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Elizabeth Warren
Leo E. Gottlieb Professor, Harvard Law School

Teresa Sullivan
University of Texas School of Law

Melissa Jacoby
U.S. Court of Appeals for the Third Circuit

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Medical Problems and Bankruptcy Filings

by
Melissa B. Jacoby¹
Teresa A. Sullivan²
Elizabeth Warren³

Abstract:

This paper explores the financial impact of medical problems, using data from Phase III of the Consumer Bankruptcy Project, a survey of 1,974 individual bankruptcy petitioners conducted during the first quarter of 1999 in eight federal judicial districts. Although the questionnaire covered a variety of topics, this paper focuses on debtors' identification of illness or injury as a reason for filing, medical debts, and health insurance coverage. One out of four debtors, or an estimated 326,441 families in 1999, identified an illness or injury as a reason for filing for bankruptcy. One third of the debtors said that they had substantial medical bills, *i.e.*, that they had incurred \$1,000 or more in medical bills not covered by insurance. Combining those identifying medical reasons with those indicating substantial medical debts (an overlapping but not perfectly coextensive group), the financial consequences of medical problems were a factor in the

¹Law Clerk, The Honorable Marjorie O. Rendell, United States Court of Appeals for the Third Circuit; Assistant Professor of Law, Temple University School of Law beginning September 2000 <Melissa_Jacoby@ca3.uscourts.gov>. The research reported in this paper was conducted prior to Ms. Jacoby's clerkship and the views expressed herein do not represent or reflect the views of Judge Rendell. The names in this paper are in alphabetical order to indicate equal contributions to the work. The authors thank Dean Robert Clark of the Harvard Law School for making research funds available for this project. The authors offer their thanks to Elizabeth Guerrero for her exceptional help in producing this manuscript. For copies, send request to eguerrer@law.harvard.edu.

²Vice-President and Dean of Graduate Studies, University of Texas at Austin <tsullivan@mail.utexas.edu>.

³Leo Gottlieb Professor of Law, Harvard Law School <ewarren@law.harvard.edu>.

bankruptcy cases of an estimated 596,198 families in 1999. Health insurance coverage was sparse for the group, with one in five debtors reporting that they had no health insurance for any family member. The absence of insurance, however, did not correlate with a debtor's identifying a medical problem. Those who had insurance and those who did not were about equally distributed among those who identified a medical problem and those who did not.

The data were re-analyzed by separating the responses of single filing men, single filing women, and joint filing married couples. Households without a male present were nearly twice as likely to file for bankruptcy giving a medical reason or identifying a substantial medical debt as households with a male present. The proportion of debtors providing medical reasons for filing also varied with the debtors' age. Of debtors 65 or older, 47.6 percent listed a medical reason, as compared with 7.5 percent of debtors under 25. Previous studies considering medical problems and bankruptcy in the United States are summarized, although the methods used and results obtained are not directly comparable with the current findings.

Introduction

Concern about the financial aspects of health care echoes through Congress, state legislatures, and presidential debates. Pundits and policymakers recite cost data and insurance rates, while accounts of families fighting HMOs for life-saving treatments illustrate the human side of the story. The public health care discussion currently overlooks a source of systematic, tangible evidence that individuals and families are struggling to pay their health care bills: hundreds of thousands of middle class families declare bankruptcy each year in the financial aftermath of an encounter with the American health care system.

In this paper we report the results of a survey of debtors in the bankruptcy courts during the first quarter of 1999. These data reveal that the bankruptcy filings of an estimated 326,441 families in 1999 were related to illness or an injury to themselves or to a family member. An additional 267,757 families had substantial medical bills although they would list other reasons for their filings or list no reason at all. Taking these two groups together--those who list a medical reason and those who list substantial

medical debt--we estimate that the total number of bankrupt families with identifiable medical problems exceeded half a million in 1999 alone.

The Fragile Middle Class: Americans in Debt chronicles the complex relationship between medical problems and bankruptcy.⁴ It examines insurance coverage, rising medical costs, individual co-pays and other financial aspects of the health care system. The analysis of bankrupt debtors in 1991 in that book indicates that the number of debtors trying to cope with high medical bills is matched by an equally large number of debtors trying to cope with lost income following a serious illness or accident. Here we report on the results of a subsequent survey, taken in 1999, which updates the more detailed analysis reported in the book.

The data reported here serve as a reminder that self-funding medical treatment and loss of income during a bout of illness or recovery from an accident make a substantial number of middle class families vulnerable to financial collapse. They also demonstrate that the American social safety net is composed of interwoven pieces, including government subsidies for medical care, private insurance and personal bankruptcy. For middle class people, there is little government help, so that when private insurance is inadequate, bankruptcy serves by default as a means for dealing with the financial consequences of a serious medical problem.

⁴Teresa A. Sullivan, Elizabeth Warren, and Jay Lawrence Westbrook, *The Fragile Middle Class: Americans in Debt* 141-170 (Yale University Press 2000). Professor Westbrook is the long-time co-author of Sullivan and Warren. He is working on transnational bankruptcy issues and did not participate in this 1999 study. All three coauthors of this paper, Jacoby, Sullivan and Warren, participated in the design and execution of the 1999 study and all three will be writing about it from time to time.

Reasons for Filing, Medical and Otherwise

We designed the questionnaire to explore the reasons reported by individuals and families for filing for bankruptcy. We asked the debtors directly why they had filed, and we gave them a choice of sixteen possible reasons, including the all-encompassing “something else.”⁵ Besides offering these specific choices, the survey contained blank lines for the debtors to provide any supplemental information regarding their reasons for filing. In the recognition that financial collapse might result from multiple problems, the questionnaire permitted debtors to supply as many reasons as applied. In response to our question, one in every four debtors in the sample (25.2%) identified an illness or injury for the debtor or someone in the debtor’s family as a reason for filing bankruptcy.

If the debtors in the sample are representative of debtors around the country,⁶ this percentage would suggest that about 326,441 families would have identified a medical reason for their bankruptcy filings. If we combine those debtors giving medical reasons for filing with the debtors who indicated that they had substantial medical debts⁷ (an overlapping but not perfectly coextensive group) the data suggest that the bankruptcies for about 596,198

⁵The possible reasons provided on the survey were based in part on the responses we received in our 1991 survey, in which we asked an open-ended question about why debtors filed. We included every reason that appeared more than a few times in our 1991 survey, plus others that had been suggested to us (*e.g.*, gambling). The sixteen reasons were: job problems, illness or injury of self or family members, divorce or family breakup, addition of a family member, victim of fraud or crime, may lose home (eviction, foreclosure), gambling, trouble in managing money, employer’s business failed, car accident, death of a family member, credit card debt out of control, victim of disaster (for example, flood), aggressive collection efforts by creditors, alcoholism or drug addiction, something else (what?).

⁶See further discussion about tests for selection bias in the appendix.

