

Financial Distress among the Elderly: Bankruptcy and Foreclosure

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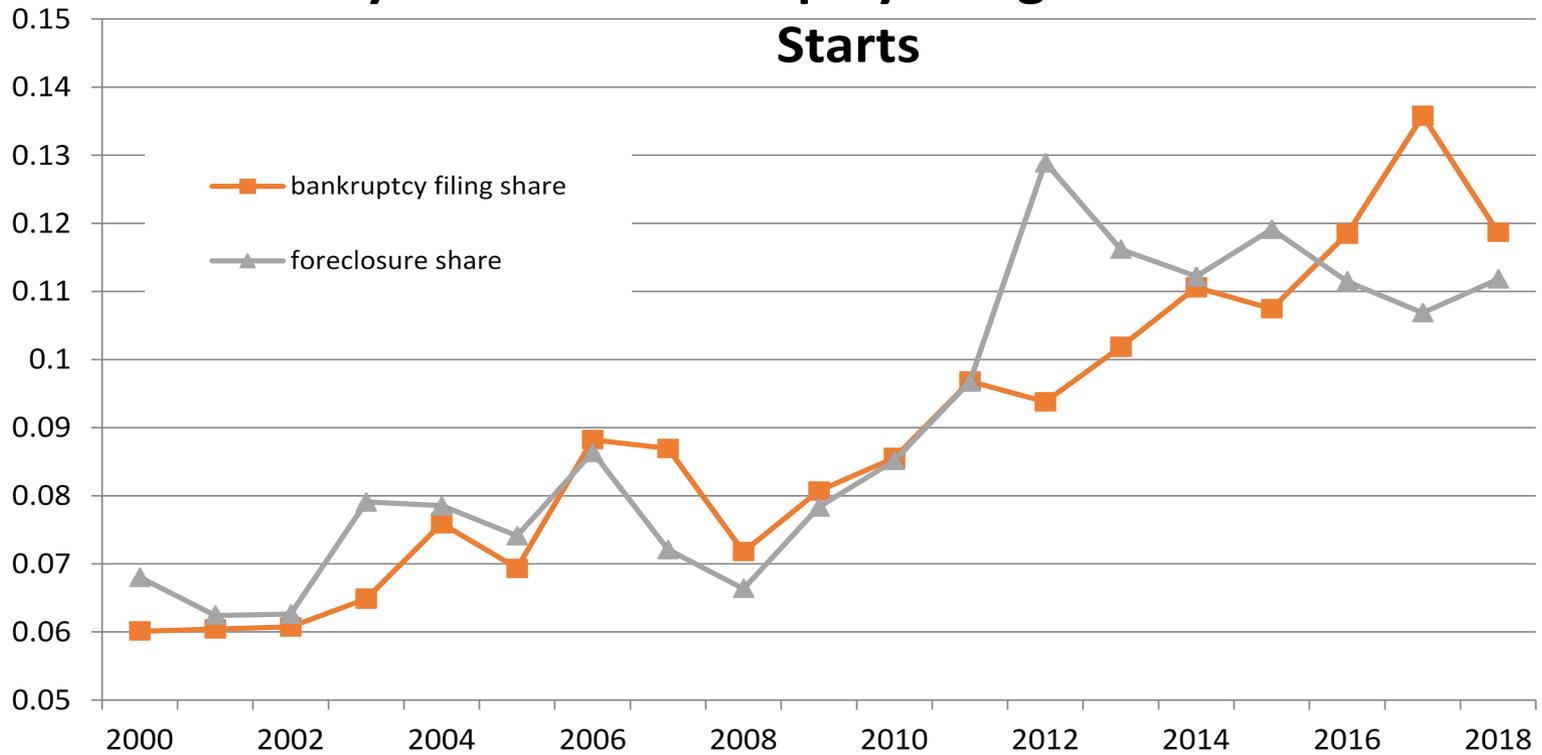
Increase in elderly financial distress since 2000

Bankruptcies and foreclosures are both important indicators of financial distress:

- Percent of bankruptcies filed by the elderly doubled, from 6% in 2000 to 12% in 2018
- Percent of foreclosure starts of the elderly rose by 60%, from 6.8% in 2000 to 11% in 2018

Both increases were much larger than the increase in the elderly population in the U.S.--17% in 2000 to 20.6% in 2018, or 21% rise.

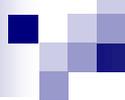
**Figure 1:
Elderly Share of Bankruptcy Filings and Foreclosure Starts**



Is it due to increased debt?

Not completely:

- ***Bankcard debt***: elderly/near-elderly debt ratio increased from 63% in 2000 to 85% in 2018
 - Debt of the near-elderly fell over the period, while that of the elderly remained constant.
- ***Mortgage/home equity debt***: ratio increased from 50% in 2000 to 78% in 2018



Other possible causes of the increase in elderly financial distress:

- 2005 bankruptcy reform (BAPCPA)
- 2008 financial crisis

We examine the effect of both on elderly bankruptcy filings and foreclosure starts.

Bankruptcy law -- pre-reform

- All filers could choose between Chapters 7 and 13.
- Under Chapter 7, unsecured debts discharged quickly. Filing stops collection. No obligation to repay from future income.
- Under Chapter 13, debtors proposed a multi-year repayment plan, but most plans repaid only a token amount. Still no obligation to repay from future income.
 - Bankruptcy helped distressed homeowners repay mortgage arrears by spreading the payments over plan period.

Bankruptcy law – post-reform

- Higher costs of filing: discourages all filers.
- New means test: required of all filers with income > median in their state.
 - Forces some higher-income filers into Chapter 13
 - Formula determines required repayments from future income. Plans must last for 5 years.
- New uniform \$1 million exemption for retirement accounts, but many states already had high exemptions.

