UNDERSTANDING THE DEBT DIFFERENCE

WHY SOME LOW-AND MIDDLE-INCOME WORKING FAMILIES HAVE CREDIT CARD DEBT AND OTHERS DON'T

Dēmos

JOSÉ GARCÍA

JENNIFER WHEARY

ABOUT DEMOS

Dēmos is a non-partisan public policy research and advocacy organization. Headquartered in New York City, Dēmos works with advocates and policymakers around the country in pursuit of four overarching goals: a more equitable economy; a vibrant and inclusive democracy; an empowered public sector that works for the common good; and responsible U.S. engagement in an interdependent world. Dēmos was founded in 2000.

In 2010,Dēmos entered into a publishing partnership with The American Prospect, one of the nation's premier magazines focussing on policy analysis, investigative journalism, and forward-looking solutions for the nation's greatest challenges.

AUTHORS

José García
As Associate Director for Research and Policy, José is responsible for providing statistical and policy analysis for the Economic Opportunity Program on issues such as household debt and assets. He is co- author of *Up to Our Eyeballs: How Shady Lenders and Failed Economic Policies are Drowning Americans in Debt*, published by Demos and The New Press in April 2008. José's writings and opinions have appeared in *The Boston Globe, BusinessWeek, The Baltimore Sun, USA Today, The Los Angeles Times, The Kansas City Star, The News Journal, The New York Post, The Daily News, Orlando Sentinel, NY1, Univision, Telemundo, Univision* and *El Diario.*

Jennifer Wheary
Jennifer is a Dēmos Senior Fellow. Her research and writing focuses on the future middle class, demographic change, educational access, economic opportunity, and the strategic development of human capital for the 21st century. Her articles have appeared in *the New York Daily News*, *Newsday*, and other newspapers around the country.

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Introduction

Americans use credit cards millions of times every day. The convenience and utility of revolving credit has become a way of life for most families. However for some, it has also become a lifeline.

Many low-and middle-income families turn to credit cards to meet basic expenses when an unforeseen crisis hits — such as a job loss or medical emergency. The additional credit card debt these families take on further inhibits their ability to save. An ongoing lack of savings makes them more likely to have to resort to credit cards — and perhaps more desperate measures — when future crises arise. The end result is an ongoing cycle of economic vulnerability.

Economic trends have led to this problematic reliance on credit cards. Even before the recent economic downturn, low- and middle-income households were struggling to make ends meet. Between 2000 and 2006 most households experienced stagnant or declining incomes.[1] At the same time, cost of living expenses increased by 27 percent — leaving households with a growing gap between their incomes and their cost of living. These two factors, combined with low interest rates and inflated home values, helped fuel the growth of credit card debt.[1]

While aggregate credit card debt has actually decreased during the recession, low-and middle-income families are still struggling to pay down debt, and dealing with the immediate economic shocks caused by the Great Recession. In June 2010, seasonal adjusted credit card debt continued to decrease from its peak in September 2008. During that time, aggregate seasonal adjusted credit card debt decreased 15.3 percent from $976 billion to $826 billion.[2] The current level of credit card debt, while lower and comparable to June 2005, still places a far too heavy burden on American families and increases their overall vulnerability to, and ability to cope with, additional economic challenges.

Unemployment remains stubbornly high, at just below 10 percent. Many of the unemployed have been jobless for longer than six months, putting a deep strain on their households finances. Nearly 18.6 percent of Americans are either out of work or underemployed.[3] Furthermore, the recession has brought decreases in homeownership, home equity and financial assets, such as retirement funds. A substantial loss has occurred in the area of home equity. In 2005, home equity averaged 60 percent of home values. In the first quarter of 2010, owner's equity averaged 38 percent — a decrease of 22 percentage points in five years.[4]

As foreclosures have risen nationwide, homeownership decreased 3 percentage points from 69 to 67 percent between 2006 and 2009.[5] However, the New York Federal Reserve's latest report claims that the actual figure of homeownership is really around 62 percent.[6]

In terms of financial assets, a record number of 401(k) holders are prematurely drawing on their accounts due to hardship. During the second quarter of 2010 a record 62,000 of some 11 million participants with 401(k) accounts administered by Fidelity made a hardship withdrawal up from 45,000 during the first quarter.[7] While aggregate credit card debt has decreased in these tough economic times, low- and middle-income families are no better off. The backdrop of higher living costs, unemployment or under-unemployment, and diminished assets has left many families vulnerable and still reliant on credit to make ends meet.

This report examines credit card use among low- and middle-income families. It asks the question: Among these working-age families (age 18 to 64), what is the difference between those households who have credit card debt and those who do not?

The answer to the question is an important one as the country looks to reform its credit practices. It can give us insight into the circumstances and consequences associated with the use of revolving credit among a large swath of Americans.

