

Gender Differences in the Likelihood of Default After Divorce: Does the Source of Income Matter?

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Abstract

Previous research suggests that the rise in household repayment problems has likely occurred at a significantly higher rate for non-married women than for other households. The literature which investigates the economic consequences of divorce provides some plausible explanations (Duncan and Hoffman, 1985; Lyons, 2002b; Smock, 1993; Zagorsky, 2002). These studies find that men and women experience a significant decline in income, wealth, and credit access upon divorce. However, the decline is more severe and long-term for women than for men. Even after five years of divorce, women are still reporting financial holdings well below those when they were married. In contrast, men are reporting levels that are equal to, or more than, the levels they reported when married.

This study uses a series of questions on household repayment problems from the *Panel Study of Income Dynamics* to examine how and why default rates have changed over time by marital status, gender, and source of income. Specifically, we address two questions. First, to what extent are divorced women more likely to have difficulty paying their bills and/or repaying their debts than married households and divorced men? Second, what factors may help to mitigate the likelihood of delinquency and bankruptcy for divorced women?

The results show that divorced women are more likely to default than divorced men and married households. Further analysis reveals that increases in welfare payments decrease the likelihood of default for divorced women. Conversely, welfare payments do not affect the default rates of divorced men and married couples. There is no evidence that child support and alimony affect default. The findings suggest that government assistance may help to mitigate the economic consequences of divorce for women. Since household repayment problems are often a predecessor to bankruptcy, welfare payments may help to prevent some women from filing for bankruptcy.

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