⁷We define a “substantial medical debt” as “medical bills not covered by insurance in excess of \$1,000 during the past two years,” which is the language we used in the questionnaire. We discuss substantial medical debt in greater detail later in this paper.

families were precipitated, at least in part, by the financial consequences of their medical problems.⁸

This estimate may understate the number of debtors actually identifying medical reasons. The “medical reasons” category necessarily slides into other financial pressures. Some debtors did not identify medical reasons, instead selecting a different reason that may include a substantial medical component. The birth of a baby or a death in the family may result in medical bills that a family cannot manage, but we cannot be sure. For example, childbirth may place other financial stresses on a family; the mother may quit her job, or the family may need to move to larger housing. Similarly, the death of a spouse may leave the survivor with substantially less income to meet ongoing expenses. Although both categories may include a constellation of financial pressures, we suspect that within the categories “birth of a baby” and “death of a family member” there are some problems directly related to medical bills.⁹ If we use a more expansive definition of “medical problems” that includes both the birth of children and the death of family members, the proportion of debtors giving medical reasons grows substantially. If the people who identify medical problems, birth of a baby and death in the family are combined with those who list substantial medical bills, health care problems are implicated in

⁸This constitutes about 45% of all non-business filings. The number of non-business Chapter 7 and Chapter 13 filings in 1999 was 1,280,875. Administrative Office of the United States Courts, <www.uscourts.gov> (April 1, 2000). We added 5,903 Chapter 13 filings designated as “business” because they were filed by live human beings and are therefore within the universe of debtors we sampled. We multiplied the proportion of debtors in each category by the resulting figure of 1,286,778 cases. We have no way to estimate the number of Chapter 7 filings by individuals designated as “business” cases, so we omit all “business Chapter 7” cases from the denominator of the calculation. Similarly, we omit all individual Chapter 11 filings and all Chapter 12 filings. As a result, these data may misstate to some degree the precise number of individuals filing for bankruptcy to deal with medical problems.

⁹About 6.6% of the debtors list “addition of a family member” as a reason for filing, and about 4.4% list “death of a family member.”

half (50.0%) of all the consumer bankruptcy filings in the United States, putting the estimated total number of affected debtors at 643,389.¹⁰

Although job reasons top the list for all debtors' explanations for their bankruptcy filings, medical problems are close behind.¹¹ For married couples and single filing women, the financial consequences of medical problems are a close second or third. Single filing men also identify job problems first, followed by problems with credit cards and money management; they list medical problems fourth most frequently. The reasons given, disaggregated by filing status, are illustrated in Figure 1. By any measure, the data illustrate that a substantial proportion of the debtors in bankruptcy are struggling with the financial aftermath of medical problems.

Measuring the Problem

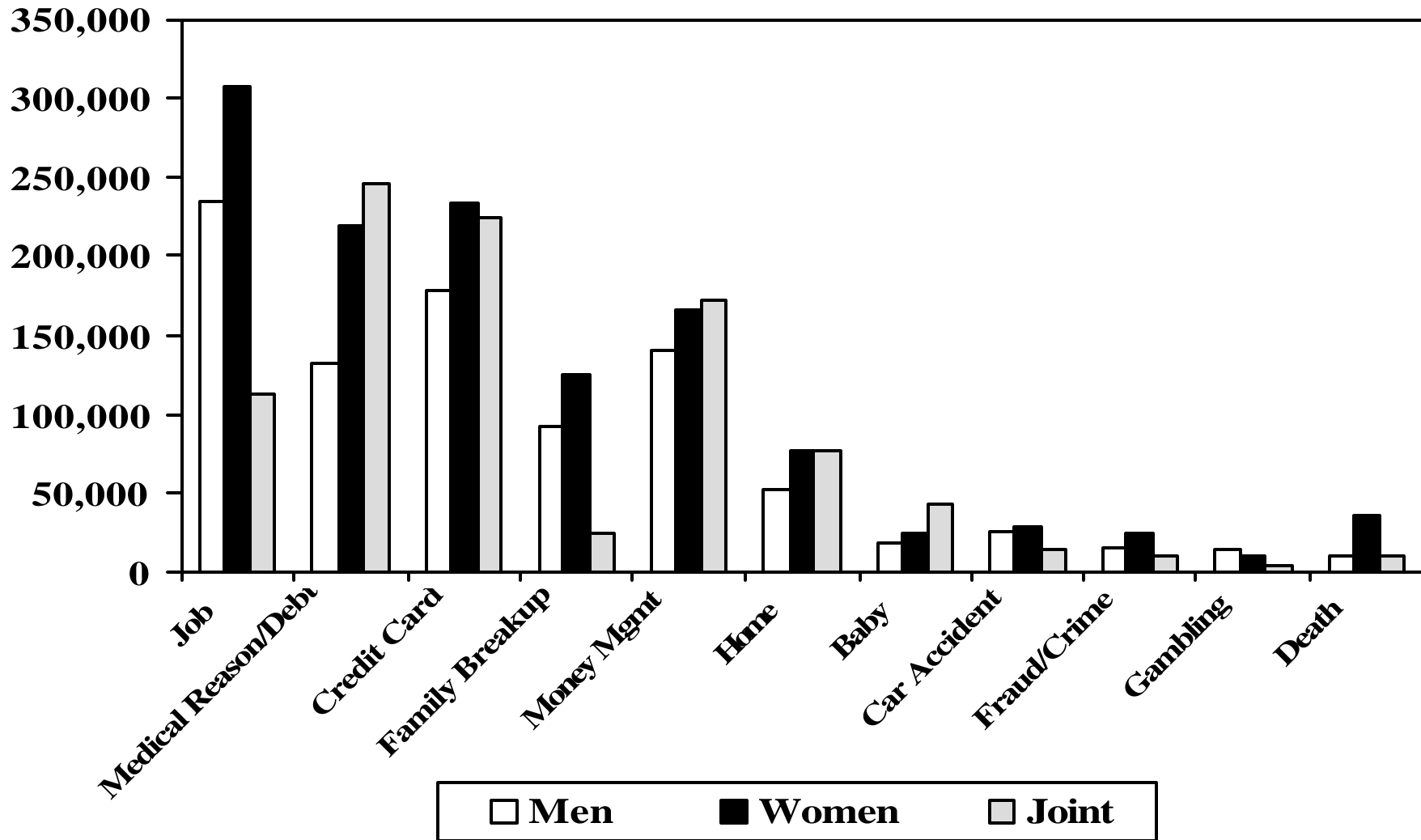
There are alternative ways to measure the financial implications of medical problems for families declaring bankruptcy. The first, which we reported above, is simply to ask the debtors why they filed and to record their responses. The second is to ask questions from which it is possible to draw an inference that medical debt was a part of the debtor's financial collapse. In addition to asking the debtor to identify the reasons for filing, the questionnaire has three separate questions about health insurance and medical bills.

On the supposition that lack of insurance might make a family more financially vulnerable to a medical problem, we asked the families in

¹⁰This counts everyone who gave at least one of the listed responses, but counts no one twice. The data show that about 32.2% of all the bankrupt debtors give one of the four listed reasons, while another 15.7% give two listed reasons. Another 2.1% list three, and 0.1% list all four.

