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Article

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by Susan Crompton

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.	not available for any reference period
..	not available for a specific reference period
...	not applicable
0	true zero or a value rounded to zero
0^s	value rounded to 0 (zero) where there is a meaningful distinction between true zero and the value that was rounded
^{p}	preliminary
^{r}	revised
x	suppressed to meet the confidentiality requirements of the *Statistics Act*
^{E}	use with caution
F	too unreliable to be published

How does personal bankruptcy affect retirement plans?

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Introduction

From 2008 to 2009, the rate of consumer bankruptcy in Canada increased by 30%, from 3.4 to 4.5 bankruptcies for every 1,000 adults.[1] Of course, those two years marked an economic downturn and trends in bankruptcy filings are mainly related to economic cycles, growing rapidly during recessions and declining with each economic expansion.[2] Nonetheless, the direction of the trend over the longer term is upward, regardless of economic conditions. Over the preceding 20 years (1987 to 2007), the rate of bankruptcy rose over 150% (Chart 1).

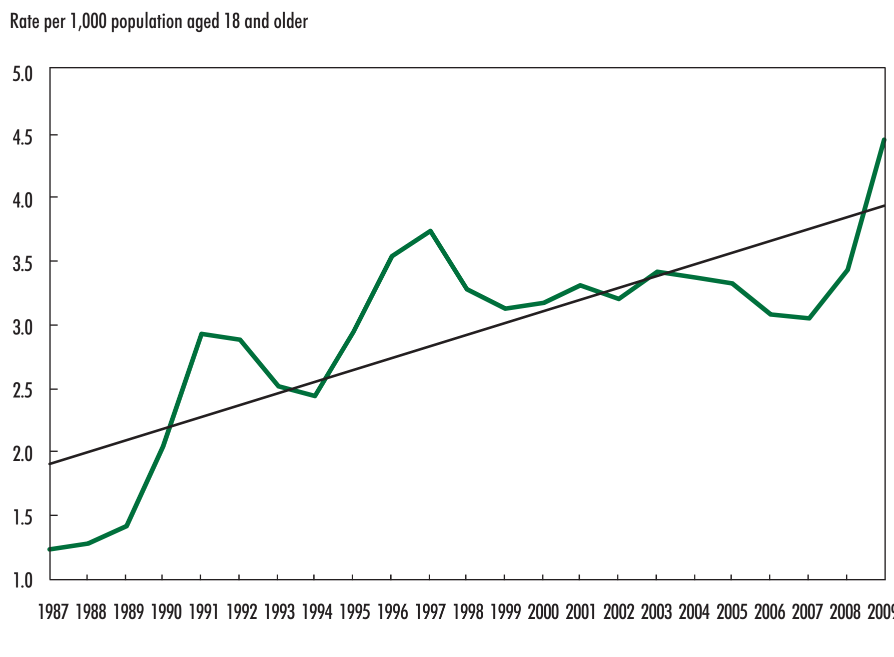
Declaring bankruptcy provides a person with immediate relief from a debt load they find insupportable, but the effects can last for years. And almost one in ten people who file for bankruptcy go bankrupt more than once, strongly implying that they have continuing difficulties in managing financially. [3,4] The cumulative number of people affected is not insignificant: according to the 2007 General Social Survey, over 6% of Canadians aged 45 and over—more than 825,000—had experienced at least one bankruptcy in their lifetime. Many observers are concerned about Canadians' indebtedness and readiness for retirement, and people with a history of financial difficulty may be at even greater risk in terms of their transition to retirement (see "What you should know about this study" for concepts, definitions and details).

This article uses data from the 2007 General Social Survey to look at non-retired people aged 45 to 64 who experienced a bankruptcy in adulthood—that is, at age 25 or older. [5] It will investigate the extent to which they are different from other pre-retirees, and then look at how they have been preparing for their retirement.

Who files for bankruptcy and why

Carrying a high debt load is certainly a necessary condition for declaring bankruptcy, but generally it is not sufficient.[6,7,8] The most important

Chart 1 Bankruptcy rates rise and fall with economic cycles, but the overall trend is upward



Source: Office of the Superintendent of Bankruptcy, Canada, 2010.

