a recession. Most of us in the insolvency profession would say that we are still in a recession. Unemployment is currently at 9.6 percent, and some economists predict it will stay above 9 percent for the next 18-24 months. Bankruptcy filings are now averaging around 30,000 filings per week. As for the mortgage foreclosure "situation" and the legal and political fallout that will come from it, who knows what impact that will have on the nation's already-complex economic situation.

Leslie E. Linfield

What does this mean from the perspective of the American debtor? For several years, I have had the opportunity to write this column called the "Class of..." It is based on an annual study published by the Institute for Financial Literacy (IFL) on consumer bankruptcy demographics. This year's article compares debtors, now fully entrenched in the "Great Recession," with their counterparts from 2008, the first and only technically full year of the recession.

While reviewing this year's data, we pondered, "how was the Class of 2009 different from the Class of 2008?," followed by, "did the Great Recession have any impact?" To answer the first question, yes, you will see some noticeable differences in this year's data. As to the second question again, yes, this year we did begin to see things that could be attributed to the recession, particularly in the "Employment" and "Causes for Financial Distress" categories. First, we will examine the foundation of the research. For those of you who want to skip the foundational stuff, go to the subhead "Class of 2009."

About the Author

Leslie Linfield is the executive director of the Institute for Financial Literacy, a national financial literacy education organization and an approved credit-counseling provider with the U.S. Trustee Program and Bankruptcy Administrators.

Background

The IFL knew in early 2005 that it would seek approval to provide both the pre-filing budget and credit counseling[1] and pre-discharge financial management instructional course[2] in all 94 judicial districts.[3] This presented a unique opportunity for the collection of large amounts of data on both prospective debtors (credit counseling clients) and actual debtors (education clients). As we designed the programs and delivery methodology, the IFL integrated data-collection instruments that would dovetail into our delivery of service.

The project's challenges were great, as we had less than six months to build a brand-new program from scratch. We needed to determine what questions to survey on, and for that, we went to the existing body of research. Longtime *Journal* readers may know that the existing research on consumer demographics has been limited. The primary reason is that most researchers have only had the bankruptcy petition itself to rely on, and so that which is not asked for is not given. The schedules do not currently request or require a debtor to disclose age (it can be voluntarily provided on Schedule I), ethnicity, educational attainment or marital status. (Marital status is asked only on Form 22A. One can presume from a joint petition that a couple is a man and a woman, as same-sex couples are not allowed to file a joint bankruptcy petition at this time.) Likewise, current employment status cannot be determined from the petition, nor can the underlying causes for the consumers' financial distress. With these limited parameters in hand, we set out to design the survey tool.

The IFL provides counseling and education services in-person,[4] by telephone and online. At the beginning of either service, a survey gathers demographic information from the client. If a client receives both services from the IFL, the survey information is only gathered once. Clients taking a counseling or education 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.

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

Clients receiving their services by telephone or in-person are informed by counselors that the IFL is conducting ongoing research, and that 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.

Once a client agrees to participate, he or she is read a confidentiality statement by the counselor, who then collects the data. The categories surveyed include gender, age, ethnicity, educational background, personal income, employment, marital status and causes of financial distress.

The data that has been collected these past four years has begun to pay dividends for the academic and research community. In a recent *Journal* article,[5] **John Golmant** and **James Woods** updated a 2007 study on bankruptcy and aging and

continued on page 70

Feature

1 11 U.S.C. § 111 (a).
2 11 U.S.C. §§ 727(a)(11) and 1328(g)(1).
3 Of these, 88 districts are covered by the U.S. Trustee Program. North Carolina and Alabama and their six respective judicial districts are under the authority of the individual Bankruptcy Administrators (BA).
4 In the District of Maine.
5 *See* "Bankruptcy and Aging Revisited," *ABI Journal*, September 2010.

were able to compare their findings with the IFL's age data. Their data was consistent with the 2008 demographics report.