Based on survey research commissioned by Demos, this report compares two groups, an “indebted” group and a “non-indebted” group. For the purposes of this report, the indebted group is defined as those who had revolving balances on their credit cards for three months or more at the time of the survey. The non-indebted group is defined as those who did not carry a balance on their credit cards at the time of the survey. (See Appendix A for further information on drawing this distinction.)

The survey was conducted by Macro International between April and August 2008 with 2,248 low- and middle-income adults (18 years or older). “Low- to middle-income” was defined as having a total household income between 50 percent and 120 percent of the local median income. The survey was given in either English or Spanish, based on the respondent’s preference. Households were contacted by phone using nation-wide random-digit dialing.

The survey results show important differences between working-age families who have credit card debt and those families who do not. Families with credit card debt are more likely to have experienced economic shocks such as unemployment, a loss of health insurance or an unexpected medical expense. The value of liquid and nonliquid assets held by credit card indebted families was also lower. In addition, indebted families are more likely than non-indebted families to have other monthly financial obligation in addition to credit cards. The amount of these obligations is also higher.

The results also show that many indebted families compensate for their lack of assets by using credit cards to meet basic expenses when an unforeseen crisis hits. This reliance on revolving credit further increases a family’s economic vulnerability and likelihood to need to rely on credit cards in the future.

KEY FINDINGS

Regarding *economic shocks* and their consequences, the survey found:

- Working-age indebted families were more likely than non-indebted families of working age to be unemployed for at least two months in the last three years.
- Thirty seven percent of working-age indebted families suffered from unemployment in this time frame versus 22 percent of non-indebted households.
- More than one in three indebted families (39 percent) had at least one member of the household lack health insurance in the last three years. For non-indebted households the figure was 25 percent.
- Forty-four percent of indebted households (versus 36 percent of non-indebted households) faced a major medical expense in the last three years.

Regarding *assets*, the survey found:

- Non-indebted households are more likely to be homeowners than indebted households.
- Among homeowners with equity, credit card indebted households have 54 percent less home equity than non-credit card indebted households.
- Credit card indebted households with home equity had an average equity of $93,564. Non-indebted households in the same position had an average of $166,997 in home equity.
- Indebted and non-indebted households differ in terms of their other financial assets as well. The majority of non-indebted households (83 percent) had at least one type of financial asset such as a checking or savings account, CD, stocks, pension plan, or IRA. On average, these households' financial assets were valued at $53,949.
- Surprisingly, a larger percentage of indebted households (96 percent) had at least one type of financial asset. However, among those indebted households with assets, the average value of those assets was $48,432–11 percent lower than non-indebted households.
- Indebted households were also more likely to hold liquid assets such as savings or checking accounts. Eighty-two percent of indebted households held these liquid assets, compared to 79 percent of non-indebted households.
- However, the value of these assets is lower. The average value of a non-indebted household's checking and saving accounts was $4,348. For non-indebted households the value of these assets was $9,845 – more than double.

Having fewer assets puts families in a precarious position. When a family has fewer assets on which to rely, they often take on additional credit card debt to cover essentials in times of economic crisis. As a result of this debt, they are less able to save and build up a cushion of assets to sustain them through future crises. The end result is an ongoing and eventually unending cycle of increasing debt and further inability to save.

To counteract the debilitating effects of debt, we must take action in several areas, most notably we must 1) Increase household savings; 2) Strengthen social insurance protections; and 3) Ensure fair lending practices. These policy reforms would help millions of American families step out of the revolving door of debt once and for all.

DEMOGRAPHIC CHARACTERISTICS

TABLE. 1
DEMOGRAPHIC CHARACTERISTICS OF WORKING-AGE (18 TO 64) YEAR OLD HOUSEHOLDS WITH AND WITHOUT CREDIT CARD DEBT

	WITH CREDIT CARD DEBT (INDEBTED)	WITHOUT CREDIT CARD DEBT (NON-INDEBTED)
MEAN (AVERAGE) AGE:	45	48
AGE		
18 – 34	21%	17%
35 – 49	38%	29%
50 – 64	41%	54%
EDUCATION:*		
LESS THAN HIGH SCHOOL	3%	4%
HIGH SCHOOL OR GED	27%	24%
AT LEAST SOME COLLEGE	70%	72%
MEAN (AVERAGE) INCOME:	$48,432	$53,949
INCOME RANK:*		
$1 – $30,000	22%	16%
$30,001 - $42,000	24%	22%
$42,001 - $56,000	29%	30%
$56,001 AND UP	26%	33%
WORK STATUS:*		
WORK FULL-TIME	65%	55%
WORK PART-TIME	13%	14%
RETIRED	4%	13%
HOMEMAKERS	3%	6%
STUDENT	0%	1%
TEMPORARILY UNEMPLOYED	4%	3%
DISABLED	9%	7%
CHOOSE NOT TO WORK	0%	2%

** Due to rounding, some figures may not add up to 100%
Source: Demos 2008 National Household Survey of Credit Card Debt Among Low- and Middle-Income Households.