What you should know about this study

This article draws on data from the 2007 General Social Survey (GSS) on family social support and retirement. The survey collected information on topics such as family composition, social networks, care giving and care receiving, and retirement experiences and plans. Among several supplementary questions about uncommon life experiences, respondents were asked if they had ever experienced a bankruptcy. Given the wording of the GSS question, respondents may have declared bankruptcy themselves, but they could also have been closely affected by a bankruptcy in some other way, for instance, as the spouse of a person declaring bankruptcy.

The target population in this study consists of persons aged 45 to 64 who described themselves as not retired, and who reported their household income. This population comprises more than 10,500 GSS respondents who represent over 6.2 million Canadians; of these, almost 8%—or 875 respondents representing over 480,000 Canadians—had experienced bankruptcy as defined in this study.

Please note that these data were collected in 2007 and do not reflect the impact of the recent recession.

Definitions

Pre-retiree: A person aged 45 to 64 who reported that he or she had not retired. Most pre-retirees are employed, but others are unemployed, working in the household, out of the labour force due to long-term illness and so on.

Experienced bankruptcy: A pre-retiree who had experienced at least one bankruptcy since the age of 25. The respondent may have declared bankruptcy themself, or may have been directly affected by another person's bankruptcy (for example, as a spouse).

Primary bankruptcy: If respondents reported more than one bankruptcy, only the year of the bankruptcy having the greatest impact on them was recorded. In this study, the bankruptcy of greatest impact is defined as the "primary bankruptcy". Since 88% of the target population reported only one bankruptcy, their primary bankruptcy is in fact their only bankruptcy.

Median household income: Household income was collected in ranges, therefore a true median could not be calculated. Income under $80,000 is a rounded estimate, with 54% of the general non-retired population aged 45 to 64 falling below this threshold (including those with no income). The calculation is based on 83% of respondents who reported their household income.

Government transfer income: Income from Employment Insurance, Workers Compensation, Old Age Security, Guaranteed Income Supplement, and provincial or municipal social assistance or welfare.

Other income: Income from Child Tax Credit, child support or alimony, other sources (such as scholarships, other government income, deposits and savings, etc.).

Data limitations

The GSS does not provide data on employment or income history. So although factors such as unstable employment or low-paying jobs may have contributed to a bankruptcy, they may also reflect its aftermath. For instance, a lower level of education may prevent someone from obtaining a white-collar job, but it is also possible that going bankrupt blocked certain employment opportunities. Similarly, while divorce is an acknowledged precipitator of bankruptcy, it may also follow a bankruptcy filing.

Note: The bankruptcy experiences examined in this article take place over a period of up to 40 years. Bankruptcy laws and regulations are often amended, most recently in September 2009; provinces and territories may also have different requirements, such as the type or value of assets protected from seizure. (For more information, see the Office of the Superintendent of Bankruptcy Canada at http://www.ic.gc.ca/eic/site/bsf-osb.nsf/Intro). Given this variability over time and jurisdiction, this article does not address issues related to the provisions of the legislation itself; for example, comparing respondents who filed under stricter versus more generous regimes.

predictor of bankruptcy is being financially overextended, and then being hit by an event that disrupts income. As such, frequent precipitators of bankruptcy are job loss, a sudden expense, and marriage breakdown.[9,10,11,12,13]

Studies of bankruptcy filers in Canada present the same basic portrait. Compared to the general population, they are more likely to work in lower-paying less-skilled jobs, have a weaker history of steady employment, be divorced and own virtually no assets; in short, they are living paycheque to paycheque.[14,15] But the number of Canadians filing for bankruptcy has increased almost fourfold since the mid-1980s. If it's still these same types of people who are experiencing bankruptcy, why have the rates risen so rapidly?

Researcher Saul Schwartz notes that in Canada between 1977 and 1997, there was a substantial increase in the proportion of bankruptcy filers who were unmarried women, people with dependants, adults under 30 and the self-employed. He suggests that these groups, who had not typically been borrowers in the past, began to accumulate greater levels of debt over the 1980s and 1990s, thus making them vulnerable to the main bankruptcy triggers like divorce and job loss for the first time.[16]

