Struggling generations: Bankruptcies among seniors soaring

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(PhysOrg.com) -- The rates of personal bankruptcies have declined among young people while soaring among older Americans, a new study shows.

The average age for filing bankruptcy has increased and the rate of bankruptcy among those ages 65 and older has more than doubled since 1991, say researchers Teresa Sullivan of the University of Michigan, Deborah Thorne of Ohio University and Elizabeth Warren of Harvard Law School.

The study, published by the AARP Public Policy Institute—which provided partial funding for the study—and appearing in the January 2009 issue of Harvard Law and Policy Review, found that individuals 55 and older accounted for 22 percent of all personal bankruptcies in 2007, compared to only 8 percent in 1991.

"The story from these data is one of rising risk with age," said Sullivan, U-M provost and professor of sociology. "The fact that previous generations show a sharp rise in filings in their early middle age may signal that people are living with financial stress for years, putting off the day of reckoning in bankruptcy for as long as possible."

Health care costs proved to be the top reason for many of these bankruptcies, the researchers say.

Expensive health care costs from a serious illness before a patient received Medicare and the inability to work during and after a serious illness are the prime contributors to financial crises among those 55 and older. But even among those 75 to 84 and receiving retirement, Social Security and Medicare benefits, the rates soared—from just 1.8 percent of all filers in 1991 to 5 percent in 2007.

Most Americans have two major assets: their homes and their retirement plans. And borrowing against those assets can present new risks when home values and stock markets decline, Sullivan and colleagues say. In some cases, older Americans trying to help children and grandchildren, borrow too much, putting themselves at risk.

"Even people who did everything right and took out fixed-rate mortgages have seen the value of their homes drop," Sullivan said.

During the 16-year span of the study, the median age of the U.S. population rose slightly, from 33.1 to 36.1. But the median age of an individual filing for bankruptcy climbed much more rapidly—from 36.5 in 1991 to 40.6 in 2001 and 43 in 2007.

Major reforms to the U.S. bankruptcy codes in 2005 drove overall 2007 filings down to 2001 levels. Americans 34 and younger accounted for 46 percent of 1991 bankruptcy cases but just 26 percent in 2007.

The massive Baby Boom generation, born from 1946 through 1964, was filing at twice the rate of any other age group in 1991, fueling the increase in the number of bankruptcy filings from 1991 to 2001. But by 2007, they had fallen to second place, behind Generation X, those born from 1965 though 1981.

Boomers accounted for 12.4 percent of filings in 1991 but just 5.4 percent in 2007 behind Gen Xers at 6.2 percent. Millennials, those born since 1982, accounted for 1.7 percent of the cases filed in 2007.

The lower filing rates among younger generations may be signs they have healthy finances, but might also mean they are simply juggling, extending and refinancing debt longer, the researchers say.

But for senior citizens, "age is increasingly associated with financial distress and seeking protection from creditors through the bankruptcy courts," Sullivan said.

Provided by University of Michigan