CREDIT CARD USE AMONG LOW-AND MIDDLE-INCOME FAMILIES

CREDIT CARD EXPENSES

More than one in three indebted families (41 percent) have used credit cards in the last year to pay for basic living expenses such as rent, mortgages, groceries, utilities or insurance because they didn't have money in checking or savings. Only 18 percent of non-indebted families have been in the same position.

Indebted families and non-indebted families are equally likely to use credit cards to purchase smaller, non-essential items. In the last three years, 65 percent of indebted families and 64 percent of non-indebted families have incurred credit card debt as the result of purchasing smaller, non-essentials

Indebted families were less likely than non-indebted families to use credit cards for major, non-essential purchases like vacations and flat-screen TVs. Looking at the previous three-year period, 37 percent of indebted families used credit cards for such major, non-essential purchases, versus 47 percent of non-indebted families.

PATTERNS OF CREDIT CARD DEBT

For some low- and middle-income families, credit card debt is a long-standing issue. Sixteen percent of families participating in the survey said they have had a high level of credit card debt for a long time.[8]

TABLE. 2
CREDIT CARD DEBT BY THE NUMBERS, AMONG WORKING AGE LOW-AND MIDDLE-INCOME FAMILIES WITH REVOLVING BALANCES/CREDIT CARD DEBT FOR 3 MONTHS OR MORE

PERCENT OF FAMILIES STILL PAYING ON A CREDIT CARD THEY HAVE CANCELED	37%
AVERAGE (MEAN) CREDIT CARD DEBT	$9,799
MEDIAN CREDIT CARD DEBT	$5,000
PERCENT WHO HAVE BEEN LATE OR MISSED A PAYMENT	54%
PERCENT HAVING SAME AMOUNT OR MORE DEBT THAN 1 YEAR AGO	56%
PERCENT HAVING SAME AMOUNT OR MORE DEBT THAN 3 YEARS AGO	52%
PERCENT WHO HAVE BEEN CALLED BY A BILL COLLECTOR FOR ANY DEBT	63%

Source: Demos 2008 National Household Survey of Credit Card Debt Among Low- and Middle-Income Households.

However, having credit card debt is not a fixed pattern for the majority of families surveyed. In fact, 55 percent say they experience swings in their debt levels, and 17 percent say their current situation is the first time they have accrued credit card debt.

One out of two indebted families (54 percent) have missed or been late on a credit card payment and have had to pay a late fee as a result. They have missed or been late an average of four times in the last year. Among those who have missed or been late, 51 percent have seen their interest rate go up as a result. A startling 37 percent of indebted families are still paying on a card they have canceled.

LEVELS OF CREDIT CARD DEBT

Indebted families have an average card debt of $9,799, and a median credit card debt of $5,000. Indebted families report paying an average annual percentage rate (APR) of about 15 percent on their most expensive credit card.

Fifty-six percent have the same amount or more credit card debt than they did a year ago. Fifty-two percent have the same or more amount of credit card debt than they did three years ago.

Indebted families are more than twice as likely to have been called by a bill collector than non-indebted families. Sixty-three percent of indebted families have been called by a bill collector for either credit card debt or other obligations 32 percent of non-indebted families.

The Effect of Economic Shocks

There is a common perception that bad habits, lack of discipline, and unencumbered spending on non-essentials are the primary reasons for credit card debt among low- and middle-income families. This perception is false.

When we compare the characteristics of low- and middle-income families who have credit card debt with those who do not, indebted families are more likely to have been exposed to adverse shocks, have fewer assets, and have greater monthly financial obligations (for items such as car payments and rent) than those families who have no credit card debt.

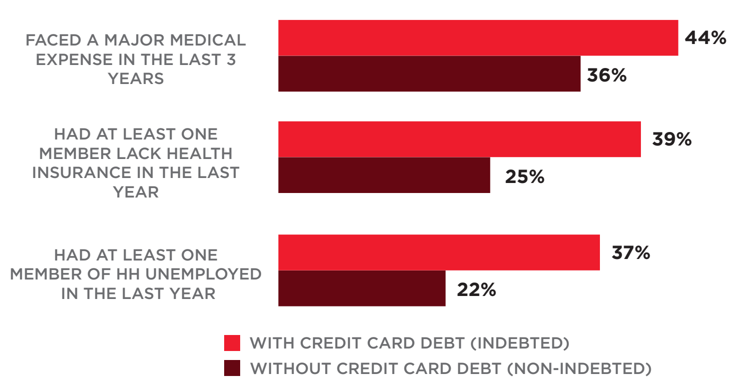
The focus of our study was to uncover differences that exist between working age low- and middle-income families who have credit card debt and those who do not. Our study did not seek to determine the causal relationship among any of these differences.

