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Bankruptcy filings are on the rise. Here's why an even bigger surge is looming.

The number of total bankruptcy filings reached about 453,000 last year after having been around 388,000 annually in the years immediately following the onset of the pandemic.

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Bankruptcies are on the rise as pandemic-related relief measures come to an end and higher interest rates push business owners over the edge.

Bankruptcy filings of all types peaked at around 1.6 million in 2010, during the height of the Great Recession, and plateaued at around 774,000 annually in the years leading up to the Covid-19 pandemic. In the subsequent years, with a host of relief programs for individuals, families and businesses taking effect, the number of annual filings slid to about 388,000, according to data from the Administrative Office of the U.S. Courts on behalf of the Federal Judiciary. That number increased to about 453,000 last year, and experts expect it will continue to rise in the months and years to come.

During the height of the pandemic, many Americans received relief payments from the federal government – either in the form of stimulus checks or an expanded child tax credit. People with student loans saw their payments and interest rates freeze.

Eric Kurtzman, CEO at Stretto, a bankruptcy services and technology firm, said while Americans benefited from those and other relief measures, that same combination of forces led to a hot economy that pushed the Federal Reserve to raise interest rates.

"We had a great couple years as an economy," Kurtzman said. "What didn't happen during that time was any kind of financial lessons. It's not like our country got a group class on how to be financially solvent and mature."

Now, with interest rates higher, people and businesses that didn't lock in low rates on mortgages or other debt are seeing the impact of rising rates, and many are finding themselves unable to handle obligations that had been temporarily forestalled during the pandemic.

"We are still nowhere near a normal year of bankruptcy filings," Kurtzman said. "We've got quite a bit of growing to do before we reach a normal year. We are going to see a larger than normal year come before it starts to decelerate. It may take us two years to get there."

Debt and loan-delinquency rates increase

In the wake of the pandemic, the lineup of federal support programs made available to business owners included the Paycheck Protection Program, the Shuttered Venue Operators Grant program and the Employee Retention Credit program. Those and other relief programs likely kept many small businesses solvent that wouldn't have survived the pandemic years without the support, Kurtzman said, but the programs also kept afloat a number of businesses that would have shuttered even without the pandemic – creating a sort of time-delayed bankruptcy backlog that's emerging now.

Total household debt rose by $212 billion in the fourth quarter of 2023, continuing an upward trajectory that began in about 2011, according to data from the Federal Reserve. Loan-delinquency rates continue to rise, as well, with 3.1% of that debt in some stage of delinquency, and credit card balances and auto loans seeing the largest annual delinquency increases. About 1.42% of all debt was at least 90 days delinquent as of the end of 2023, up from 1.03% at the end of 2022.

Jessika Arce Graham, a partner at Weiss Serota Helfman Cole & Bierman, said many corporate clients prefer out-of-court restructurings over formal insolvencies. However, since interest rates are higher and cheaper financing is no longer available, many business owners may have exhausted their funding and will have no choice but to file for bankruptcy going forward.

"We will continue to see a steady rise in bankruptcies across all chapters in the coming years as both businesses and individuals grapple with debt, inflation and high interest rates," Graham said in an email.

More bankruptcy filings for bigger companies

Larger companies already are seeing a substantial surge in bankruptcy filings, according to data from S&P Global Market Intelligence, which tracked bankruptcies for public companies and for private companies with either public debt of more than $2 million or with assets or liabilities above $10 million.

By that metric, bankruptcies hit 642 in 2023, the highest annual mark since 2010 and far above the 372 recorded in 2022.

Scott Stuart, CEO of Turnaround Management Association, said it's not guaranteed that bankruptcies will return to pre-pandemic levels, as a potential recession appears to have been avoided in favor of a "soft landing" for the economy, and indicators point to a better road ahead.

However, companies that were in poor shape before the pandemic or were surviving on low-interest loans and government assistance won't be able to do so in the years to come, Stuart said.

"As we continue to be in a period of unsettledness where cost of money remains high and business stresses can no longer be masked by stimulus money or low-cost, covenant-lite loans, we are 'cleaning house' by seeing the realities of long-troubled business rise to the surface," Stuart said in an email. "That and normal sector volatility are driving this current cycle."

Americans in general are not currently happy with their state of finances. A new ASA Workforce Monitor study from the American Staffing Association and The Harris Poll found that 53% of respondents said their paychecks were not keeping up with inflation. Additionally, 38% said their overall financial situation was more stressful than it was a year ago.

"The data may project a soft landing for the economy, but the bank accounts of America's workers are telling a different story," said ASA CEO Richard Wahlquist, in a statement with the poll results. "U.S. workers are stressed about the adequacy of their paychecks and their ability to save for their future."

The results come at a time when inflation has fallen from its pandemic-era high. In 2021, annual inflation was about 7%, declining to 6.5% in 2022 and 3.2% in 2023, according to the Labor Department. At the same time, according to the Bureau of Economic Analysis, wages on average grew 6.7% in 2023 compared to the year before, up from a 5% annual growth rate seen in 2022. Those wage-growth rates are higher than the rates seen before the pandemic, and experts say wage growth likely will remain at a pace that's at least slightly elevated over pre-pandemic levels.