

**Borrowing to Cope with Adverse Health Events:
Liquidity Constraints and Unsecured Debt**

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Abstract

The growing costs of healthcare imply that the onset of an adverse health condition has an important negative effect on households' financial well being. Typically, families insure against unexpected healthcare costs by purchasing health insurance or by accumulating precautionary wealth. The unsecured credit market also serves as a potential mechanism of intertemporal transfers of income in times of financial hardship caused by health adversities. The ability to borrow is particularly important to households with low financial assets. Although low financial assets have been previously reported to characterize households particularly likely to face borrowing constraints, improvements in accessibility and generosity of credit markets can mitigate the borrowing constraints. Using panel data collected under the Health and Retirement Study, this research finds that the onset of an adverse health condition results in an average of 9 percent increase of unsecured debt. This effect is not uniform across households with different amounts of financial assets. Households in the bottom quartile of financial assets borrow considerably more than households with above median financial asset holding.

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