What our results do suggest, however, is that the exposure to economic shocks, lack of assets, and having outstanding financial obligations together create an ongoing cycle that leaves indebted families increasingly economically vulnerable.

THE IMPACT OF UNEMPLOYMENT

Working-age indebted families were more likely than non-indebted families of working age to be unemployed for at least two months in the last three years. Thirty seven percent of indebted families suffered from unemployment in this time frame versus 22 percent of non-indebted working age households.

FIGURE 1.
ECONOMIC SHOCKS AMONG WORKING-AGE LOW-AND MIDDLE-INCOME FAMILIES



Demos 2008 National Household Survey of Credit Card Debt Among Low and Middle Income Households.

THE IMPACT OF BEING UNINSURED

Indebted families were also more likely to have a member of the household lack health insurance. More than one in three indebted families (39 percent) had at least one member of the household lack health insurance in the last three years. For non-indebted households the figure was 25 percent.

**TABLE 3.
THE CONSEQUENCES OF CREDIT CARD DEBT ON HEALTH CARE AMONG WORKING-AGE LOW AND MIDDLE-INCOME FAMILIES**

	WITH CREDIT CARD DEBT (INDEBTED)	WITHOUT CREDIT CARD DEBT (NON-INDEBTED)
% WHO DO NOT VISIT A DOCTOR WHEN SICK	39%	25%
% WHO SKIP MEDICAL TESTS, TREATMENT OR FOLLOW-UP	33%	23%
% WHO DO NOT FILL PRESCRIPTIONS	36%	20%

Demos 2008 National Household Survey of Credit Card Debt Among Low and Middle Income Households.

A lack of health insurance puts families in a particularly precarious situation if someone in the family gets sick and incurs unexpected expenses as a result. Many indebted families found themselves in exactly this situation. Forty-four percent of indebted households (versus 36 percent of non-indebted households) faced a major medical expense in the last three years.[9] In fact more than half of all indebted households (52 percent) said that out of pocket medical expenses were a contributing factor in their credit card debt.

The connection and consequences of credit card debt on medical care do not stop with access to health insurance or a surprise medical expense. Indebted families reported being more likely than non-indebted families to avoid seeking medical treatment when they are sick.

Thirty-nine percent of indebted families (versus 25 percent of non-indebted families) do not go to the doctor when they have a medical issue. Thirty-three percent skip medical tests, treatment or follow-up appointments (versus 23 percent of non-indebted families). Thirty-six percent do not fill prescriptions (versus 20 percent of non-indebted families).

**TABLE 4.
SOME STRATEGIES FOR PAYING DOWN CREDIT CARDS AMONG WORKING-AGE INDEBTED FAMILIES**

% WHO HAVE REFINANCED HOME	51%
% WHO HAVE USED TAX REFUND TO PAY CREDIT CARDS	57%
% WHO HAVE WORKED EXTRA HOURS OR TAKEN 2ND JOB TO PAY CREDIT CARDS	50%

Demos 2008 National Household Survey of Credit Card Debt Among Low and Middle Income Households.

STRATEGIES FOR PAYING DOWN CREDIT CARD DEBT

Indebted families employ a number of strategies to try to pay down their credit card debt. More than half of indebted families have refinanced their homes, gotten a second mortgage or taken out a home equity line of credit. About a quarter have done so specifically to pay their credit cards. Indebted households who used their home equity to pay down credit cards paid off an average amount of $14,472. Nearly three out of five (57 percent) of indebted families also used their tax refunds to pay credit cards, and 50 percent have worked extra hours or gotten an extra job to pay off credit cards.

Differences in Savings and Assets

SAVING PATTERNS

Researchers and policymakers have talked about the "transformative power" of assets to help families weather economic storms and to propel future generations forward.[10] When a family has assets, the current generation has stability in times of economic stress, and future generations have a head start to help pay for college or make a down payment on a first house.

Assets help to ensure and to transmit financial stability over time. Using credit cards to fund basic expenses works in the opposite way. Instead of experiencing the transformative power of assets, millions of low- and middle-income families are caught in a cycle of debilitating debt.

In our survey, indebted households had assets of lesser value and had higher monthly financial obligations than households without credit card debt. Indebted households were also less likely to save. With fewer assets and savings to draw on in times of crisis, indebted families are put in a position of ongoing economic vulnerability. This vulnerability makes them more likely to rely on revolving credit when an unforeseen economic shock hits.