¹¹To calculate the percentage of debtors with a "jobs" reason we included debtors who specifically said they had a job problem, as well as debtors who were unemployed and seeking a job, whether or not they specifically identified a "job" reason. For the "medical" reason, we included debtors who specifically identified a medical reason as well as debtors who reported that they had medical debts not covered by insurance in excess of \$1,000, whether or not they list a medical reason as well. We did not include "addition of a family member" or "death in the family." Both of those reasons are reported separately.

Figure 1
Reasons Given for Consumer Bankruptcy Extrapolated to
National Bankruptcy Filings, By Filing Status, 1999



Note: Numbers do not add to total filings because debtors gave multiple responses.

Source: Consumer Bankruptcy Project, III; bankruptcy filing data from Administrative Office of the U.S. Courts, 1999.

bankruptcy if they had any health insurance for any family member. The picture was more complex than we had assumed. One in five (20.9%) debtors had no insurance for anyone. But the absence of insurance among the debtors in bankruptcy did not correlate with identifying a medical problem. Among those with no insurance, many did not list a medical problem as a reason for filing. In effect, they had no insurance but they also managed to avoid serious medical debts. Among those with insurance, the incidence of medical problems remained high. In fact, those who had insurance and those who did not were about equally distributed among those who identified a medical problem and for those who did not. Even medical insurance may be insufficient to protect a family with medical problems.¹² The bankruptcy courts are populated not only with the uninsured, but also with those whose insurance does not cover all the financial consequences of their medical problems.

We also asked two questions relating specifically to medical bills. First, we asked the debtors whether they owed money to various creditors. One possible response was "health care providers, services, supplies." About a third (31.3%) of the debtors report that they had this type of outstanding bill. Again, the correlation between identifying a medical problem and owing medical debt at the time of filing is not perfect. More than half (55%) of the debtors that give a medical reason for filing list no medical bills.¹³

At first glance, it might seem odd that some of the debtors give medical reasons for their bankruptcies, but have no current medical bills at the time of their filings. There are, however, a number of possible explanations. Some families may have bankrupted themselves by the very act of paying off the medical debts. Others have paid their medical bills, but the medical problem has resulted in lost income or even lost jobs. Many debtors cite medical problems without listing outstanding medical bills because their medical debt

¹²For example, there may be co-pay amounts that are beyond their means, medical debts that have outrun policy limits, and lost incomes that are not covered by medical insurance.

¹³Conversely, more than half of those who list a medical bill (62%) did not give medical costs as a reason for filing bankruptcy.

is not owed directly to those who provided the goods and services.¹⁴ Health care providers now accept multiple forms of payment. Debtors can charge their visits to the doctor, their drugs, their medical supplies and their other medical goods and services to their all-purpose credit cards. Mortgage lenders are also standing by to provide a second (or third or fourth) mortgage on the home, including high loan-to-value mortgages, that can be used to finance medical procedures or pay down a mountain of medical debts. Thus, a family may have staggering medical bills without any debts to health care providers appearing in their bankruptcy files.¹⁵

Even if we could determine which debtors had some medical debt, this would not isolate bankruptcy cases precipitated by medical problems. For that inquiry we would need to determine which debtors had substantial--rather than modest--medical debts. To make this determination, we asked a second question about medical debts: whether the debtor had medical bills not covered by insurance in excess of \$1,000 during the past two years. One thousand dollars is a substantial sum for people with a median gross income of about \$28,000, the median income for debtors in this sample. Also, \$1,000 is the minimum--not the maximum--number in the question. The question did not specify a maximum debt level.

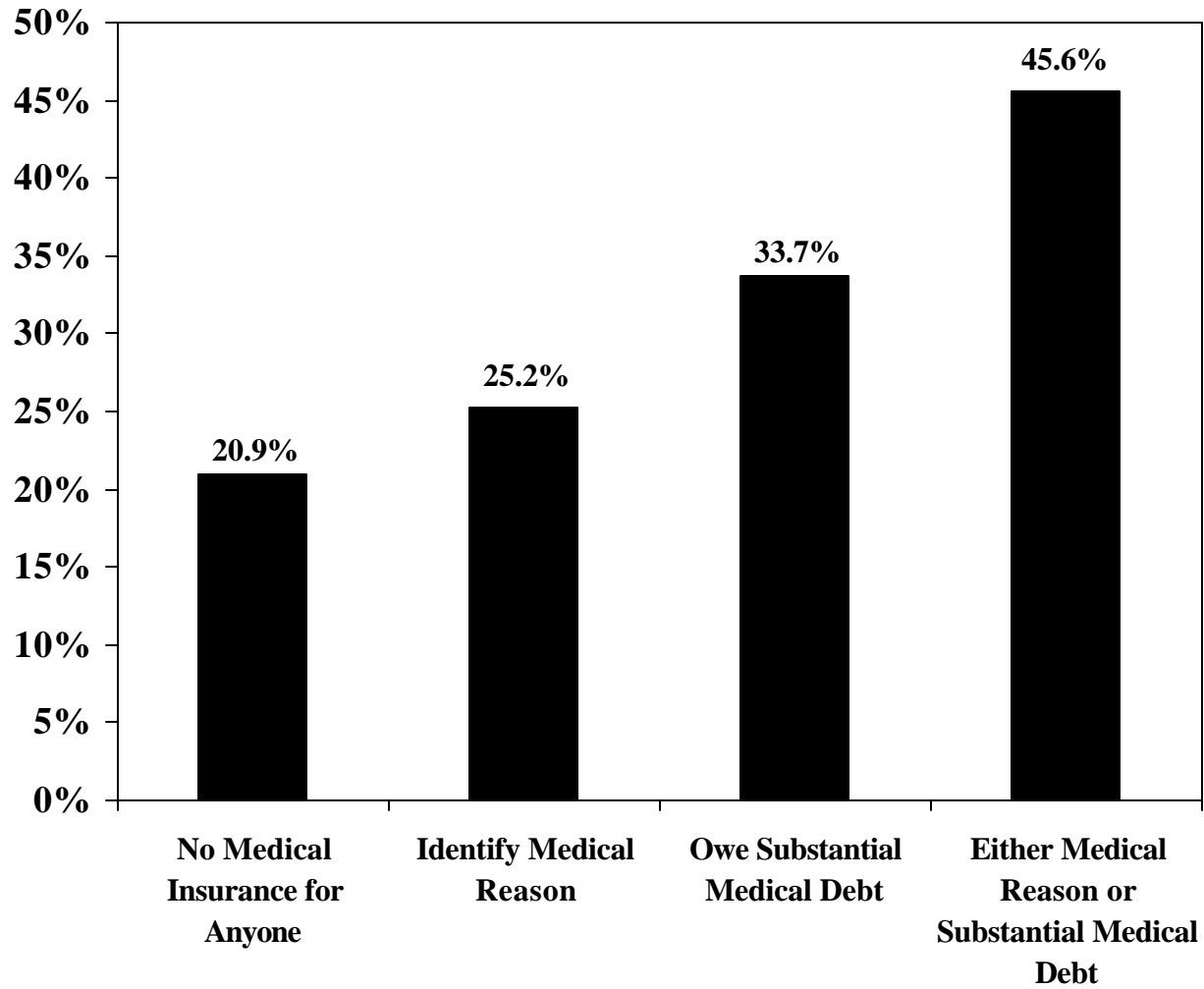
Imposing this floor, a third (33.7%) of the debtors said that they had incurred \$1,000 or more in medical bills not covered by insurance. Based on this information, an estimated 433,644 families filed for bankruptcy during 1999 in the wake of substantial medical debts not covered by insurance.

