Federal Reserve Bank *of* Atlanta

***ECONOMY MATTERS* PODCAST SERIES**

A Conversation about the Health Effects of Delinquent Debt

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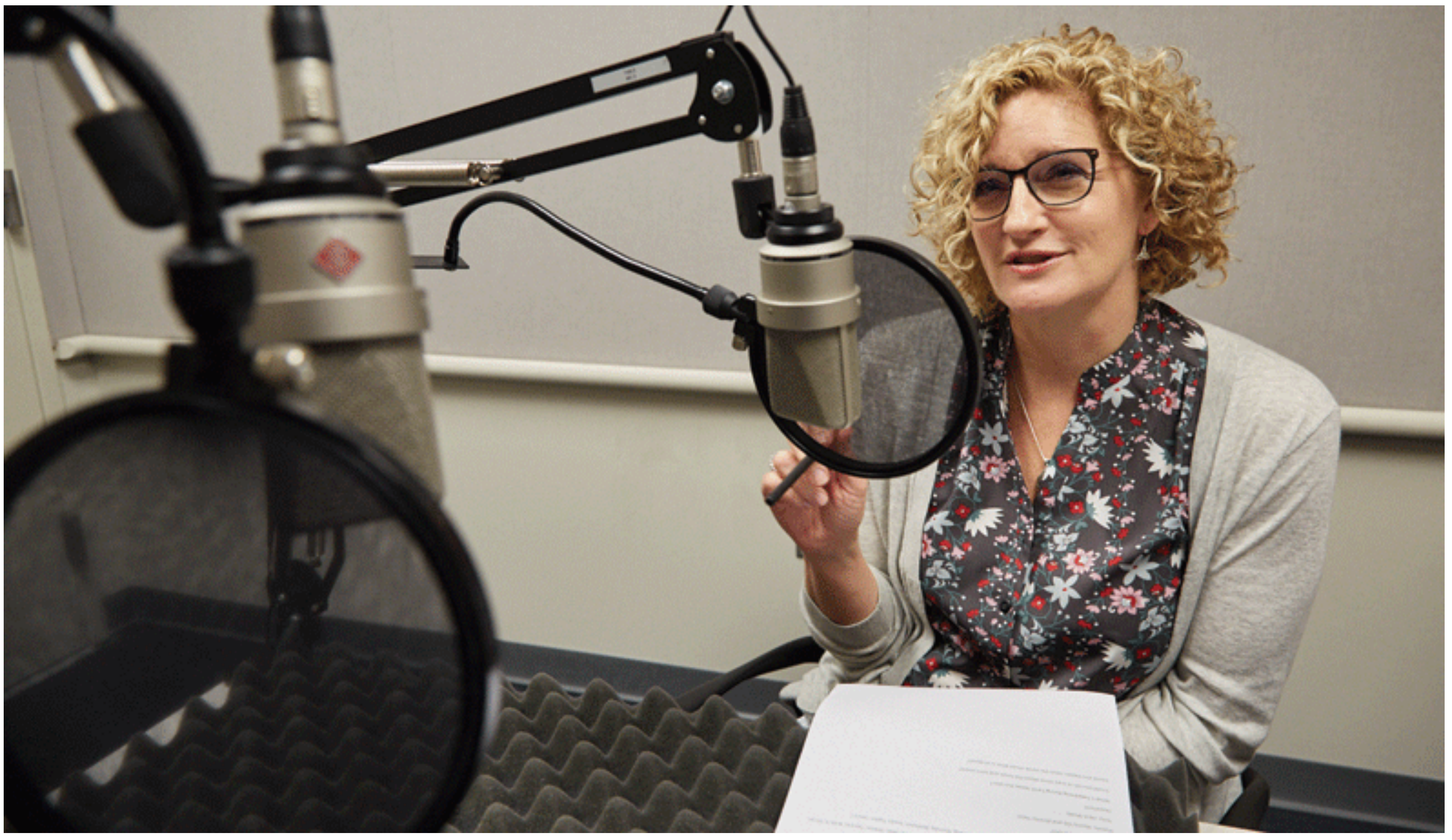
Tom Heintjes: *Welcome to another episode of the* Economy Matters *podcast. I'm Tom Heintjes, managing editor of the Atlanta Fed's* Economy Matters *magazine. Today, we're joined by Melinda Pitts, an economist at the Atlanta Fed and the director of the Atlanta Fed's Center for Human Capital Studies. Melinda coauthored a recent research paper looking at the health effects of a great deal of delinquent debt, and she's agreed to discuss her research with us. Melinda, it's been a while since you were on the podcast—thanks for joining us again.*

