Half of US bankruptcies caused by medical problems, new study finds

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A newly released study has found that medical bills and other financial effects of illness or injury contributed to nearly half of the more than one million personal bankruptcy filings in the United States last year. Single women and families headed by women, as well as the elderly, were most likely to be driven into bankruptcy by medical problems.

Single women and single mothers are the largest demographic group filing for bankruptcy, accounting for 39 percent of filings, compared to 33 percent for married couples and 28 percent for single men or single fathers. Divorced women are 300 percent more likely to file for bankruptcy than married women, and alimony claims are involved in nearly a third of all bankruptcy cases—evenly split between women driven into bankruptcy by unpaid alimony, and men filing for bankruptcy because they cannot sustain both alimony payments and other bills.

The study was conducted by Elizabeth Warren, a law professor at Harvard University, together with Teresa Sullivan, dean of graduate studies at the University of Texas, and Melissa B. Jacoby, a lawyer, and is to be published next month in a bankruptcy industry trade journal. They surveyed bankruptcy filers in eight federal judicial districts around the country—in California, Illinois, Kentucky, Ohio, Pennsylvania, Tennessee, Texas and Wisconsin—accounting for about 18 percent of all filers.

Based on this large sample, they projected that of the approximately 1.1 million personal bankruptcies in 1999, 326,441 were directly caused by illness or injury to a family members, while 267,575 had substantial medical bills as a contributing factor.

In press interviews, Warren said that the combination of illness and heavy consumer debts was the frequent cause of bankruptcy filing. "The difference between what we saw 40 years ago and what we see today is 40 years ago when families were hit by a modest medical problem they still had flexibility in their budget," Warren said. "Their future income was unencumbered. Today families are carrying so much more consumer debt that even a modest medical bill can put them over the edge financially and they end up in collapse."

The study found that the majority of those forced into bankruptcy by medical bills had some kind of medical insurance. "I thought we would be looking at a wholly uninsured group of Americans, and we're not," said Warren. "These data suggest that under-insurance is a far bigger problem for middle-class families, under-insurance in the sense that it's not enough to cover catastrophic medical costs, or it doesn't cover all the financial implications."

Many American families who think of themselves as middle-class are “just one serious illness away from financial collapse,” she said. According to credit analysts, a specific economic catastrophe—layoff, pay cut, divorce, illness, injury—which interrupts regular income is the cause of the overwhelming majority of bankruptcy filings.

These facts contradict the claims of the credit card industry that overborrowing and personal irresponsibility by debtors are the main causes of the soaring rate of personal bankruptcies. The credit-card issuing companies have drafted a series of changes in bankruptcy law which the House and Senate are now incorporating into new legislation. These provisions would make it more difficult for bankruptcy filers to get Chapter 7 status, which wipes out most debts, and force them to file under Chapter 13, which imposes a long-term repayment requirement and is far more favorable to creditors.

The bankruptcy legislation was blocked last year by disputes among various creditors, each vying to get the most favorable treatment for their claims on bankrupt debtors. In the process, the unbridled greed of the creditors has been repeatedly exposed. The Senate, for instance, wrote in a provision to abolish the homestead exemption, which bars the seizure and sell-off of a family residence to pay off credit card debts (the flood of solicitations to homeowners to take out home equity lines of credit-which can lead to foreclosure and sale of a home—is another effort to get around this exemption).

Another provision in the Senate bill would allow credit-card issuers, banks and other lenders to slip in a clause in loan agreements in which borrowers would waive protection for their 401(k) retirement accounts if they are rolled over into IRAs. Under current law, such rollovers, as well as the 401(k) itself, are exempt from debt recovery proceedings.

Both House and Senate would retain provisions under which alimony payments cannot be discharged by filing bankruptcy. But they would make it more difficult for divorced women to collect alimony from bankrupt ex-husbands, since other creditors, including credit card debtors, would have increased access to the assets and income of the bankruptcy filer. (The same impact would be felt by the growing number of men receiving alimony from ex-wives).

The House version of the legislation has its own special provisions for favored credit issuers, and is harsher overall towards debtors than the Senate bill. Both bills have bipartisan support from Democrats as well as Republicans, and the Clinton administration has agreed in principle to support passage of legislation for bankruptcy "reform" this year.

The bankruptcy bill is essentially a backroom conspiracy by the credit-card issuers, banks and other big lenders and their political representatives in both big business parties. The increasing pressure to pass a bill this year reflects concern among these elements that the recent rise in bankruptcy filings will be dwarfed in the event of an economic recession, let alone a serious financial collapse. The lenders want the new legislation in place before they confront such a massive increase in personal bankruptcies.

Despite essential agreement among Republicans and Democrats, the bankruptcy bill has been stalled this year because of an unrelated dispute over the rise in the minimum wage. The Senate added an amendment to the bankruptcy legislation to raise the minimum wage from $5.15 an hour to $6.15, and adding a substantial tax break for small businesses. The House Republican leadership is opposed to the rise in the minimum wage and has so far blocked any action.