All three efforts to measure the proportion of filers identifying medical problems are identified in Figure 2.

¹⁴*Fragile Middle Class, supra* note 4, at 152-55.

¹⁵It is for this reason that we cannot rely on the petition data filed with the courts to isolate medical debts. Sometimes health care providers will be listed, but the absence of identifiable medical debts does not mean that the debtor did not owe substantial credit card, personal loan or second mortgage debt that originated with a medical problem.

Figure 2
Medical Debt and Bankruptcy, 1999



Note: Reasons may overlap

Source: Consumer Bankruptcy Project, III

Men, Women and Couples

The three questions that collectively help explain the impact of medical debt on bankruptcy filings can be re-analyzed by separating the responses of single filing men, single filing women, and joint filing married couples. The results are reported in Figure 3.

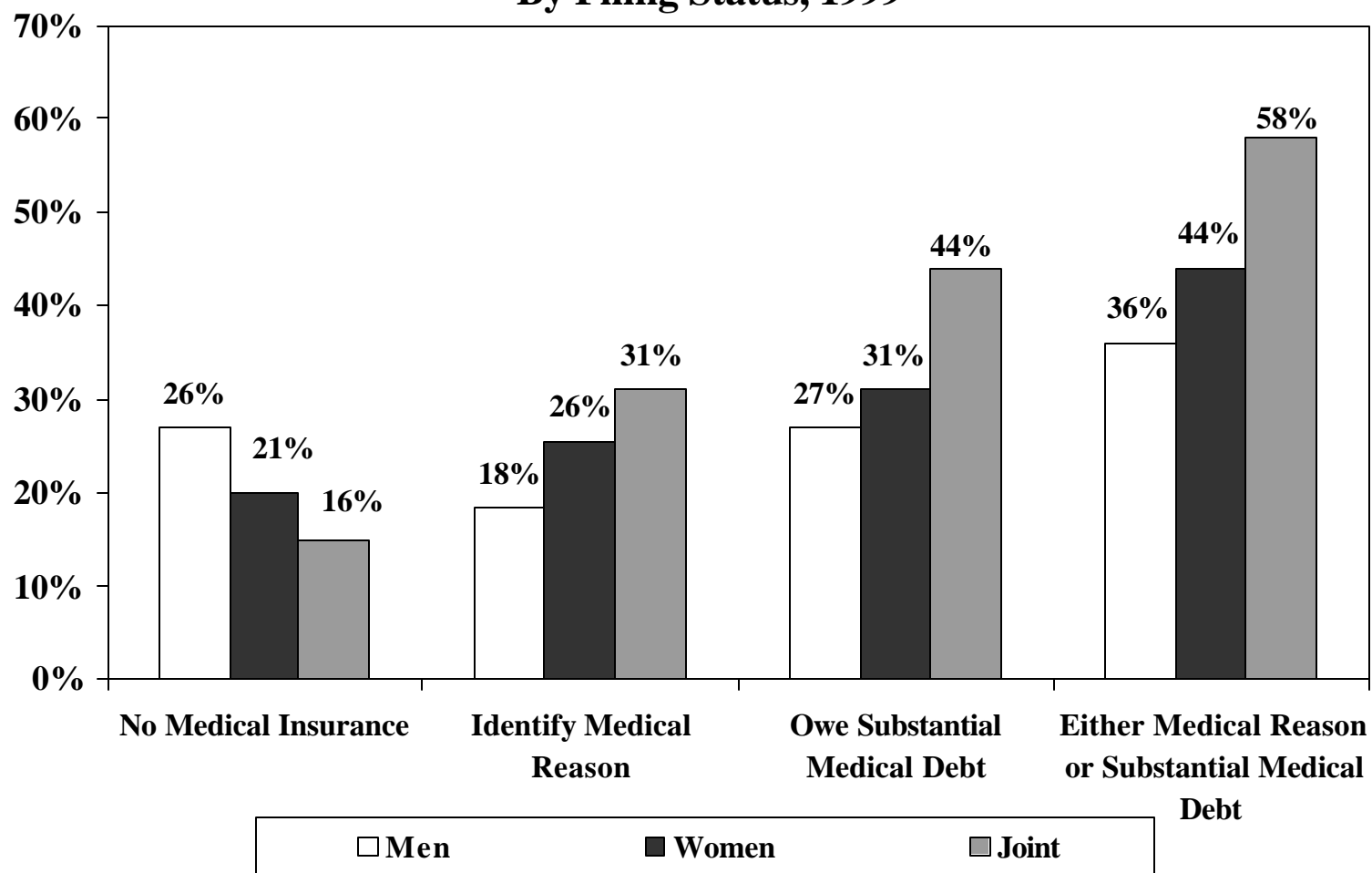
These data show that while single filing men are proportionately more likely to have no health insurance, they nonetheless are less likely to list a medical reason for filing or to have a substantial medical bill at the time of filing. The picture of married couples indicates the reverse: married couples' rates of insurance are the highest (84%) but so is the proportion who give a medical reason for their bankruptcy filing (31%), who have incurred substantial medical debt (44%), or who either list a medical reason or substantial medical debt (55%). When measured by proportions, single filing women are in between the two extremes.¹⁶

Because households headed by women now comprise the largest share of all bankruptcy filings, followed by the households with both a husband and wife, the number of bankrupt women with medical problems is larger than Figure 3 suggests. The data in Figure 3 are based on the percentages of each group in each category, *e.g.*, 18% of the men filing alone, 26% of the women filing alone, and 31% of the couples filing for bankruptcy list a medical reason. But bankruptcy cases are not evenly divided among men filing alone, women filing alone and married couples. The 1999 survey data, as well as data from several other studies, indicate that women filing alone are now the largest group in bankruptcy, followed closely by couples filing together.¹⁷

¹⁶The differences among the filing groups were all significant at $p < 0.001$.

¹⁷Calculated from data reported in Teresa Sullivan and Elizabeth Warren, *The Changing Demographics of Bankruptcy*, NORTON BANKRUPTCY LAW ADVISOR 1 (October 1999). In addition to reporting the results from our own study, this paper explores in detail data from other sources confirming the trend in bankruptcy filings among men and women, including the work of Professor Oliver B. Pollak at the University of Nebraska, Professors Marianne B. Culhane and Michaela M. White of Creighton University School of Law, and Ed Flynn, Executive Office for the United States Trustees, along with Gordon Bermant.

Figure 3
Medical Debt and Bankruptcy
By Filing Status, 1999



Note: Reasons may overlap.

