First-of-its-kind study finds parental debt affects children's socioemotional well-being

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Certain types of debt that parents take on may have adverse effects on children's socioemotional well-being according to a new study by researchers at the University of Wisconsin at Madison and Dartmouth published by the journal *Pediatrics*. The study sheds new light on the link between debt and family well-being, as previous research on debt has typically focused on how debt affects the mental health and well-being of adults and has yet to explore how parents' debt may impact a child's well-being. (Pls note: The journal link will not be live until 1/21/16 at 12:01 am. A pdf of the study/journal article is available upon request).

According to the findings, children who had parents with higher levels of home mortgage and student debt had a greater socioemotional well-being with fewer behavioral problems than children whose parents have less mortgage and student loan debt. The results indicate that children may benefit from an environment in which their parents own a home and/or have higher levels of education. Yet, children with parents that had either higher levels of or increases in unsecured debt (credit card or other types of debt that is not tied to an asset, such as medical debt and payday loans) were likely to experience poorer socioemotional well-being. High levels of unsecured debt may create stress or anxiety for parents, which may hinder their ability to exhibit good parenting behaviors, and subsequently affect the well-being of their child or children.

The study was led by Lawrence M. Berger, director of the Institute for Research on Poverty and professor and doctoral program chair in the School of Social Work at the University of Wisconsin-Madison, and Jason N. Houle, assistant professor of sociology at Dartmouth.

'It makes intuitive sense that debt that can help you improve your social status in life and make investments— taking on student loans to go to college or taking on a mortgage to buy a home might lead to better outcomes, while taking on debt that is not tied to these investments (such as credit card debt), may be more harmful. That is indeed what we find. Overall, our findings support the narrative that debt is a "double-edged sword," as my colleague at Ohio State University, Rachel Dwyer, puts it. Debt can bridge the gap between your family's immediate economic resources and the costs of goods and therefore can be a valuable resource but at the end of the day, it has to be repaid with interest and sometimes with a great deal of interest when it comes to unsecured debt,' explained Houle.

Based on population-based longitudinal data from the National Longitudinal Study of Youth 1979 and Children of the NLSY-79, researchers studied over 9,000 children (ages 5 to 14) and their mothers annually or biennially from 1986 to 2008 through over 29,000 childrenyear observations.

To measure the socioemotional well-being of children, the study looked at a child's total score on the Behaviorial Problems Index (BPI), a set of 28 questions to mothers that looks at the frequency and severity of child behavior for children ages four and over; the total score was age standardized in 3-month intervals to have a mean of 0 and a standard deviation (SD) score of 1.

The study measures the total personal debt that a parent may have that was not incurred from having a business, including: home debt (mortage or home equity loans); education debt (student loans); auto debt (loans to buy a vehicle); and unsecured debt, such as credit card debt, medical debt, payday loans and other types of debt not tied to an asset.

An important strength of the study is that it compares the same families over time, and examines how children's behavioral problems change as their parents plunge into and out of debt over the course of their childhood, rather than comparing different families that have varying levels of debt at a single point in time.

Houle notes, 'Most of the time in the social sciences, for a question like this, we'll use survey data and statistical analyses to make comparisons. If we're interested in how debt is linked to child well-being, we'll compare children in families that have lots of debt, to families that have less debt. If children in those families that have lots of debt are doing worse than the kids in the families with less debt, we might say that debt could be an explanation why. A problem with this traditional analysis is that we're comparing different families (what we would call a "between-family" comparison), and families are different for lots of reasons—correlation is not causation, as they say. What we do in this study is a bit different. That is, we follow the same families over time and essentially ask: what happens to children in families as their parents take on (or discharge) debt over time. Thus, we're fundamentally making a "within-family" comparison. Instead of comparing different families to one another, we're comparing families to themselves over time. This is by no means a perfect solution to the "correlation is not causation" problem but it can make for a more compelling case and suggests that if a family takes on a great deal of unsecured debt, their children may feel the consequences of that debt.'

Results indicated the following:

* Children whose parents have any debt on average had greater socioemotional well-being with 0.21 SDs fewer behavioral problems.

* Children whose parents have unsecured debt had 0.12 SDs more behavior problems than those with any unsecured debt. Parents with any unsecured debt in the study owed an average total of $10,000 in unsecured debt and had greater levels of total, education, and auto debt but less home debt than those with no unsecured debt, indicating that more advantaged individuals were likely to take on more debt given that they had greater access to credit.

* If parents had $5,000 in unsecured debt and that figure was to be increased to the average in the sample of $10,000 in unsecured debt, this results in a 0.5 SD increase in child behavior problems, a substantial impact on child well-being.

According to the Federal Reserve Bank of New York's Household Debt and Credit Report, as of September 30, 2015, for the third quarter of 2015, total household debt was $12.07 trillion. With the cost of living today combined with the deregulation of financial policies that may have perpetuated the rise in debt, some families today are taking on high levels of unsecured debt to help make ends meet without realizing the impact that this may have on their children's well-being. The findings present an opportunity to educate families about the risks that may be associated with taking on high levels of unsecured debt.

"I think it is common to assume that those who are struggling with debt are those who have made poor financial decisions or are irresponsible but the research shows that the reality is quite different," said Houle. "For those who are taking on a lot of credit card debt, or are buried in medical debt, or have payday loans— for many, it's the only choice they have. In an era where wages have stagnated and costs have risen but credit has become more readily available (due in large part to financial deregulatory policies at the state and federal level over the past three decades), families are going into debt to help make ends meet and keep their head above water. Fundamentally, if we're worried about the positives and negatives of debt, we should ask: 1) how all of this credit became available in the first place; and 2) why families are borrowing. However, at a more immediate level, if some forms debt are stressful for families and their children, we might ask how we can alleviate some of that stress. While it is beyond the scope of this study, others have pointed towards financial counseling or financial education as potential short-term solutions. In the confines of a pediatrician's office, a referral to one of these services may help in the short-term, but it doesn't solve the larger, structural issues."

More information: Study paper: http://pediatrics.aappublications.org/cgi/doi/10.1542/peds.2015-3059

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