Class of 2009

There were 52,181 clients who volunteered to complete the survey, in whole or in part, as part of the Class of 2009. This was an increase of 15 percent over last year's survey of 45,229 clients who participated in the survey. To put that number into perspective, the number of new non-business bankruptcy cases filed nationally between Jan. 1 and Dec. 31, 2009, was nearly 1,412,838.[6] If all of our respondents filed bankruptcy petitions,[7] this would represent 3.69 percent of all new cases filed for the period, and is therefore a statistically significant and relevant sample.

In June 2010, the IFL published its findings in a report, "2009 Annual Consumer Bankruptcy Demographics Report: The American Debtor in the Great Recession."[8] The following is a summary of some of the findings from our research, as well as a comparison to the 2008 data.

Gender

Of all the categories surveyed, this particular one had a 100 percent participation rate, finding that 52.4 percent (27,303) were women while 47.6 percent (24,851) were men. Compared to last year, 52.6 percent were women and 47.2 percent were men. This year, we are beginning to see a closer alignment with their respective representations within the U.S. population. According to the U.S. Census Bureau, women comprised 50.7 percent of the U.S. population in 2009.[9]

What is of interest is the difference between women seeking counseling and/or education as compared to men. This variance has been consistent since the IFL began reporting this data in 2006. It is unlikely that this statistic is being affected by the recession.

Age

A total of 51,883 participants answered the age question, a 99 percent response rate. Of these, 1.8 percent (910) identified as being 18-24 years of age; 17.1 percent (8,883) identified as being 25-34 years of age; 28.6 percent (14,860) identified as being 35-44 years of age; 27.3 percent (14,180) identified as being 45-54 years of age; 16.9 percent (8,768) identified as being 55-64 years of age; and 8.3 percent (4,282) identified as being 65 years of age or older.

It is clear that almost 56 percent of bankruptcy debtors are between the ages of 35-54, a trend that has continued from last year's report. However, an emerging trend is that the 55-64 and the 65+ age cohorts appear to be experiencing an increased deterioration in their financial conditions and filing bankruptcy at greater rates than in the previous year, which raises questions about the causes of financial distress. Is this due to the recession or due to some other underlying issue with this age cohort such as medical issues or reduction of income due to retirement? These two age cohorts have seen an increase in percentage of filing since 2007—prior to the beginning of the recession.

Ethnicity

A total of 50,939 participants answered the ethnicity question, a 98 percent response rate. Of these, 11.4 percent (5,813) identified themselves as African American/Black; 74 percent (37,690) identified themselves as Caucasian/White; 7.2 percent (3,643) identified themselves as Latino/Hispanic; 4 percent (2,046) identified themselves as Asian; 0.7 percent (352) identified themselves as Native American; and 2.7 percent (1,395) identified themselves as Other.

There have not been the significant year-to-year shifts that were demonstrated in the 2008 report. However, there has been a noticeable increase in the filing rates of Asians over the past three years: This group has gone from 2.1 percent to 4 percent of the filing population since 2006. What impact, if any, has the recession had on this ethnic group, and why? In the reverse, the filing rates among African Americans/Blacks has dropped from 15.3 percent in 2006 to 11.4 percent in the past year. The recession again may be directly connected to this outcome, but the questions become how and why? Because both of these categories have seen significant changes over the last few years, one is left questioning what role ethnicity plays in filing for bankruptcy.

Educational Background

A total of 51,600 participants responded regarding their highest level of education completed, a 99 percent response rate. Of these, 6.3 percent (3,248) identified as being at the graduate level; 13.9 percent (7,208) identified as

Table 1: Comparison of Age Group Data

Age Range	2008	2009
18-24	2.2%	1.8%
25-34	19.5%	17.1%
35-44	29.4%	28.6%
45-54	26%	27.3%
55-64	15.6%	16.9%
65+	7.3%	8.3%

Table 2: Ethnicity

Ethnicity	2008	2009
African American/Black	12.5%	11.4%
Caucasian/White	73.3%	74%
Latino/Hispanic	7.4%	7.2%
Asian	3.6%	4%
Native American	0.8%	0.7%
Other	2.4%	2.7%

6 The U.S. Courts reported a total of 1,473,675 cases filed in 2009. Of these, 60,837 were business filings and therefore were exempt from the credit counseling and financial education requirement.