Source: Consumer Bankruptcy Project, III

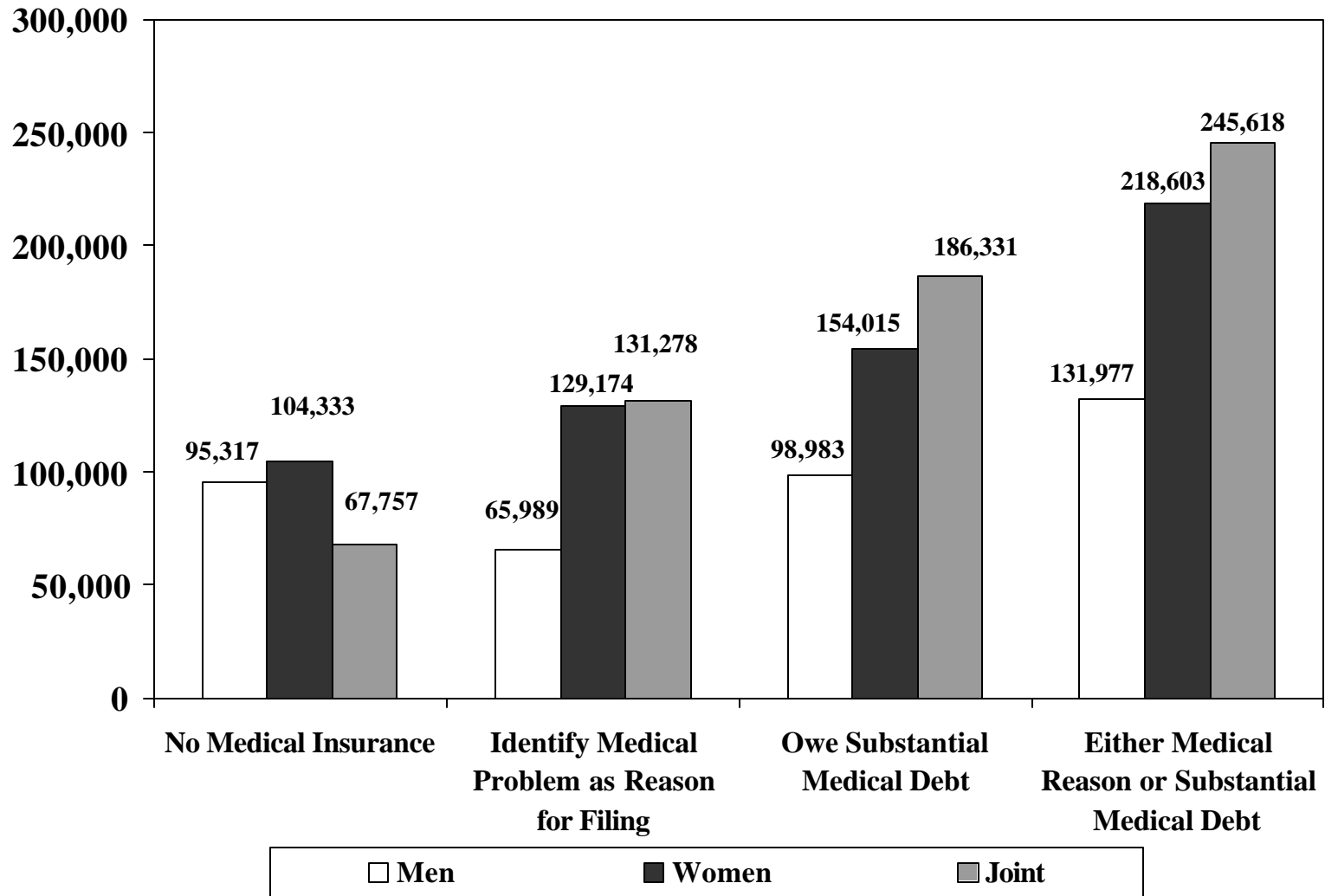
Men filing alone are the smallest group. Using the latest filing figures for 1999, an estimated 496,824 single filing women, 423,479 couples and 366,603 single filing men filed for bankruptcy.¹⁸ This means that the absolute importance of the medical reason in bankruptcy looms larger than proportional numbers would suggest because the two groups with the most medical problems--single filing women and married couples--are also the largest two groups in bankruptcy. Figure 4 illustrates the estimated number of single filing men, single filing women and couples identifying different medical problems.

These data demonstrate that among single filers, the number of women filing alone who identify a medical reason for their bankruptcies is nearly double that of men filing alone. The number of women filing alone and the number of couples filing for bankruptcy, both listing medical reasons for their filings, are nearly indistinguishable.

The number of women heads of household and the number of couples filing for bankruptcy for medical reasons is about the same. As a proportion of the population, however, the women heads of household are over-represented in bankruptcy. The number of married couples in the population generally far outstrips the number of households of men without wives or women without husbands. This means that while the number of married couples dealing with a medical problem in bankruptcy is high, the proportional risk is considerably lower for married couples than for single heads of households. By combining the households with an adult male present (both households with a husband and wife and male heads of household with no wives), it is possible to see the special vulnerability of households with no adult male. Households without a male present were nearly twice as likely to file for bankruptcy giving a medical reason as households that had a male present (.0042% v. 0027%). A similar pattern is repeated when we make the same comparison for households identifying a

¹⁸These numbers differ somewhat from the estimated numbers in our earlier work, based on estimations from the second half of 1998 and first half of 1999 data, because the total number of bankruptcy filings continued to decline during the second half of 1999.

Figure 4
Reasons Given for Consumer Bankruptcy Extrapolated to
National Bankruptcy Filings, by Filing Status, 1999



Note: Numbers do not add to total filings because debtors gave multiple responses.

Source: Consumer Bankruptcy Project III; 1998 household composition data from U.S. Census Bureau, "Money Income in the United States" P60-20G, 1998, Table 1.

substantial medical debt (.0050 v. .0039), and households listing either a medical reason or substantial medical debt (.0071 v. .0052).

We illustrate this phenomenon another way in Figure 5. If we had a room in which 10,000 women heads of household were present, the data reported here would suggest that about 71 women would have filed in 1999 to deal in part with the financial aftermath of a medical problem. If the adjoining room held 10,000 men (both single filing males and husbands of married couples filing jointly), 52 would have filed for bankruptcy for the same reason.