According to a number of studies, there seems to be little evidence that people file for bankruptcy to avoid meeting their obligations; most people struggle for some time to pay their debts and declare bankruptcy only as a last resort.[17,18,19] Nor does it seem that the lessening stigma of bankruptcy encourages them to file; most simply owe more money than they can realistically hope to repay.[20] Data from the Office of the Superintendent of Bankruptcy Canada show that the ratio of debts to assets for insolvent consumers[21] has remained fairly stable at about 2-to-1 since 1987, that is, they owe twice as much as they own. For example, in 2006, people who filed for bankruptcy had, on average, debts of about $67,000, assets of just under $30,000, and personal income a little over $19,000. Their major sources of debt were credit cards, bank and finance company loans, taxes owed, and mortgages.[22]

Socio-economic characteristics of pre-retirees who experienced bankruptcy are different from others

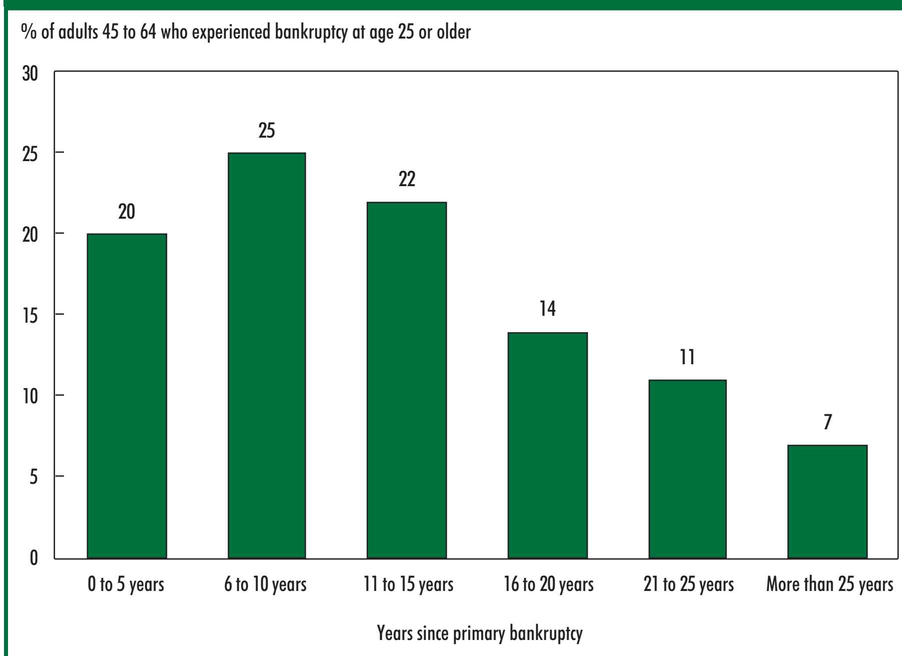
According to the 2007 General Social Survey (GSS), almost 8% of the target population—over 480,000 non-retired Canadians aged 45 to 64—had experienced at least one bankruptcy when they were 25 or older. On average, they had been 40 years old at the time. The majority reported the event had happened more than 10 years before the survey, but one-fifth had experienced bankruptcy in the previous 5 years (Chart 2).[23]

Pre-retirees who had experienced bankruptcy shared some basic characteristics that are significantly associated with the triggers identified earlier. They were much less likely to have a postsecondary education, with one-quarter having less than high school completion; in contrast, over one-quarter of other pre-retirees had a university degree (Table A.1).

Pre-retirees who had gone bankrupt also tended to have a history of holding numerous jobs, which is often associated with less-skilled employment: one-third had held more than five jobs during their working lives, compared to about one-fifth of other pre-retirees. They were also twice as likely to have lived through a marital break-up, and to have been divorced or separated at the time of the survey.

In 2007, pre-retirees who had experienced bankruptcy were less likely to be employed (78%), compared to other pre-retirees (84%); those with jobs were less likely to work in higher-income, white-collar positions such as management, professional or technical occupations (27% versus 42%). Over one-third (37%) had private pension plans from current or previous employment, as did 47% of other pre-retirees.

