

# Foreclosure and disability: Connections and concern



By [Russ Banham](#)

Russ Banham is a Pulitzer Prize-nominated journalist and author of 26 books on business and management. Posted on May 8, 2018

The American Dream to own a home is under duress from rising foreclosure rates. Although the U.S. economy is certainly better off than in the recessionary period following the financial crisis of 2008-09, home foreclosure filings were up more than 3 percent nationally from January to February in 2016, according to [statistics from RealtyTrac](#). In 2015, lenders foreclosed more than 1.1 million properties across the country.<sup>1</sup>

Why are there still so many foreclosures in this period of apparent economic improvement, reflected in the month-to-month decreases in national unemployment figures? One reason is that many Americans have such tight finances that a mere shortfall of a few hundred dollars can result in an unpaid mortgage.

This point was made clear by a Federal Reserve Board survey published in May, 2015, of American households. The [survey](#) indicates that 47 percent of the respondents could not cover a hypothetical emergency expense costing \$400 without selling something or borrowing money.<sup>2</sup> In other words, half of all American homeowners are living day-to-day, fingers crossed nothing will go wrong. But often times even the best-laid plans, to butcher the poetry of Robert Burns, never go exactly as hoped.

A case in point is the risk of a disabling injury or illness preventing a person from continuing to work. This possibility is of great concern to many working Americans. Nearly 60 percent of respondents to a 2014 [study](#) either “agreed” or “strongly agreed” that there is a risk during their working careers that they would lose their income for an extended period of time.<sup>3</sup> If this were to occur, many homeowners with tight-as-a-drum finances could confront a chance of foreclosure. (**Calculator:** [How a disability would affect my finances?](#))

As Carol Harnett, president of the Council for Disability Awareness (CDA), put it in an interview: “We are all more ill-prepared than we think.”

## Personal bankruptcy blues

There would appear to be two solutions to handle the risk of home foreclosure that can result from disability. One is to save enough money to tide one over during a period of convalescence when the person is unable to work. Another is to buy disability income insurance. Short-term disability insurance reimburses a percentage of a disabled employee’s salary for 13 to 52 weeks after a three to six month waiting period, on average. Long-term disability income insurance extends this duration. ([Learn more about disability income insurance](#))

Let’s look at the savings solution first. The news is not good. Savings rates in the U.S. are a [pittance](#) compared to rates in Europe and much of Asia.<sup>4</sup> Although Americans started tucking away a bit more under the mattress in the aftermath of the 2008-09 financial crisis, this frugality has lessened. In January 2016, the personal savings rate in the United States was 5.40 percent, compared to the average savings rate of 8.35 percent from 1959 to 2016, and a rate of 17 percent in 1975, according to [statistics](#) compiled by U.S. Bureau of Economic Analysis.<sup>5</sup>

Without savings, “few families will be able to invest in a more economically secure future, including buying a home,” [stated](#) Andrea Levere, CFED president, when the study was released in 2012.

That's sobering news for the more than 80 percent of all Americans who still [believe](#) that home ownership is an important part of the American Dream, including 81 percent of those in the youngest generation — Millennials.<sup>6</sup> “We all tend to think we can easily bounce back from financial setbacks, but the truth is otherwise,” Harnett said.

Moreover she pointed to the alarming number of U.S. bankruptcy filings in 2015. More than 900,000 bankruptcy [petitions](#) were filed, of which more than 96 percent were by individuals — not businesses. “The top two reasons that people file for bankruptcy are medical expenses and reduced income,” said Harnett. Affirming her opinion is a 2013 study indicating that medical bills are the [leading](#) cause of personal bankruptcy.<sup>7</sup>

### **Personal income loss**

For most of us, personal income is the foundation of our economic well-being. Ninety-one percent of respondents to a 2014 [study](#) by the Council for Disability Awareness ranked personal income as one of their top five concerns, with 67 percent ranking it in the top three. In both cases, the person's health was the only concern ranked higher.<sup>8</sup>

The challenge is that personal income fluctuates, rising and falling quite a bit. That's one of several eye-opening [findings](#) from the book “Chasing the American Dream” by Mark Rank, Thomas Hirschl and Kirk Foster. More than three-quarters of Americans actually earn a six-figure household income for at least one year, but only one-third manages this sum over the course of a decade.<sup>9</sup>

The upshot: Good news (of the economic sort) lasts only so long. “Temporary moments of affluence influence us to believe we are invulnerable,” Harnett said. She advised readers to examine how their earnings have evolved over the entirety of their adult lives, rather than look at their income in a given year. “There will be years where you get a great bonus and lots of paid overtime and years where you're sick and can't work,” she explained. “Bad stuff happens. That's reality.”

Regrettably, many people are conditioned to believe that bad stuff won't happen to them, and if it does the impact will be minimal. It's just basic human behavior, what scientists [call](#) the “optimism bias.” We tend to be hardwired for hope.<sup>10</sup>

Harnett said she fits this profile. Confident, athletic, driven and successful, she focuses on the positive. Last July, she learned just how vulnerable she actually is. “I was in Portland leaving a conference and was crossing the street with a green light and was hit by a driver,” she said. “The driver made an illegal turn and said he didn't see me. That's doubtful; I'm 6-feet-2 inches tall with red hair and was wearing an orange scarf.”

Harnett suffered serious sprains, a concussion and nagging tinnitus that continues. She was fortunate her injuries were not worse. The following day she delivered the keynote address at the conference in a wheelchair. “I was very lucky; someone else older or in worse physical shape could have been out of work for a long time,” she said.

The costs of a person's absence from work and consequent loss of income is covered by Social Security Insurance, but only if the person is disabled for a period of at least five months. The disability also must be expected to last at least one year and the disabled individual must be unemployable at any occupation, not just the prior line of work.

### **Disability income insurance**

With individual savings not likely to address the risk of a foreclosure for many Americans, this leaves disability income protection insurance as the next option.

Fortunately, many employers offer the insurance on a group basis to employees at extremely affordable premiums, as little as \$500 a year in some cases.

The only potential downside to the short-term and long-term group insurance is that the policies generally only pay financial benefits up to two-thirds of the employee's previous salary level.

Still, this is money that otherwise would not be available. And there is often the option for the employee to supplement the employer-provided disability income insurance with additional protection that increases the benefit closer to the actual salary the person previously had. And outside of employer offerings, there is the ability to

privately buy disability income insurance. (Disability income insurance policies have exclusions and limitations. For costs and complete details of coverage, talk to your insurance representative).

Some would argue, given the statistical connection between foreclosure and medical problems, disability income protection insurance should be as routine a purchase as homeowner's insurance. After all, both policies help protect the American Dream.

---

1 Realtytrac Press Release, "Nearly 1.1 Million U.S. Properties with Foreclosure Filings in 2015," Jan. 12, 2016.

2 Federal Reserve Board, "Report on the Economic Well-Being of U.S. Households in 2014," May 2015.

3 "America's Income Protection Picture." Council for Disability Awareness, June 2014.

4 Fiscal Times, "Americans' Low Savings Rate A Bad Sign for Good Economy," April 26, 2015.

5 United States Personal Savings Rate 1859-2016. Trading Economics January 2016.

6 Merrill Lynch, "America's Longevity Bonus," November 2015.

7 NerdWallet. Medical Bankruptcy accounts for majority of personal bankruptcies. June 2013.

8 "America's Income Protection Picture." Council for Disability Awareness. June 2104.

9 Cornell University. Cornell Chronicle. "Hirsch's 'Chasing the American Dream Impels Virtuous Cycle.' " April 2014.

10 Time. The Optimism Bias. May 28, 2011.