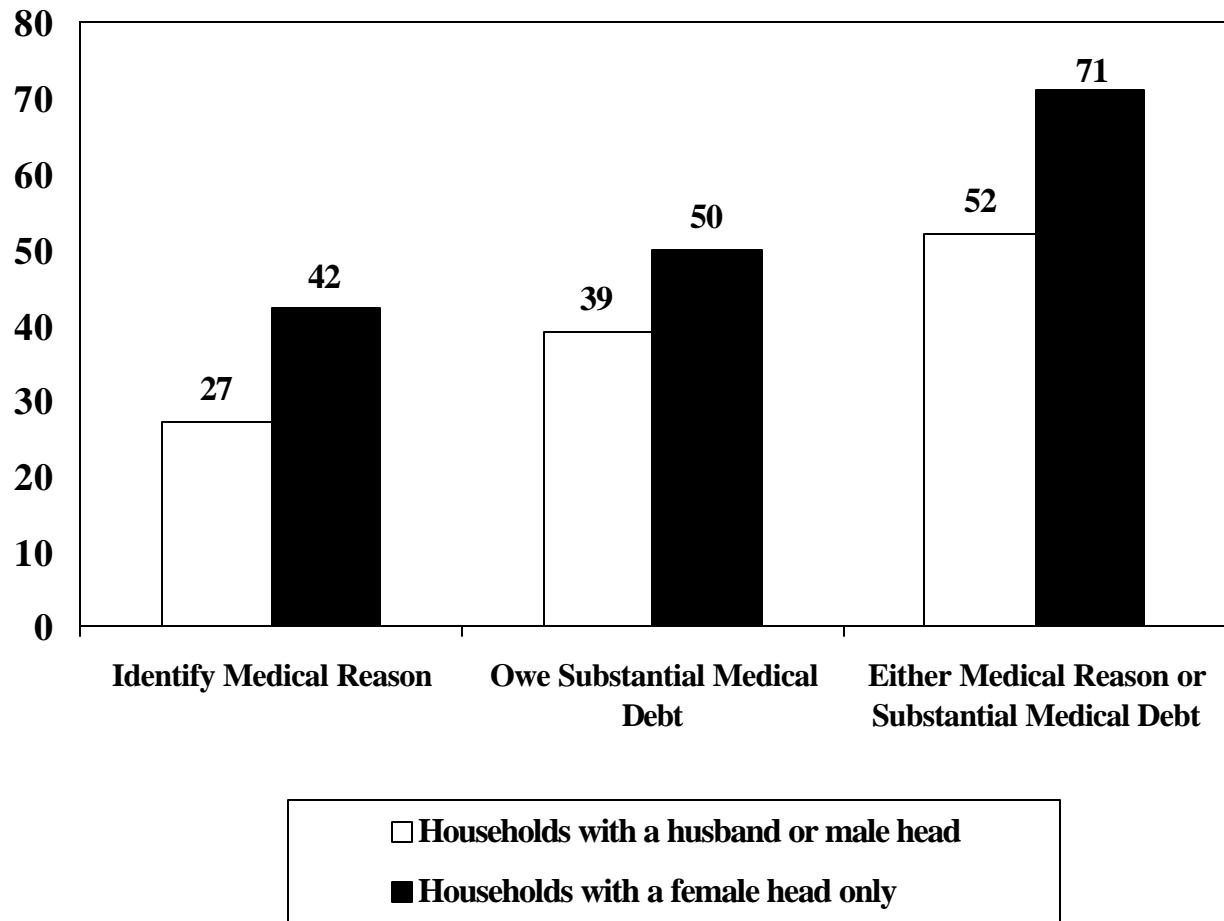
These data demonstrate that the proportion of women heads of households in bankruptcy to deal with medical problems is substantially larger than that of households with an adult male present.¹⁹

Medical Problems for Different Age Groups

The proportion of debtors who give a medical reason for filing changes with the debtor's age. Among the under-25 crowd, only 7.5% specifically identify a medical reason for filing. By contrast, 47.6% of the debtors 65 and older list a medical reason. The proportion of debtors between 25 and 64 who list medical reasons ranged from 21 to 33%. The differences are illustrated in Figure 6.

¹⁹As a demonstration, we recalculated this analysis using only filers who identified a medical reason and looking at households without a woman present. This analysis would produce 30 bankruptcies per 10,000 for households with a woman present (either a wife or woman head of household) compared with 36 for households without a woman present. This means that the effect of having a male present is greater (15 per 10,000) than the protective effects of marriage (6 per 10,000). In other words, the fact of marriage (and the possibility of two incomes and two opportunities for insurance) makes families less vulnerable to a medically-related bankruptcy. Much greater protection, however, appears to come with gender than with marital status: men (perhaps because of their higher incomes or jobs that offer better insurance) are better insulated from filing for bankruptcy for medical reasons than are women. It is possible for a single filing male to have an adult woman in the household, and it is possible for a single filing female to have an adult male in the household, but these configurations are relatively rare.

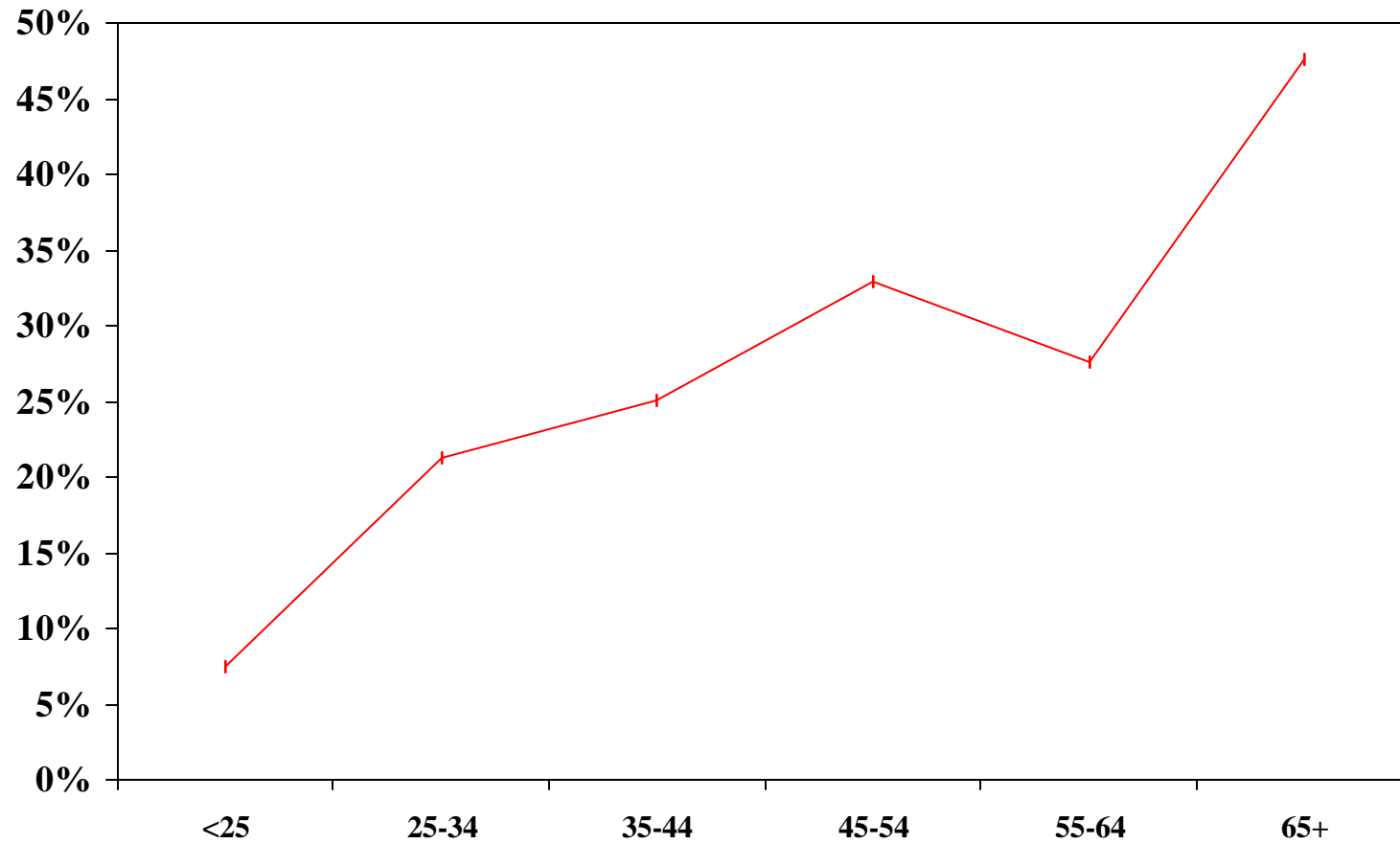
Figure 5
Medical-Related Bankruptcies per 10,000
Households, by Presence of a Adult Male, 1999



Note: Reasons may overlap.