Chart 2 Over half of pre-retirees who had experienced bankruptcy had done so more than 10 years before the survey

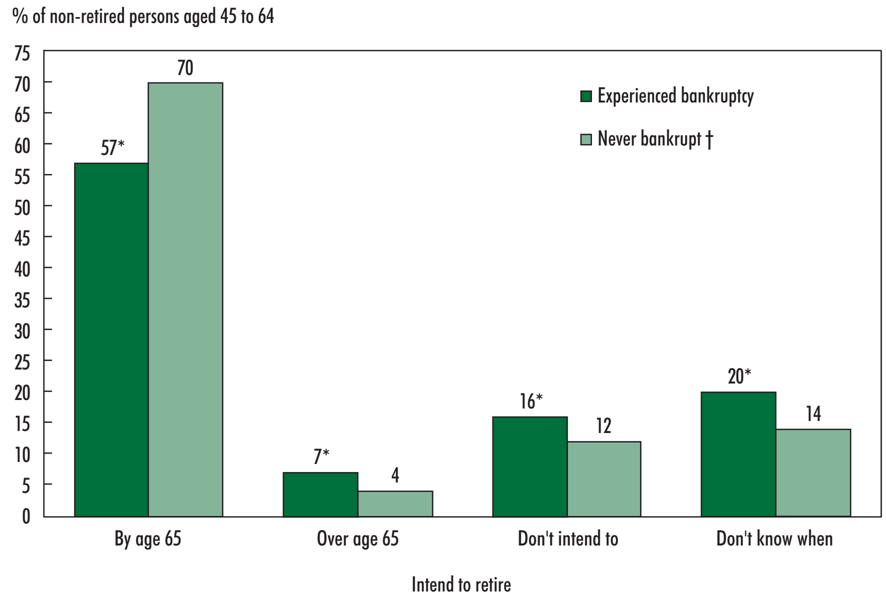


Source: Statistics Canada, General Social Survey, 2007.

The financial situation of many pre-retirees who have experienced bankruptcy is relatively weak. Two-thirds reported having personal incomes below the median of $43,000 for non-retired 45- to 64-year-olds. And although they were not retired, they were twice as likely to rely on government transfer payments as their main source of income. They were also more likely to be the only person in their home with an income, which would account in part for their lower total household income: 61% lived in a household with annual income under $50,000, compared with 37% of other pre-retirement Canadians (Table A.1).

Many pre-retirees who had experienced bankruptcy also reported having poor health. It is not possible to know if their health problems might have played a role in the bankruptcy, but at the time of the survey, about one-quarter of them had an activity limitation. And they were over twice as likely as other pre-retirees to be out of the labour force due to a long-term illness (13% versus 5%).

Chart 3 The majority of pre-retirees intended to retire by age 65, but those who had experienced bankruptcy were less likely to have plans



† reference group
* statistically significant difference from reference group at $p < 0.05$
Source: Statistics Canada, General Social Survey, 2007.

Over half of pre-retirees who experienced bankruptcy expect to retire by 65

Most adults aged 45 to 64 are in the latter half of their working lives, and many are turning their thoughts to retirement. When asked when they planned to retire, over two-thirds (70%) of the never-bankrupt population said they would like to leave the workforce by the time they are 65 (Chart 3).

Among pre-retirees who had experienced bankruptcy, 57% expect to retire by 65. Twenty percent did not know when they would retire; another 16% said they would not stop working at all, mainly because they could not afford to retire or because they wanted to work as long as they could. Delaying their departure from the workforce could be at least partly driven by a desire to have more time to better prepare for retirement; whether it is sufficient time will depend on each individual's circumstances, such as income, private and public pension eligibility, and so on (Chart 3).

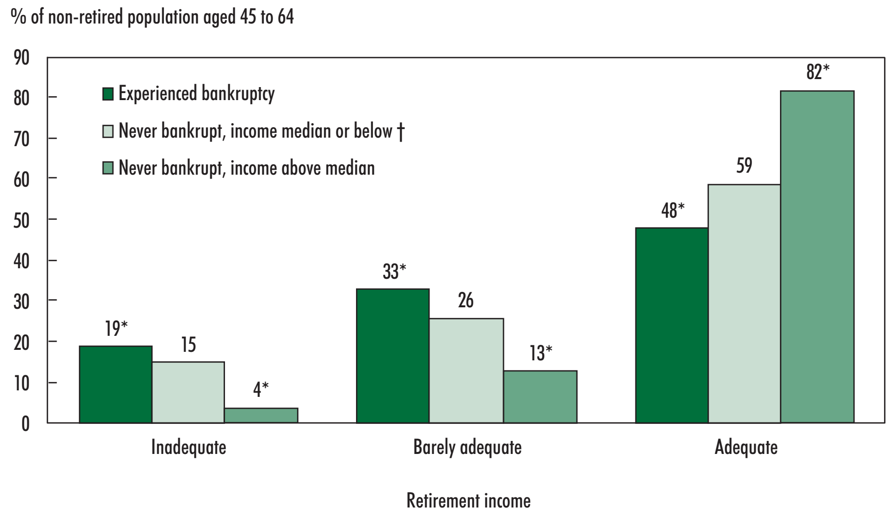
The remainder of this article explores retirement planning that pre-retirees had undertaken in the five years prior to the survey. As we have seen, those who experienced bankruptcy have a different profile from other pre-retirees, so it is more appropriate to compare their preparations to those of never-bankrupts who are demographically and economically similar; in this case, the most appropriate match is with the 54% of never-bankrupt pre-retirees having median or below household income of less than $80,000.[24]