ASSET LEVELS

The differences in assets can be seen in homeownership, savings and other areas.Non-indebted households are slightly more likely to be homeowners than indebted households. Among homeowners with equity, credit card indebted households have 54 percent less home equity than non-credit card indebted households. Credit card indebted households with home equity had an average equity of $93,564. Non-indebted households in the same position had an average of $166,997 in home equity.

Indebted and non-indebted households differ in terms of their other financial assets as well. The majority of non-indebted households (83 percent) had at least one type of financial asset in 2008 such as a checking or savings account, CD, stocks, pension plan, or IRA. On average, these households' financial assets were valued at $53,949.

Surprisingly, an even larger majority of indebted households (96 percent) had at least one type of financial asset. However, among those indebted households with assets, the average value of those assets was $48,432 — 11 percent lower than non-indebted households.

Indebted households were also more likely to hold liquid assets such as savings or checking accounts. Eighty-two percent of indebted households held these liquid assets, compared to 79 percent of non-indebted households. However, the value of these assets was lower. The average value of a non-indebted household's checking and saving accounts was $4,348. For non-indebted households the value of these assets was $9,845 — more than double.

Both indebted and non-indebted families cite being prepared for an emergency as the top reason to save. As the effects of the recent recession continue to be felt, both groups also find it more challenging to save money than they did several years ago. The key difference between the two groups is how *well* they are able to negotiate these difficulties.

TABLE 5. ASSETS AMONG INDEBTED AND NON-INDEBTED HOUSEHOLDS

	WITH CREDIT CARD DEBT (INDEBTED)	WITHOUT CREDIT CARD DEBT (NON-INDEBTED)
FINANCIAL ASSETS (NOT INCLUDING HOME EQUITY):		
HOLD ANY FINANCIAL ASSETS	96%	83%
AVERAGE VALUE OF FINANCIAL ASSETS (AMONG THOSE HOLDING THEM)	$48,432	$53,949
HOLD LIQUID ASSETS	82%	79%
AVERAGE VALUE OF LIQUID ASSETS (AMONG THOSE HOLDING THEM)	$4,348	$9,845
HOMEOWNERSHIP:	74%	82%
HOME EQUITY (AMONG THOSE HOMEOWNERS WITH EQUITY)	$93,564	$166,997
FIND IT MORE DIFFICULT TO SAVE:	72%	60%
ARE ABLE TO SAVE EACH MONTH	50%	70%
AMOUNT SAVED EACH MONTH (AMONG THOSE WHO CAN SAVE)	$238	$568

Source: Demos 2008 National Household Survey of Credit Card Debt Among Low- and Middle-Income Households

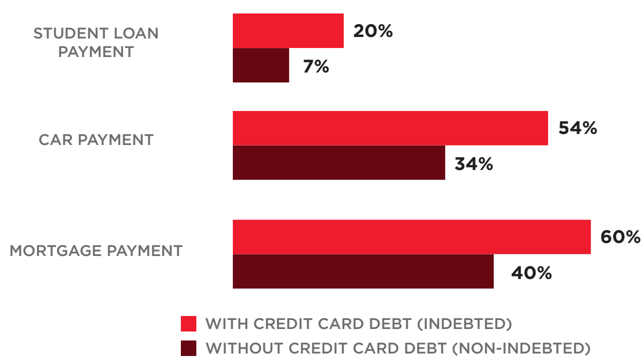
More than seven out of ten (72 percent) of indebted families find it harder to save money than they did three years ago. In comparison, 60 percent of families without credit card debt find it harder to save. (See Table 5.) Though saving is difficult for them, a surprising one out of two (50 percent) indebted families manage to put aside some money each month. But for non-indebted families the figure is significantly higher, 70 percent.

Indebted families also save less. In fact they are able to save less than half (58 percent) of what non-indebted families save. Non-indebted families save an average (mean) of $568 a month. Indebted families save just $238 a month.

Other Financial Obligations

In addition to holding fewer assets and having less home equity than non-credit card indebted households, credit card indebted households were also more likely to have other monthly financial obligations than non-indebted households. In addition, the amount of those obligations was higher. The differences in each of these cases were dramatic.

FIGURE 2.
MONTHLY FINANCIAL OBLIGATIONS OF WORKING AGE LOW-AND MIDDLE-INCOME HOUSEHOLDS



Source: Demos 2008 National Household Survey of Credit Card Among Low- and Middle-Income Households

Credit card indebted households are more likely than non-credit card indebted households to be paying other monthly financial obligations in addition to credit card debt. In fact, 100% of credit card indebted households had such obligations at the time of the survey. Credit card indebted households were paying an average of $1,756 each month to meet these obligations. Seventy-five percent of non-credit card indebted households had other monthly financial obligations. These households paid an average of $1,030 monthly to meet these financial obligations.