Source: Consumer Bankruptcy Project III; 1998 household composition data from U.S. Census Bureau, "Money Income in the United States" P60-20G, 1998, Table 1.

Figure 6
Medical Reason For Bankruptcy Filing By Age Group



Note: Medical reason only, not including medical debt.

Source: Consumer Bankruptcy Project, III

Several kinds of medical stories are likely intertwined in these data. Older Americans in bankruptcy are likely trying to cope with declining health and the final medical expenses of a failing or deceased spouse. Debtors in their twenties and thirties, peak reproductive years, may be struggling with the usual assortment of health problems in addition to those relating to childbirth. They also may be assuming the burden or paying for medical care for their minor children and/or their aging parents.

The data analyzed in *The Fragile Middle Class* showed a peak in filings related to medical reasons for debtors aged 45-54.²⁰ These data illustrate a similar uptick for debtors in the same age group. These may be the people caught in between: they face their own health care needs, while many of them also try to help finance health care costs for their children as well as their older parents who may need assistance.²¹ As the group ages, the children become more independent and the elderly parents die, reducing their medical finance obligations. Eventually, they may qualify for Medicare, but, as these data demonstrate, Medicare does not insulate individuals from serious financial reversals associated with health care.²²

Related Findings on the Impact of Medical Problems on Bankruptcy Filings

Researchers previously have considered the relationship between medical problems and bankruptcy in the United States, although the methods used and results obtained are not directly comparable with our current findings. In collaboration with Westbrook, two of us, Sullivan and Warren, addressed this question in connection with Phase I of the Consumer

²⁰ *Fragile Middle Class*, *supra* note 4, at 163-66.

²¹ *See id.*

²² For further information on the older Americans in bankruptcy from Phase II of the Consumer Bankruptcy Project, see Teresa A. Sullivan, Elizabeth Warren and Jay Lawrence Westbrook, *From Golden Years to Bankrupt Years*, NORTON BANKRUPTCY LAW ADVISOR 1 (July 1998).

Bankruptcy Project involving bankruptcy cases from ten federal judicial districts in 1981.²³ We found that catastrophic medical losses were the cause of bankruptcy for about 1-2% of the debtors, but that over half the debtors carried some medical debt, although we explained why these figures probably understated the extent to which medical costs contribute to bankruptcy.²⁴ We also found that single filing women had a significantly greater ratio of medical debt to income than joint filers or single filing men.²⁵ In Phase II of the Consumer Bankruptcy Project, which analyzed cases from 1991, 19.3% responding to an open-ended question about reasons for filing bankruptcy identified a medically-related problem as a reason for their bankruptcy filings.

Using an empirical qualitative choice model based on bankruptcy case data from 1980, Domowitz and Sartain found that health problems leading to medical debt had the “greatest single impact of any household condition in raising the conditional probability of bankruptcy Households with high medical debt exhibit a filing probability greater than 28 times that of the baseline.”²⁶ Domowitz and Sartain noted that their conclusion implied that “for an 87 million household economy, about 233,000 households could be declaring bankruptcy based on medical debt alone, which is approximately 30 percent of debtors in 1994, for example.” Of the debtors answering a question in a 1996 VISA U.S.A. survey about the main reason that they had to file for bankruptcy, 16.5% identified medical and health-related reasons.²⁷ In addition, 14.3% of those responding identified medical problems among a list

²³ See Teresa A. Sullivan, Elizabeth Warren & Jay L. Westbrook, *AS WE FORGIVE OUR DEBTORS: BANKRUPTCY AND CONSUMER CREDIT IN AMERICA* (1989).

²⁴ *Id.* at 168-170, 173.

²⁵ *Id.* at 171.

²⁶ Ian Domowitz and Robert L. Sartain, *Determinants of the Consumer Bankruptcy Decision*, *J. FIN.* at 413, 419 (February 1999).

²⁷ VISA, U.S.A., Inc., *Consumer Bankruptcy; Bankruptcy Debtor Survey*, VISA CONSUMER BANKRUPTCY REPORTS 8-9 (July 1996).

of options as the “last straw” that led to their bankruptcy filings.²⁸ Comparing bankruptcy filing rates to health insurance coverage rates at the state level, SMR Research cited medical debt as a “central problem in bankruptcy,” and suggested that the medical debt is a factor in even more bankruptcy cases than the VISA U.S.A. survey indicated.²⁹ SMR Research also noted that the bankruptcy filing rate was lower than the national average in states where at least 90% of the population had health insurance.³⁰ By contrast, in an economic analysis seeking to identify the effects of bankruptcy stigma and the financial benefit of bankruptcy on households’ decisions to file for bankruptcy, Fay, Hurst, and White concluded that health problems for the head of household or the spouse during the previous year did not have a statistically significant effect.³¹

In his nine-district study of bankruptcy schedules in cases filed between 1979 and 1981, Shuchman found that about 56% of the case files contained scheduled medical debts and concluded that “ordinarily unanticipated medical expenses play a major role in the family finances of more than half the personal bankrupts.”³² Shuchman also reported that women filing alone had incurred medical expenses constituting a far larger percentage of their incomes than men filing alone or married couples.³³ In a New Jersey study, Shuchman found that 46% had medical debt and that medical debt comprised 12% of total unsecured debt for those reporting that

²⁸*Id.*

²⁹SMR Research Corp., *THE PERSONAL BANKRUPTCY CRISIS, 1997: DEMOGRAPHICS, CAUSES, IMPLICATIONS & SOLUTIONS*, 94-95 (1997).

³⁰*Id.* at 97.

³¹Scott Fay, Erik Hurst, and Michelle J. White, *The Bankruptcy Decision: Does Stigma Matter?* (Jan. 1998) (unpublished manuscript).

³²Philip Shuchman, *The Average Bankrupt: A Description and Analysis of 753 Personal Bankruptcy Filings in Nine States*, 88 *COM L. J.* 288, 295 (1983).

³³*Id.* at 289.

type of debt.³⁴ Based on interviews, Shuchman also found that 92% reported having health insurance before the date of the bankruptcy filing.³⁵

In an Eastern District of Tennessee study in the mid-1980s, Kovac found that 80% of the debtors owed some medical debt and that medical debt was 42% of total unsecured debt and 85% of income.³⁶ Kovac concluded that medical debt was the “driving force behind these bankruptcy petitions.”³⁷

Earlier studies also examined the connection between medical debt and bankruptcy. In the mid-1960s, researchers from The Brookings Institution found that about 28% of the debtors cited family health reasons (sickness, injuries, babies, and death) as the underlying problems that placed them in financial difficulty.³⁸ When asked about the immediate cause, *e.g.*, why they resorted to bankruptcy, 11% responded poor health, babies, or death in family.³⁹ A Nebraska case study conducted by physicians in the 1960s reached a different conclusion: the doctors found that medical debts were not significant in consumer bankruptcy cases.⁴⁰

³⁴Philip Shuchman, *New Jersey Debtors 1982-83: An Empirical Study*, 15 SETON HALL L. REV. 541, 571 (1983).