Pre-retirees who experienced bankruptcy are worried about the future

Fewer than half (48%) of pre-retirees who had lived through a bankruptcy believed their household income would be enough to maintain their standard of living in retirement. Never-bankrupt pre-retirees with median or below income were more likely to report that they would have an adequate retirement income (Chart 4).[25]

As discussed earlier, divorce plays a significant contributory role in bankruptcy, and a recent study found that divorced bankrupts generally have more difficulty recovering economically than married bankrupts, even if they both had a very similar economic profile prior to the bankruptcy.[26] So it is not unexpected that, according to the GSS, only one-third (32%) of divorced pre-retirees who had experienced bankruptcy said they expected they would be able to maintain their standard of living in retirement. In contrast, a little over half (53%) of married pre-retirees who had experienced bankruptcy were optimistic about the adequacy of their retirement income.

Chart 4 Fewer than half of pre-retirees who had experienced bankruptcy thought their retirement income would be adequate to maintain their standard of living



† reference group

* statistically significant difference from reference group at $p < 0.05$

Note: Asked only of respondents who specified the age when they plan to retire, or who had not yet thought about or planned for retirement; coverage is 61% of those who experienced bankruptcy and 68% of never-bankrupts.

Source: Statistics Canada, General Social Survey, 2007.

Those who experienced bankruptcy lagged in acquiring basic assets for retirement

The majority of most people's savings is represented by the investment they have made in their house.[27] And owning their home makes pre-retirees more confident about their financial future: almost three-quarters of homeowners said they were not concerned about the adequacy of their retirement income, and the proportion was even higher among those who were mortgage-free. Far fewer pre-retirees who rent (50%) believed their household income would be sufficient to maintain themselves in retirement.[28]

Nonetheless, about half of pre-retirees who had experienced bankruptcy owned their home; of these, over three-quarters were still paying off their mortgage. In comparison, 77% of never-bankrupt pre-retirees with median or below household income owned their home, and almost half of them no longer had a mortgage (Table 1).

Heading toward retirement with a private pension can also relieve some of a person's financial worries. About three-quarters of pre-retirees with a private pension plan believed their income would be adequate after they left the workforce, compared with less than two-thirds of those with no private pension plan. However, 63% of pre-retirees who had experienced bankruptcy and 64% of never-bankrupts with median or below incomes did not have a private pension plan from their current or previous employment.

Another instrument people commonly use as part of their retirement planning is an RRSP. In the five years preceding the survey, 38% of pre-retirees who had experienced bankruptcy had contributed to an RRSP, as had 52% of never-bankrupt pre-retirees with median or below incomes. Most contributors in both groups estimated their RRSPs to be worth less than $50,000.

These basic assets—a home, a private pension, an RRSP—generally comprise the investment core around which many Canadians plan their retirement. One-quarter of pre-retirees who had gone through a bankruptcy did not have any of them. On the other hand, 41% had two or three of these elements, compared to 57% of never-bankrupts with median or below incomes (Table 1).

Other financial strategies of pre-retirees who have experienced bankruptcy include paying down debts

People can prepare for retirement using other investment strategies. About 20% of pre-retirees who had experienced bankruptcy had been building up savings, and 19% had made other kinds of investments in instruments such as stocks, bonds or mutual funds. Their never-bankrupt counterparts with median or below incomes were more likely to have been putting money aside in savings (32%) and investments (27%) (Table 1).