TABLE 6.
FINANCIAL LIABILITIES IN ADDITION TO CREDIT CARDS

	WITH CREDIT CARD DEBT (INDEBTED)	WITHOUT CREDIT CARD DEBT (NON-INDEBTED)
FINANCIAL LIABILITIES IN ADDITION TO CREDIT CARDS:		
ANY LIABILITY?	100%	75%
AVERAGE MONTHLY FINANCIAL OBLIGATION AMONG THOSE WITH ANY SUCH LIABILITY	$1,756	$1,030

Source: Demos 2008 National Household Survey of Credit Card Debt Among Low- and Middle-Income Households.

Indebted families are more likely to be paying rent (40 percent versus 14 percent). They are also more likely to have monthly mortgages (60 percent versus 40 percent), car payments (54 percent versus 34 percent), and student loans (20 percent versus 7 percent). Indebted families have an average of four credit cards, versus three for non-indebted families (See Fig. 2).

Conclusion and Policy Recommendations

Debt can weaken a family's economic security and make it more likely that they will need to borrow even more when the next crisis hits. To counteract the debilitating effects of debt, we must take action in several areas, most notably: 1) Increase household savings; 2) Strengthen social insurance protections; and 3) Ensure fair lending practices. These policy reforms would help millions of American families step out of the revolving door of debt once and for all.

1) PROMOTING SAVINGS

The values of supporting mobility and sustaining a strong middle class are part of the American fabric. In line with these values, we advocate principled investments that target those households for whom a modest subsidy would make a significant difference in building emergency savings and putting away money for the future. These investments include policies such as universal savings accounts and targeted tax credits to provide progressive matching. These efforts must be balanced with policies that would address abusive and predatory lending practices (discussed below), which often drain what little wealth households have accumulated.

2) STRENGTHENING SOCIAL INSURANCE PROTECTIONS

America's unemployment insurance system was put in place because of a shared belief that we should help workers get through a temporary job loss by replacing their lost earnings. The ideals and values which gave rise to a system to take care of hard working Americans going through a difficult time are still a strong part of what makes America stand out from other nations. Today, however, many workers are ineligible for benefits, especially low-wage workers and "nonstandard" workers such as temporary or part-time employees. For those who are eligible, the benefit levels replace only about one-third of an average worker's earnings.[11]

Nearly a quarter of low- and middle-income households with credit card debt reported that they had accumulated their debt as a result of a job loss. Other studies have shown that unemployment problems are at the heart of nearly two-thirds of bankruptcy filings.[12]

States should consider policies to cover more low-wage workers, those most vulnerable to temporary income losses and those most likely to lack savings or wealth to draw on during unemployment. A stronger social safety net would help families withstand the financial pressures related to job loss.

3) HEALTH CARE COVERAGE

Health insurance coverage will be greatly expanded with implementation of the The **Patient Protection and Affordable Care Act** (PPACA). As a result, tens of millions of uninsured Americans will be less likely to delay needed care or suffer financial ruin due to illness. As our nation strives to achieve universal coverage, we urge Congress and state policymakers to promptly implement the law to provide security for millions of American families. In addition, we urge advocates to continue to work to push for further reforms that extend health insurance to all of our nation's families, regardless of immigration status or income.

Affordability

The new law will bring affordable coverage to millions of Americans. Medicaid, a crucial program for low-and middle-income families, will be expanded to include millions of additional Americans. Private insurance will be subject to new rules. Families will be protected since the law calls for strengthening insurance regulations, eliminating pre-existing condition exclusions, banning annual and lifetime caps on the amount insurance companies will pay for care, and setting limits on out-of-pocket expenses. Groups concerned with the economic success of low-and middle-income families must participate in the design and implementation of PPACA. There must be ongoing monitoring of private insurance products to ensure high quality coverage while limiting cost sharing for patients.

Eligibility Screening & Consumer Protection

The phased-in implementation of health reform, combined with an array of new programs to be made available to uninsured and insured Americans, will require public education. Currently, many people eligible for public programs are not enrolled in them and healthcare providers' financial assistance policies are not widely publicized. Prior to 2014, providers should increase screening for public programs and publicize their financial assistance policies. Providers, and their collection agencies, should also refrain from reporting outstanding medical bills to credit bureaus. After full implementation, consumer assistance and protection programs must be operated at the state level to ensure that the uninsured receive the assistance needed to access quality coverage, that the quality of private coverage is monitored, and that billing practices are fair and reasonable.

3) ENSURE FAIR LENDING PRACTICES

In response to the ongoing economic crisis, President Obama recently signed into law comprehensive legislation to curb the risky trading and predatory lending that led to devastating rates of foreclosures, unemployment and bank failures. A cornerstone of the new law is the creation of the Consumer Financial Protection Bureau (CFPB), which will bring the consumer protection functions of seven federal agencies under one roof and for the first time place household economic security on par with bank safety and soundness.