7 Ninety-one percent of credit-counseling clients received a recommendation to consult an attorney based on their financial condition. All financial-management-education clients are already bankruptcy debtors.

8 Available at www.financiallit.org.

9 *See* http://quickfacts.census.gov/qfd/states/00000.html.

being at the bachelor's level; 8.6 percent (4,445) identified as being at the associate's level; 28.9 percent (14,898) identified as being at the some college level; 36.9 percent (19,025) identified as being at the high school/GED level; 5 percent (2,581) identified as being at the primary school level; and 0.4 percent (195) identified themselves as having no education.

Last year, we found that those with either a bachelor's or associate's degree appeared to be more affected during the first year of the recession, with significant filing increases over the previous year. It appears that the trend has worked its way up the educational "food chain," with those holding bachelor's *and* graduate degrees being more affected in this group than in years past. Those with a bachelor's degree saw their filing rates increased by 1.6 percent, while the filing rate increased by 1 percent for those with a graduate-level degree. Last year, we asked whether this recession was a "white collar" recession; the increase in the filing rates among those of higher educational attainment suggests that the answer to that question is most likely "yes." With that said, this is most likely a reflection of the changing nature of our economy from a manufacturing base to a service/technology base.

Personal Income

The IFL asked individuals what their personal annual income was,[10] and 95 percent (49,770) (our lowest participation rate on the survey) responded. Of these, 38.4 percent (19,111) identified as earning less than $20,000; 20.9 percent (10,411) identified as earning $20,000 to $30,000; 15.4 percent (7,644) identified as earning $30,000 to $40,000; 9.7 percent (4,837) identified as earning $40,000 to $50,000; 6.5 percent (3,233) identified as earning $50,000 to $60,000; and 9.1 percent (4,534) identified as earning more than $60,000.

The recession continues to have an effect on higher income levels, while the percentage of those who earn less than $30,000 decreased or returned to pre-recession filing rates. Those with income rates between $20,000 and $30,000 saw a decrease in filings by 1 percentage point, while those earning $20,000 or less saw an increase in filing rates of 1.3 percent, returning to their 2007 percentages. Those who earn $50,000 stabilized at 6.5 percent. Of particular note again this year, participants earning $60,000 or more saw an increase by 1 percentage point. This income cohort has seen a steady increase over the past several years and has increased from 5.5 percent to 9.1 percent since 2006.

Employment Status

A total of 51,789 participants answered the employment question, a 99 percent response rate. Of these, 59.3 percent (30,704) identified themselves as employed; 16.2 percent (8,407) identified themselves as unemployed; 9.3 percent (4,811) identified themselves as retired; 10.3 percent (5,325) identified themselves as self-employed; 4.1 percent (2,106) identified themselves as a homemaker; and 0.8 percent (436) identified themselves as a student.

The recession clearly presents itself when looking at the employment statistics, particularly in the "unemployed" category. In the 2008 report, the unemployment rate was 5 percent in January 2008 and 7.4 percent by December 2008.[11] By the end of December 2009, unemployment had spiked to 10 percent.[12] It is evident that the higher rate of unemployment took its toll as more jobless individuals sought bankruptcy protection, with an increase of 3.2 percent in this one category. The other category that bears watching is the self-employed: Although there has not been the same level of erosion during the recession as with the unemployed, this category has seen a filing rate increase of 2 percent since 2006.

Marital Status

A total of 51,917 participants answered the marital status question, a 99 percent response rate. Of these, 65.1 percent (33,796) identified themselves as married; 16.7 percent (8,680) identified themselves as single; 14.4 percent (7,542) identified themselves as divorced; 3 percent (1,565) identified themselves as widowed; and 0.8 percent (424) identified themselves as cohabitating.