Preparing for retirement does not exclusively mean building savings; many people concentrate on paying off loans so they can leave the workforce debt-free. In the five years preceding the survey, one-quarter of pre-retirees who had experienced bankruptcy had been paying off a mortgage (or had not assumed a new one) and more than half had been paying down other types of debt such as loans and lines of credit.

In sum, 41% of pre-retirees who had experienced bankruptcy were either paying down debts or building savings, and 29% were doing both. Taken together, 70% of pre-retirees who had experienced bankruptcy were using these types of strategies to improve their financial position. This was almost as high a percentage as that for never-bankrupts with median or below household incomes (77%).

A logistic regression model was developed to learn which financial strategies were most likely to help pre-retirees feel confident that their retirement income would be high enough to maintain their household's

Table 1 Selected financial characteristics of non-retired adults aged 45 to 64, by bankruptcy experience, 2007

	Experienced bankruptcy[1]	Never bankrupt: Income median or below†[2]	Never bankrupt: Above median income
		percentage	
Basic assets for retirement			
No home, no private pension plan, no RRSP[3]	25*	11	F
Home or private pension plan or RRSP	35	32	9*
Two of home, private pension plan or RRSP	28*	38	44*
All of home, private pension plan and RRSP	13*	19	46*
Homeownership status			
Tenant	48*	23	4*
Homeowner with mortgage	41	42	55*
Homeowner without mortgage	11*	35	41*
Pension plan from present or previous employment (excluding Canada and Quebec Pension Plans)			
No private pension plan	63	64	40*
0 to 10 years service	16*	12	15*
More than 10 years service	21	24	45*
Value of RRSP[3] at time of survey			
No contributions in last 5 years	62*	48	18*
Less than $50,000	29	34	27*
$50,000 to $100,000	F	11	22*
More than $100,000	F	7	34*
Other financial strategies for retirement			
None	30*	26	10*
Investments or paying down debt	41	37	32*
Both	29*	37	58*
Over the last 5 years, the respondent has made investments by...			
building up savings (excludes RRSP3)	20*	32	49*
making other investments, (e.g. stocks, bonds, mutual funds, etc.)	19*	27	54*
buying or selling real estate (e.g. buying new home or downsizing)	52	50	63*
Over the last 5 years, the respondent has paid off debt by...			
paying off old mortgage or avoiding acquiring new mortgage	24*	32	47*
paying off other debt or avoiding acquiring new debt, e.g. loan, line of credit	52	50	63*

† reference group
* statistically significant difference from reference group at $p < 0.05$
1. Experienced at least one bankruptcy since the age of 25.
2. Fifty-four percent of target population reported household income under $80,000.
3. Registered retirement savings plan.

Source: Statistics Canada, General Social Survey, 2007.

standard of living.[29] The results for those who had experienced bankruptcy showed that having a household income of $100,000 or more, a private pension plan and savings other than RRSPs were significant. In contrast, for never-bankrupt pre-retirees with median or below income, the significant factors were having a household income over $50,000, homeownership, a private pension, savings and investments.

Time allows some catching up

We would expect that the more distant the bankruptcy, the more ground a pre-retiree has been able to recover. Has this happened?

Compared to pre-retirees who had more recently experienced a bankruptcy, those who had lived through one more than 10 years before the survey were more likely to live in a household with above-median income (27% versus 19%) and to have at least two of the three basic assets of retirement (home, private pension plan, RRSP), at 32% versus 22%. In terms of other retirement preparations, though, they were no further ahead. About half felt confident that their retirement income would be adequate for their standard of living, as did a little less than half of pre-retirees who had experienced bankruptcy sometime in the last 10 years.

Summary

Given the rising numbers of consumer bankruptcies in recent decades, the likelihood that a small but significant proportion of Canadians are heading toward retirement with a period of severe financial difficulty behind them has grown. According to the 2007 General Social Survey, almost 8% of non-retired Canadians aged 45 to 64, or more than 480,000, had experienced at least one bankruptcy during their adulthood.

Pre-retirees who have experienced bankruptcy have characteristics in addition to their financial history which suggest they will continue to be at a disadvantage compared with other pre-retirees. They have lower levels of education, a less stable job history and a tendency to work in less-skilled occupations; they are also more likely to report a history of marital breakdown, as well as having health problems and activity limitations.