As the new agency takes shape, regulators are tasked with writing new regulations governing the oversight of banks and non-bank financial institutions, identifying deceptive lending practices, and prescribing fair disclosures for financial products. It is critical that the CFPB implement clear rules that mitigate the effects of high interest rates and penalty fees that prevent low- and middle-income families from paying down outsized medical debts.

The CFPB will also be charged with enforcing the Credit Card Accountability, Responsibility, and Disclosure (CARD) Act of 2009, which specifically bans a number of common abusive practices in credit card lending, such as the retroactive raising of interest rates and gaming payments to maximize penalties finance charges. The CFPB must be vigilant as credit card issuers adopt new tactics to squeeze profits out of indebted consumers.

Appendix A- Survey Methodology

The data for this report was derived from a household survey, commissioned by Dēmos in 2008, on credit card debt among low- and middle-income households. The findings update and expand upon results from a similar survey commissioned by Dēmos in 2005. Both surveys collected information about the scope and nature of credit card debt—from the amount and duration of debt to the types of expenses that contribute to household indebtedness. (Please see the report "Plastic Safety Net" for more information.) The 2008 survey, however, included more in-depth questions about medical expenses and health insurance coverage.

Dēmos' 2008 household survey—conducted by Macro International between April and August 2008—consisted of 2,248 phone interviews with low- and middle-income households whose incomes fell between 50 percent and 120 percent of local median income; such households comprise roughly 78 percent of the low-and middle-income households in the country.

In order to be classified as an indebted household, a household had to be carrying credit card debt for three months or longer at the time of the survey. In order to be classified as a non-indebted household, a household had to own at least one credit card with no outstanding balance at the time of the survey. The sample size for the credit card indebted sample was 1,200 households, and the sample size for the non-indebted sample was 1,048 households.

The findings of the 2008 National Survey on Credit Card Debt of Low- and Middle- Income Households represent 80.7 million people in 30.1 million households, broken down as 46.6 million people in 17.4 million households with credit card debt and 34 million people in 12.7 million households with a credit card but no credit card debt. The margin of error for the survey is plus or minus 3.7 percentage points for total respondents.

Credit card indebted households were identified based on the question "Do you or your spouse have any credit card debt; that is, money due on credit cards that you did not pay off in full at the end of last month?" To ensure that we were capturing households with credit card debt, as opposed to those households who may be temporarily carrying a balance, we chose to exclude from the survey any households who reported having credit card debt for less than three months. The screening questions also ensured that the respondent was a head of the household and that s/he was involved in making financial decisions. Credit card non-indebted households were identified based on the questions "Do you, or does your spouse or partner, currently have at least one credit card?" followed by "Do you or your spouse or partner have any credit card debt? By credit card debt, I mean money due on credit cards that you did not pay off in full at the end of last month?"

For the purpose of this report we decided to include only households in which the head of household is a working age adult between the ages of 18 and 64. In this way we are certain that we are comparing households with credit card debt at a similar point in their working life, making comparable life choices and facing similar reasoning for accruing or not accruing credit card debt.

Macro International developed the survey instrument in close consultation with Dēmos. The survey was given in either English or Spanish, based on the respondent's preference. Households were contacted by phone using nationwide random-digit dialing. The final sample included oversamples of Hispanics and African-Americans to allow for greater data analysis of these groups. For this random-digit dial survey, the 95 percent confidence interval has a margin of error of plus or minus 3.73 percentage points. The Hispanic sample has a margin of error of plus or minus 10.5 percentage points and the African-American sample has a margin of error of plus or minus 9.4 percentage points. Weights have been added to account for disproportionate probabilities of selection.

Appendix B-Analysis by Age and Income Groups

JOB LOSS

In all age groups, indebted households were more likely than non-indebted households to have experienced a job loss or been unemployed for at least two months in the past three years.

In each income group, indebted households were more likely than non-indebted households to have experienced a job loss or been unemployed for at least two months in the past three years.

TABLE 1.
JOB LOSS/UNEMPLOYMENT BY AGE GROUP

AMONG HOUSEHOLDS WHOSE HEAD IS AGE	% WITH CREDIT CARD DEBT WHO HAVE HAD JOB LOSS OR BEEN UNEMPLOYED IN LAST 3 YEARS	% WITHOUT CREDIT CARD DEBT WHO HAVE HAD JOB LOSS/ BEEN UNEMPLOYED	PERCENTAGE POINT DIFFERENCE (CREDIT CARD DEBT VS. NOT)
18-34	40%	23%	+17 points
35-49	38%	25%	+13 points
50-64	34%	21%	+13 points

Source: Demos 2008 National Household Survey of Credit Card Debt Among Low- and Middle-Income Households.