Melinda Pitts: Thanks for having me.



Heintjes: *Melinda, let me start by asking you: what persuaded you to tackle this subject?*

Pitts: I got interested in health and the business cycle when a friend of mine, Chris Ruhm, published a paper titled "Are Recessions Good for Your Health?" He found mortality actually declined during recessions. A few years later when I came to the Federal Reserve, this issue obviously took on more importance to me.

There's been a lot of research at the aggregate level, but it's much more difficult to tell an individual-level story about finances and health; so I was really excited to start exploring this issue when individual-level credit data became available to Federal Reserve economists.

Heintjes: *Melinda, I want to clarify that we're not talking about the sort of debt that many, many people carry: some credit card balances or a home mortgage. What kind of debt were you looking at for your research?*

Pitts: The debt that we examine in our paper is debt that has become problematic, so we are looking at debt that is 90 days past due or more, and it's generally referred to as "severely delinquent." And we also look at the individual's credit risk, which is a measure of the probability of an individual's debt becoming severely delinquent in the next 24 months.

Heintjes: *I see. What led you to follow up earlier research in this area with your new research? Oh, and I should also mention your coauthors on this paper: Andrew Friedson and Laura Argys.*

Pitts: I was visiting University of Colorado Denver, where Andrew and Laura are professors, and doing work on a different project with Laura Argys; the three of us were at dinner, I think, and Andrew asked about the credit data that he had seen in some other working papers out of the Chicago Fed. So we got talking about how great it would be to look at the credit panel to see how finances impact health and really do a deeper dive into some of what Chris Ruhm had started. But the only problem is, there's no health data in the CCP. Then at some point, we realized: mortality—death. One way to get debt collectors to leave you alone is to die. And so we figured the credit companies had to know if you had died. So lo and behold, they do collect that data, and it is a part of the dataset. So we were off and running.

Heintjes: *Right. And for those of us who are laypeople: what is CCP?*

Pitts: It's the Consumer Credit Panel, and that is the primary dataset that we use in this paper. It's out of the Federal Reserve Bank of New York's Consumer Credit Panel, which is an individual's credit history provided by Equifax. It's only available to researchers in the Federal Reserve System. It's a nationally representative sample of 5 percent of the U.S. population with credit reports, so it is quite large.

Heintjes: *And I assume it's confidential.*

Pitts: It is very confidential. We cannot identify individuals. It contains rich information on their credit history—everything you'd get from a credit report—but it doesn't contain any identifying information like name, address, gender, or education.

Heintjes: *What does it have?*

Pitts: The key thing it has for us, besides mortality—we do have some general information about where they live, so we can get it down to a little less than a ZIP code level—but it does have great information about all types of loans, credit limits, and if those loans are paid on time or if they're in arrears.

Heintjes: *Right, I can see where that is a great tool. Has delinquent debt always had a negative impact on health, or is this effect exacerbated since the financial crisis, when many homeowners found themselves in some serious financial straits?*

Pitts: Unfortunately, the timeline of our study doesn't really allow us to say anything about the historical perspective, but this line of research is not new. There has been research into stress and debt going back quite a while. It is understandable that it would be stressful to have a lot of debt, especially delinquent debt. But we also have heard that the debt collection process has been shown to exacerbate the stress. There's also concerns that if you're in debt, you're not going to do things to take care of your health, like go to the doctor or take your medication.