The recession continues to take a toll on married couples. This category has increased by 8 percent from 57.1 percent since 2006 and 3.1 percent this past year alone. All other categories have seen steady decreases over the same time period. Additionally, the Administrative Office of the U.S. Courts, which gathers the bankruptcy courts' statistics, reports that 35 percent of all non-business bankruptcy cases were filed as joint cases (husbands and wives) during 2009. This is up from 32 percent in 2008, so both agencies are seeing a trend of more married couples filing for bankruptcy during the recession.

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

Table 3: Self-Identified Income of IFL Respondents

Income Level	2008	2009
Less than $20,000	*37.1%*	*38.4%*
$20,000-$30,000	*21.9%*	*20.9%*
$30,000-$40,000	*16%*	*15.4%*
$40,000-$50,000	*10.4%*	*9.7%*
$50,000-$60,000	*6.5%*	*6.5%*
More than $60,000	*8.1%*	*9.1%*

Table 4: Employment

Employment	2008	2009
Employed	*63.4%*	*59.3%*
Unemployed	*13%*	*16.2%*
Retired	*8.7%*	*9.3%*
Self-Employed	*9.9%*	*10.3%*
Homemaker	*4.2%*	*4.1%*
Student	*0.8%*	*0.8%*

10 Individuals are disclosing household income on their bankruptcy petitions, and therefore these numbers will differ.

11 Department of Labor, Bureau of Labor and Statistics Unemployment Rate, Labor Force Statistics from Current Population Survey.

12 *Id.*

continued on page 72

from page 71

when describing their situations, therefore the percentages will equal more than 100 percent.

Some of the noticeable impacts of the recession show up in some of the causes for debtors' financial distress, such as in the category "Overextended on Credit." This category has seen a steady increase, with the 2009 percentage coming in 10.6 percent higher than the 62.8 percent reported rate in 2006. It appears that a client's inability to access more credit in tightening credit markets may be driving them into bankruptcy at faster and higher rates. Another category showing a significant increase is "Reduction of Income," which indicated a 6.4 percent increase in the past year and a 12.3 percent increase since 2006. The "Job Loss" category finally caught up with debtors, as the country is experiencing an unemployment rate of close to 10 percent. This category showed a 4.7 percent increase over last year and a 6.2 percent increase since 2006. The "Unexpected Expenses" category, though significant at 55 percent, has been decreasing annually with a 4.9 percent decrease from its highest point in 2007. This is noteworthy, even though no direct explanation is apparent. Another category to make note of is the "Illness/Injury" category. This category decreased by 1.9 percent over the last year and 4.8 percent from its highest point in 2007. This has been a category of particular interest to policymakers, academics and members of the consumer and financial sectors, as much debate has ensued over the role medical costs play in the filing of bankruptcy. It does not appear that the recession has yet had a direct impact on debtors in this area.

Conclusion

Who is the Class of 2009, and how did the Great Recession impact them? Like last year's alums, the majority of the clients were Caucasian, married, employed, between the ages of 35-54 years, had at least a high school education, if not some college, and made no more than $30,000 per year. The Great Recession had an additional impact on the following demographic groups: older Americans, those of Asian descent, those with an educational background of a bachelor's degree or higher, Americans earning $60,000 or more per year and those who are now unemployed. As to the causes for their financial distress, Americans were reporting income reductions, job losses and overextended credit as reasons for their filing for bankruptcy.

The demographics research conducted by the IFL will be ongoing, with annual reporting to track any changes in those who are financially distressed. The IFL's demographics research is an annual snapshot opportunity that highlights areas of interest for further study. The insolvency and academic communities are invited to approach the IFL with both research questions and partnership opportunities. ■

Table 5: Causes of Financial Distress

Reason	2008	2009
Overextended Credit	*72.6%*	*73.4%*
Unexpected Expenses	*57.1%*	*55%*
Reduction of Income	*58.4%*	*64.5%*
Job Loss	*37.6%*	*42.3%*
Illness/Injury	*33%*	*31.1%*
Divorce	*16.6%*	*15.1%*
Birth/Adoption of Child	*10.4%*	*9.7%*
Death of Family Member	*8.1%*	*7.5%*
Retirement	*6%*	*6.7%*
Identity Theft	*2.4%*	*1.9%*