TABLE 2.
JOB LOSS/UNEMPLOYMENT BY INCOME GROUP

AMONG HOUSEHOLDS EARNING	% WITH CREDIT CARD DEBT WHO HAVE HAD JOB LOSS OR BEEN UNEMPLOYED IN LAST 3 YEARS	% WITHOUT CREDIT CARD DEBT WHO HAVE HAD JOB LOSS/BEEN UNEMPLOYED	PERCENTAGE POINT DIFFERENCE (CREDIT CARD DEBT VS. NOT)
$30,000 or Less	39%	24%	+15 points
$30,001 - $42,000	39%	23%	+16 points
$42,001 - $56,000	38%	30%	+8 points
$56,000 or More	35%	18%	+17 points

Source: Demos 2008 National Household Survey of Credit Card Debt Among Low- and Middle-Income Households.

MEDICAL EXPENSES

In all age groups, indebted households were more likely than non-indebted households to have incurred a major medical expense in the last three years than those families without credit card debt.

TABLE 3.
EXPOSURE TO MAJOR MEDICAL EXPENSE BY AGE GROUP

AMONG HOUSEHOLDS EARNING	% WITH CREDIT CARD DEBT WHO HAVE INCURRED MAJOR MEDICAL EXPENSE IN LAST 3 YEARS	% WITHOUT CREDIT CARD DEBT WHO HAVE INCURRED MAJOR MEDICAL EXPENSE	PERCENTAGE POINT DIFFERENCE (CREDIT CARD DEBT VS. NOT)
18-34	40%	29%	+11 points
35-49	43%	36%	+7 points
50-64	48%	39%	+9 points

Source: Demos 2008 National Household Survey of Credit Card Debt Among Low- and Middle-Income Households.

With the exception of households earning more than $56,000, a similar pattern emerges. In each other income group, indebted families were more likely to have incurred a major medical expense in the last three years than those families without credit card debt. The most dramatic difference — 27 percentage points — was found among families earning $30,000 a year or less.

TABLE 4.
EXPOSURE TO MAJOR MEDICAL EXPENSE BY INCOME GROUP

AMONG HOUSEHOLDS EARNING	% WITH CREDIT CARD DEBT WHO HAVE INCURRED MAJOR MEDICAL EXPENSE IN LAST 3 YEARS	% WITHOUT CREDIT CARD DEBT WHO HAVE INCURRED MAJOR MEDICAL EXPENSE	PERCENTAGE POINT DIFFERENCE (CREDIT CARD DEBT VS. NOT)
$30,000 or Less	52%	25%	+27 points
$30,001 - $42,000	45%	37%	+8 points
$42,001 - $56,000	40%	34%	+6 points
$56,000 or More	40%	45%	- 5 points

Source: Demos 2008 National Household Survey of Credit Card Debt Among Low- and Middle-Income Households.

Endnotes

1. U.S. Census, Statistical Abstract 2009, Average Annual Expenditures of All Consumer Units by Type of Expenditure,Table 662.

2. Board of Governors of the Federal Reserve System, Consumer Credit - G.19. Release November 5, 2010. Department of Labor Statistics

3. Dennis Jacobe. U.S. Underemployment at 18.6% in August. Gallup.com, September 11, 2010

4. Board of Governors of the Federal Reserve System, Flow of Funds Accounts, B.100 Balance Sheet of Households and Nonprofit Organizations (1). December 9, 2010.

5. US Census Bureu, Housing Vacancies and Homeownership (CPS/HVS), Table 14

6. Andrew Haughwout, Richard Peach, and Joseph Tracy The Homeownership Gap Volume 16 Number 5 May 2010 Federal Reserve of New York.

7. Associated Press, "401(k) Hardship Withdrawals, Loans Up,"August 20, 2010.

8. Survey participants were asked: "Which of the following four statements best describe your current and past experiences with credit card debt? 1. You have had a high level of credit card debt for a long time. 2. You have swings in the level of credit card debt. 3. This the first time you have run up your credit card debt to this level, 4. You are keeping some debt to build up your credit score."

9. Based on respondents' self report of undefined "major medical expense."

10. See, for example, Thomas M. Shapiro, The Hidden Cost of Being African American, (New York: Oxford University Press, 2003).

11. Andrew Stetter, Rebecca Smith and Rick McHugh, Changing Workforce, Changing Economy: State Uninsurance Reforms for the 21st Century, National Employment Law Project, 2004.

12. Tamara Draut and Jose Garcia, The Plastic Safety Net: How Households are Coping in a Fragile Economy, Demos, July 2009.

Contact

Media Inquiries:
Dēmos
Tim Rusch, Communications Director
trusch@demos.org
212-389-1407

Dēmos

220 FIFTH AVE., 2ND FLOOR | NEW YORK, NEW YORK 10001 | 212.633.1405

WWW.DEMOS.ORG