Heintjes: *Sure. You know, as you mentioned, other studies have examined the connection between personal finances and health. What does your paper contribute to the literature in this area?*

Pitts: We make several advances in the literature, a lot of it tied to the uniqueness of this dataset. The first is most of the prior studies use aggregate data—averages for a county or a state. If previous studies did have health and credit information at the individual level, it is self-reported data, which has a lot of issues with reliability, especially when you're trying to recall your finances.

We are also able to track the same individuals over time, which is another great addition. And then finally, due to the timing of the financial crisis, we are able to address some of the concerns over the causal relationship between health and finances.

Heintjes: *Let me ask you: what are some of the reasons we could expect a causal relationship between debt—in particular, delinquent debt—and poor health?*

Pitts: There are several stress-related issues that can have negative health outcomes. Stress has been shown to lead to poor nutrition, substance use, and just overall poor mental and physical health. In addition, financial insecurity—as I mentioned earlier—may reduce health care use and adherence to medical treatment plans, which then leads to worsening health.

Heintjes: *Is part of the stress things like phone calls from your debtors? I mean, some of those guys can play rough.*

Pitts: Yes, we think so. In fact, the Consumer Financial Protection Bureau just put out a report on debt collectors, surveying the same people—some of the same people—that are in our data; and they find all sorts of results that point to debt collectors being a large source of stress. For example, over a third of the people contacted by debt collectors were contacted very early in the morning or late at night, which can disrupt sleep patterns, and over a quarter of those contacted report being threatened.

Heintjes: *Oh, goodness. Before, we mentioned the housing crisis. What role if any did it play in your research, and what was its role in affecting people's health?*

Pitts: The housing crisis is really what makes our study work. If you're looking at bad debt and health, and you see more bad debt right before death, it's difficult to tell if that debt caused the death or if hospital bills from the terminal illness caused the debt.

Heintjes: *Kind of a chicken-and-egg situation.*

Pitts: Exactly. That causal relationship we discussed earlier actually could probably go in both directions. So we use the housing crisis, which is unrelated to individual illnesses—outside of its ability to cause bad debt—to home in on debt that wasn't caused by a bad health shock. By knowing exactly where the individuals lived, we can look at people living in the same areas that were hard hit by the housing crisis. This type of financial strain was not caused by poor health, so we can rule out the possibility that ill health caused delinquent debt and death.

Heintjes: *I see. Melinda, your paper makes it clear that there's some sort of connection between macroeconomic policy and the mortality rates of the citizenry, and one of the conclusions in your paper is—and I'm quoting here—"financial policies are health policies." What do you mean by that? Do you think that's always been the case, or is it more pronounced since the housing and financial crisis?*

Pitts: If we establish that debt is a causal factor in people's health, then fiscal and monetary policymakers suddenly become health policymakers as well. Anything that impacts an individual's pocketbook also impacts their life expectancy. So when we as a society are taking on policy to pull out of a recession, we can reduce mortality as well as improve our economic growth.

Now certainly, I don't think this is new. However, the seriousness of the recent Great Recession probably brings it to the forefront and makes it an even more important matter. I don't think this is new, but it has probably become more of an issue since the seriousness of the Great Recession.

Heintjes: *Right; well, it's certainly a topic that many of us can relate to these days. Melinda, I want to thank you for spending some time with us today. This has been a really interesting conversation.*

Pitts: Thanks for having me.

Heintjes: *I want to be sure to note that we have a link to Melinda's paper on our website, frbatlanta.org; the title of the paper is "Killer Debt: The Impact of Debt on Mortality." I hope you'll check it out—it's a really relevant topic that many of us can relate to. And that brings us to the end of another episode of the* Economy Matters *podcast. Thanks for spending some time with us, and I hope you'll join us next time.*

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