³⁵*Id.* See also Philip Shuchman, *Personal Bankruptcy Data for Opt-Out Hearings and Other Purposes*, 56 AM. BANKR. L. J. 1, 13 (1982) (studying a group of Connecticut bankruptcy cases from 1980, and finding that 68% had some medical debt).

³⁶See Susan D. Kovac, *Judgment-Proof Debtors in Bankruptcy*, 65 AM. BANKR. L. J. 675, 708-710, 713 (1991).

³⁷*Id.*

³⁸David T. Stanley and Marjorie Girth, *BANKRUPTCY: PROBLEMS, PROCESS, REFORM* 47 (1971).

³⁹*Id.* at 48.

⁴⁰See Larry Sitner, Sandra Grummert, Carl J. Potthoff and E.D. Lyman, *Medical Expense as a Factor in Bankruptcy*, 52 NEBRASKA STATE MED. J. 412 (1967); accord Barry Gold and

Conclusion

The data from the bankruptcy courts provide a different perspective on the financial impact of medical problems on middle class Americans. An estimated half a million families filed for bankruptcy during 1999 in part to deal with the financial consequences of an illness or accident. Women heads of household, who are already overrepresented in bankruptcy overall, are particularly hard hit by the financial consequences of medical problems. A household's vulnerability to medical related financial problems increases as the head of the household ages, so that by the time they are 65, nearly half of older Americans in bankruptcy give a medical reason for their filings.

We cannot be sure that these numbers prevailed throughout the 1990s. If, however, similar fractions of families in bankruptcy between 1994 and 2000 filed for medical reasons, then the total number of medical related bankruptcies in that six year period would be well over a million married couples, over a million single filing women, and more than half a million single filing men.

Elizabeth Donahue, *Health Care Costs and Personal Bankruptcy*, 7 J. HEALTH POLITICS, POLICY, AND LAW 734 (Fall 1982).

APPENDIX I: Data and Methods

The data reported here were generated by questionnaire data collected for the Consumer Bankruptcy Study, III. The study was conducted during the first quarter of 1999 in eight federal judicial districts: the Northern District of California, the Northern District of Illinois, the Eastern District of Kentucky, the Southern District of Ohio, the Eastern District of Pennsylvania, the Middle District of Tennessee, the Northern District of Texas, and the Eastern District of Wisconsin. These districts represent six appellate circuits and among them they accounted for 18% of the record 1.4 million non-business bankruptcies filed in calendar year 1998.

In each district, we sought the permission of both the bankruptcy judges to conduct our study and the cooperation of the U.S. Trustees. We assured them that the data collected would be aggregated statistically and that no debtor would be identifiable from the data. During the waiting period before a debtor's case was called at the 341 meeting, volunteers working with the study approached each individual or couple and invited them to complete the survey. A cover letter assured the filers that the data would be anonymous and confidential. The letter also made clear that answering the survey was completely voluntary and would not affect the progress of the respondents' cases. We also prepared a letter addressed to debtors' counsel to accompany the questionnaire. It is an advantage of this approach that potential respondents who were uncertain about completing the questionnaire could ask their counsel for advice.

The volunteers were instructed that the filers asked to participate in the study were individuals or couples filing in Chapter 7 or Chapter 13. As it turned out, our surveys were also completed by nine non-business petitioners in Chapter 11 and by two petitioners in Chapter 12, but these eleven cases have been eliminated from our analyses. Filers using a business style, such as a corporation or partnership, were not eligible for the study. Business 13s, however, are included since only individuals--not corporate entities--are permitted to file in Chapter 13.

The questionnaire did not contain any uniquely identifying information such as names, addresses, Social Security numbers, or case numbers. The decision not to include identifying information precludes our linking the answers to the petitions and schedules filed with the court. We hoped that the greater anonymity would encourage more people to complete the questionnaire. The questionnaire included about twenty-three questions, but most of these questions had pre-coded answers so that the time commitment for completing the form was minimal. For a couple filing jointly, the questionnaire asked for information concerning both spouses. From our pre-test, we estimated that the time required to complete the instrument was about five minutes.

We sampled a different number of debtors from each district to reflect the differences in the total number of consumer debtors in the district. We collected more cases from districts with larger filings and fewer cases from districts with lower filings. The target for the district was based on the number of cases filed in each chapter in the district in the preceding year. For districts with more questionnaires returned than needed for the study, we sampled randomly among the questionnaires for our final database. To illustrate, in 1998 the Administrative Office of the U.S. Courts recorded four times as many Chapter 7 filings in the Northern District of Illinois as there were in the Eastern District of Kentucky. Thus, in our database there are four times as many Chapter 7 cases from the Northern District of Illinois as from the Eastern District of Kentucky. The final sample size for this report is 1,492 cases (excluding outliers and the eleven cases filed in Chapter 11 or Chapter 12). The total number of debtors (counting joint petitions as two debtors) is 1,974. With the exception of two districts, the data collection was completed in February 1999.

Student coders were hired to enter the pre-coded answers from the questionnaire into a spreadsheet. Occupational data were coded by one of the investigators using the 1970 U.S. Census occupational codes. The spreadsheet was imported into the SAS statistical package for analysis. A five-page codebook incorporates the codes developed for the study.

Selection bias. An important issue with any data collection is the extent to which people who volunteer to answer questions and participate in the study differ from the people who refuse to answer the questions. We made several efforts to identify whether the data were affected by a selection bias by comparing our data with publicly available information concerning bankruptcy filings.

One comparison centers on the proportion of filings that are in Chapter 7. In the country as a whole in 1998, 70% of non-business filings were in Chapter 7, versus 69% in our sample. In five of our eight districts, the proportion of Chapter 7 filings in our sample lies within 5% of the proportion recorded for that district in 1998. The one district in which we appear to have an over-representation of Chapter 7 (or an underrepresentation of Chapter 13) is in the Eastern District of Pennsylvania. In 1998, 63% of non-business filings in that state were in Chapter 7, compared with 87% of our sample. This is a difference of 24 percentage points and it indicates that we had too few Chapter 13 cases for this district.

We did a second comparison of the reported sex of filers with the sex of respondents judged from the dockets in two districts. The Northern District of Texas and the Eastern District of Pennsylvania have on-line dockets. Using these dockets, it was possible to estimate the proportion of joint filers and the relative proportion of male and female filers among all filers. These numbers could then be compared with the information on sex and filing status provided by our respondents. These differences between the two districts are largely offsetting.

These comparisons, chapter of filing, sex of the petitioner, and joint/single status of filing indicate that the study data, while not a perfect representation of the filings in 1998, incorporate relatively small biases that are often offset within the database as a whole.