Predicted effects of bankruptcy reform on filing rates by the elderly/non-elderly

- Both groups less likely to file after the reform due to higher costs/higher obligation to repay.
- Elderly versus non-elderly:
 - Elderly have less debt and less income subject to the means test (soc sec exempt), so less negatively affected by the reform
 - Their filing rate is therefore predicted to drop by less.
 - But the elderly have the highest assets in retirement accounts, which goes the other way (probably small).

Predicted effects of bankruptcy reform on foreclosure starts

- Previously, Ch 7 helped financially distressed homeowners to save their homes by discharging non-mortgage debt.
- Bankruptcy reform reduced this gain, so foreclosure rates by all age groups are predicted to rise.
- The elderly have less mortgage debt, so the increase in foreclosure rates is predicted to be smaller => lower proportion of foreclosures of the elderly.



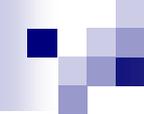
Effects of the Financial Crisis on the Elderly/Non-Elderly

- Widespread job loss and large fall in housing prices caused increases in both bankruptcies and foreclosures.
- Effects on the elderly:
 - Less likely to lose jobs due to lower employment rates, and smaller loss of income due to social security.
 - Less likely to gain from walking away from their homes, due to lower mortgage debt.

Thus elderly bankruptcy and foreclosure rates are predicted to increase by less after the crisis than those of the non-elderly.

Summary of predictions

- The 2005 bankruptcy reform is predicted to:
 - Lower bankruptcies and raise foreclosures by all groups.
 - Raise the proportion of bankruptcy filings by the elderly (+diff-in-diff)
 - Lower the proportion of foreclosure starts by the elderly (-diff-in-diff)
- The 2008 financial crisis is predicted to:
 - Raise bankruptcies and foreclosures by all groups.
 - Lower the proportion of bankruptcy filings by the elderly (-diff-in-diff)
 - Lower the proportion of foreclosure starts by the elderly (-diff-in-diff).



Predictions, cont.

Overall, both groups were harmed by both the reform and the crisis.

But the elderly were harmed less than the non-elderly, so—surprisingly--neither explains the relative increase in elderly financial distress.

Data

- NY Fed Consumer Credit Panel
- 5% sample of Equifax individual credit reports, quarterly data, available from 2000-2018.
 - Includes all with a credit report; young people undercounted.
- Elderly are 66-85 years old, comparison group is the near-elderly: 45-64 years old. Others dropped.
- We have debt and credit score data; zipcode; little demographic information.

Specification

- Diff-in-diff models of the effect of bankruptcy reform and the financial crisis on bankruptcies and foreclosure starts:
- For bankruptcy reform,
 - Treated group is the elderly, control is near-elderly.
 - Short pre- and post-periods (1½ - 2 years). Drop 2Q before.
 - Drop individuals after bankruptcy filing.
 - Control for debt and credit score (lagged one quarter).
 - Cluster errors by zip code.
- For the financial crisis: same model
 - Short pre- and post-periods (1½ - 2 years).
 - Other details the same.

Results for 2005 bankruptcy reform:

	Bankruptcy filings	Foreclosure starts
Post-Reform	$-1.52e-4^{***}$ (-8.7%)	$6.72e-6^{***}$ (0.51%)
Post-Reform *Elderly	$2.79e-5^*$ (1.6%)	$3.04e-7$

Results for 2005 bankruptcy reform:

- Signs are as predicted:
 - Bankruptcy filings fell overall
 - Positive diff-in-diff, as predicted, so bankruptcy filings fell less for the elderly ($p = .07$)
 - Foreclosure starts rose overall
 - Diff-in-diff not significant, so same impact on the elderly and near-elderly.
- Effects are small.

Results for 2008 financial crisis:

	Bankruptcy filings	Foreclosure starts
Post-Crisis	7.38e-5*** (9.4%)	3.46e-5*** (0.38%)
Post-Crisis *Elderly	-2.33e-5* (3.0%)	-5.71e-6

Results for the financial crisis:

- Signs are as predicted—positive post terms and negative diff-in-diffs.
- But effects on the elderly relative to the near-elderly are small.

Bankruptcy reform and the financial crisis explain some of the increase in financial distress, but not the increase in *relative* financial distress of the elderly.

Longer period regression:

- Did bankruptcy reform and the financial crisis have longer-term effects, because financial distress only leads to bankruptcy or foreclosure after several years?
- Test this by running a regression over 2000-2018 with separate Post and Post*Elder terms for bankruptcy reform and the financial crisis.
- Predict that the diff-in-diff terms will be larger.

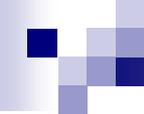
Results for longer-period regression:

	Bankruptcy filings	Foreclosure starts
Post-Reform* Elderly	1.1e-5** (4X as large as short-term)	-7.6e-5
Post-Crisis* Elderly	-9.6e-5* (4X as large as short-term)	8.56e-6

Findings:

- The 2005 bankruptcy reform:
 - Reduced filings for both groups, but by less for the elderly => the proportion of filings by the elderly went up.
 - Raised foreclosures for both groups, but no significant difference.
- The financial crisis:
 - Raised filings for both groups, but by less for the elderly => the proportion of filings by the elderly went down.
 - Raised foreclosure for both groups, but no significant difference.

Both events explain changes in bankruptcy filings and foreclosure starts. But the diff-in-diffs are too small to explain the increase in *relative* financial distress of the elderly.



Findings:

- Need to look at the period since 2010 to explain the increase in elderly financial distress.