A slight majority of pre-retirees who had experienced bankruptcy wish to retire by age 65, but less than half believed that their retirement income would be sufficient to maintain their standard of living. Compared with a demographically and economically similar reference group of pre-retirees who had never experienced bankruptcy, pre-retirees who had experienced bankruptcy were less advanced in their preparations for retirement. Nonetheless, three-quarters of them had at least some of the basic assets for retirement, as measured by home ownership, private pension plan or RRSP contributions, and almost as many were employing other financial strategies such as building savings and investments and paying down debts.

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21. Includes consumers who filed for bankruptcy and those who applied for a consumer proposal.
22. Office of the Superintendent of Bankruptcy Canada. 2007.
23. The age of people filing for bankruptcy is generally increasing over time. For example, the average age of a filer was 43 in 2006, compared with about 38 in 1995. Office of the Superintendent of Bankruptcy Canada. 2007.
24. Never-bankrupt pre-retirees with median or below household incomes more closely resembled pre-retirees who had experienced bankruptcy than never-bankrupts with incomes above the median. In particular, their level of education, marital status, current occupation, personal income and number of income earners in the household were very similar. (GSS data not shown.) This makes them a more homogeneous comparison group than the general population of never-bankrupt pre-retirees.
25. Only respondents who specified the age when they plan to retire, or hadn't yet thought about or planned for retirement, were asked if they thought their post-retirement income would be adequate to maintain their standard of living. Response rates for this question were 61% for bankrupts and 68% for never-bankrupts in the target population.
26. Caputo. 2008.

27. It should be noted that, given certain appropriate circumstances, taking on a mortgage can have the opposite effect by increasing the risk of insolvency.

28. According to the GSS, 91% of married pre-retirees were homeowners, but 40% of unmarried pre-retirees were not. Given the importance of home ownership to most people's financial planning, this may explain the much higher level of concern about income adequacy among the unmarried.

29. Independent variables in the model were years since primary bankruptcy; household income; basic assets for retirement (that is, homeownership, RRSP contributions, private pension); and other financial strategies (that is, savings other than RRSPs, investments, real estate, paying off mortgage, paying off other debts).

Table A.1 Selected characteristics of non-retired adults aged 45 to 64, by bankruptcy experience, 2007

	Experienced bankruptcy[1]	Never bankrupt†
	percentage	
Demographic and socio-economic characteristics		
Educational attainment		
University	12*	29
College	29	29
Some postsecondary	14*	11
High school	19	17
Less than high school	25*	14
Current legal marital status		
Married	51*	68
Common-law	15*	10
Widowed	F	2
Divorced, separated	24*	12
Single	8	8
Experienced marital dissolution		
Never	44*	71
Divorced, separated	53*	27
Widowed	F	3
Long-term activity limitation		
Yes	25*	14
Income and employment characteristics		
Number of jobs held in working life		
None	F	3
1 to 5 jobs	65*	75
More than 5 jobs	33*	22
Main activity in previous 12 months		
Employed	78*	84
Unemployed (looking for work)	F	2
In the household	F	7
Long-term illness	13*	5
Other	F	2
Current occupation (employed only)		
Management; professional; technologists, technicians and technical	27*	42
Clerical and sales and services	44*	35
Trades, transport and equipment and related; primary industries; processing, manufacturing and utilities	28*	23
Pension plan from current or previous employment		
Yes	37*	47
Median personal income		
Below median ($0 to $42,999)	67*	48
Median or above ($43,000 or more)	33*	52

Table A.1 Selected characteristics of non-retired adults aged 45 to 64, by bankruptcy experience, 2007 (continued)

	Experienced bankruptcy[1]	Never bankrupt†
	percentage	
Main source of personal income		
No personal income	F	3
Employment	77*	85
Private pension plan and investments	7*	5
Transfer payments	8*	4
Other (includes child support, scholarships, etc)	5[E]	3
Household income		
Under $50,000	61*	37
$50,000 to $99,999	26	29
$100,000 or more	13*	34
Number of other persons in the household with income		
Nobody else	29*	19
One or more other people	71*	81

† reference group
* statistically significant difference from reference group at $p < 0.05$
1. Experienced at least one bankruptcy since the age of 25.
Source: Statistics Canada, General Social Survey, 2007.