

Let's Work  
**TOGETHER**

We stand with schools and students to conquer loan anxiety, delinquency, and default.

A Little Nudge Goes a Long Way:  
Helping Students Help Themselves

# Speakers



**Carissa Uhlman**  
Vice President of Student Success  
Inceptia



**Phil Schuman**  
Director of Financial Literacy  
Indiana University

# Agenda

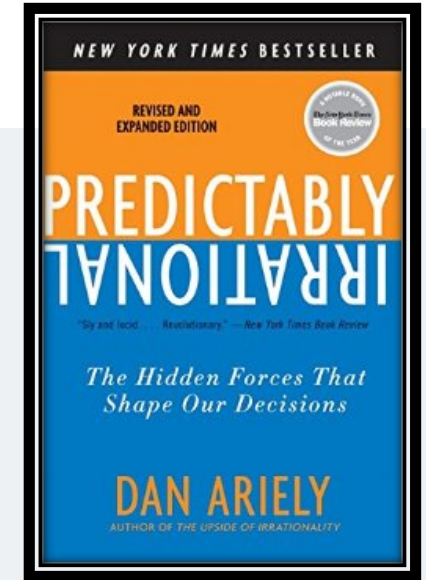
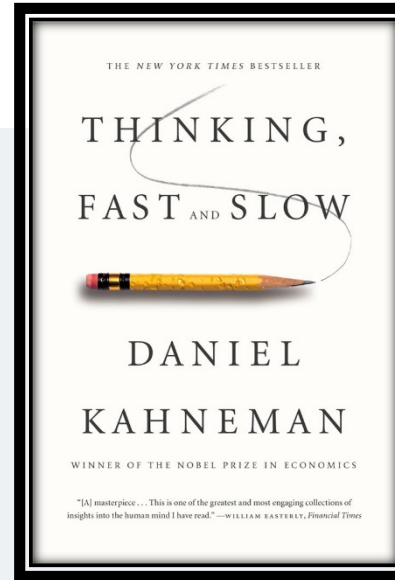
- Behavioral Finance and Nudge Theory
- Nudging in Higher Education
- Nudging at Indiana University
- Recap and Q & A

# Behavioral Finance and Nudge Theory

# If You Want to Geek Out

## “Thinking Fast and Slow”

Daniel Kahneman

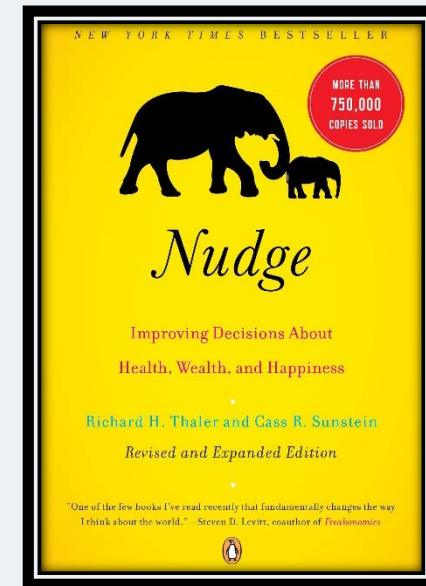


## “Predictably Irrational”

Dan Ariely

## “Nudge: Improving Decisions About Health, Wealth, and Happiness”

Richard Thaler & Cass Sunstein



# Common Thread

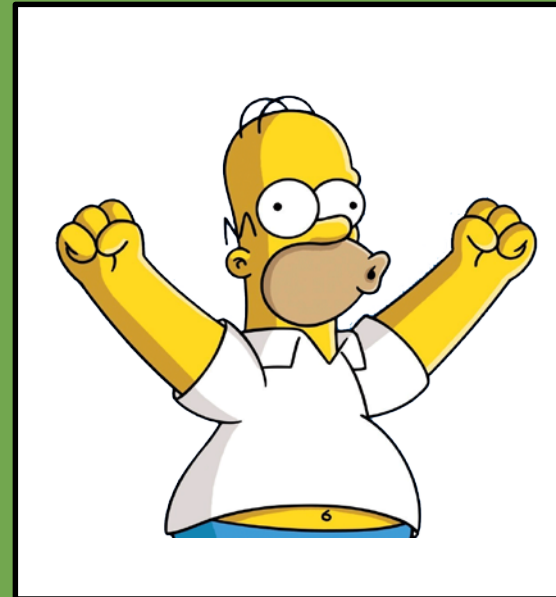
- Ridiculously expensive suit that I wore once!
- I bought an iPod Shuffle when I already own an iPod Classic and an iPod Touch
- Exercise machine
- Overpriced antique wall sconces...they still sit in my storage room
- Front row concert tickets
- Name brand kids shoes
- New car – should have bought used!
- A new stove to match my new fridge when the old one was working just fine - still paying for it
- Keeping our first house after buying a new one, and carrying two mortgages
- My marriage

# Welcome to Behavioral Finance

Econs vs. Humans



©2010-2018 Koriin-hime



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# Econs vs. Humans

## Econs

- Rational decision makers
- Ruled by optimization
- Create the basis for classical “Economics”



© CBS



# Econs vs. Humans

## Humans

- Flawed decision makers
- Use mental shortcuts to make decisions (heuristics)
- Possible donut addiction



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# Humans & Their Heuristics

## Anchoring

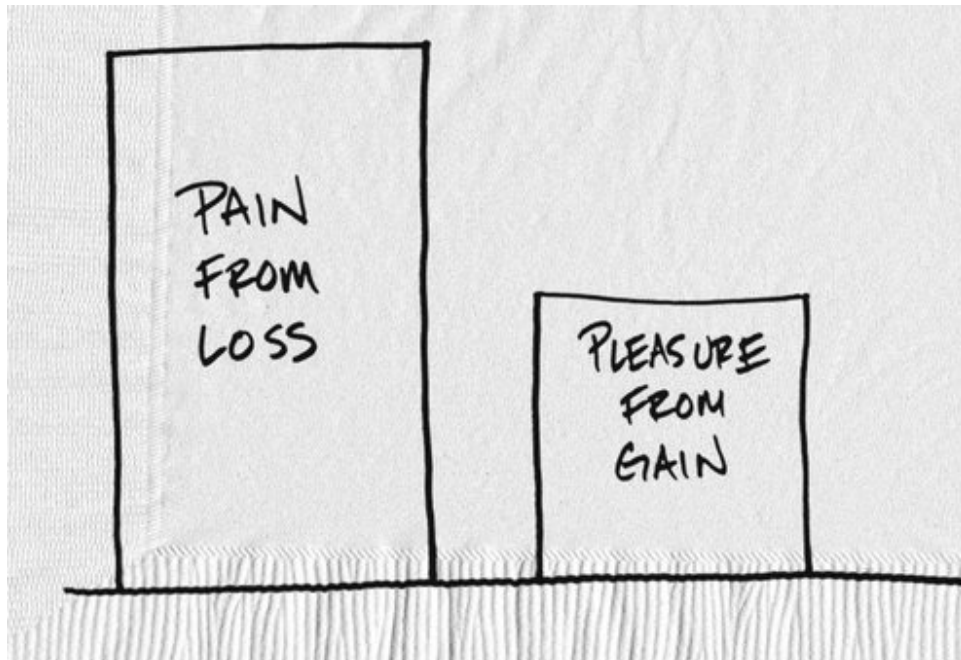


## Framing

Would you rather have a 10% chance of mortality, or a 90% chance of survival?

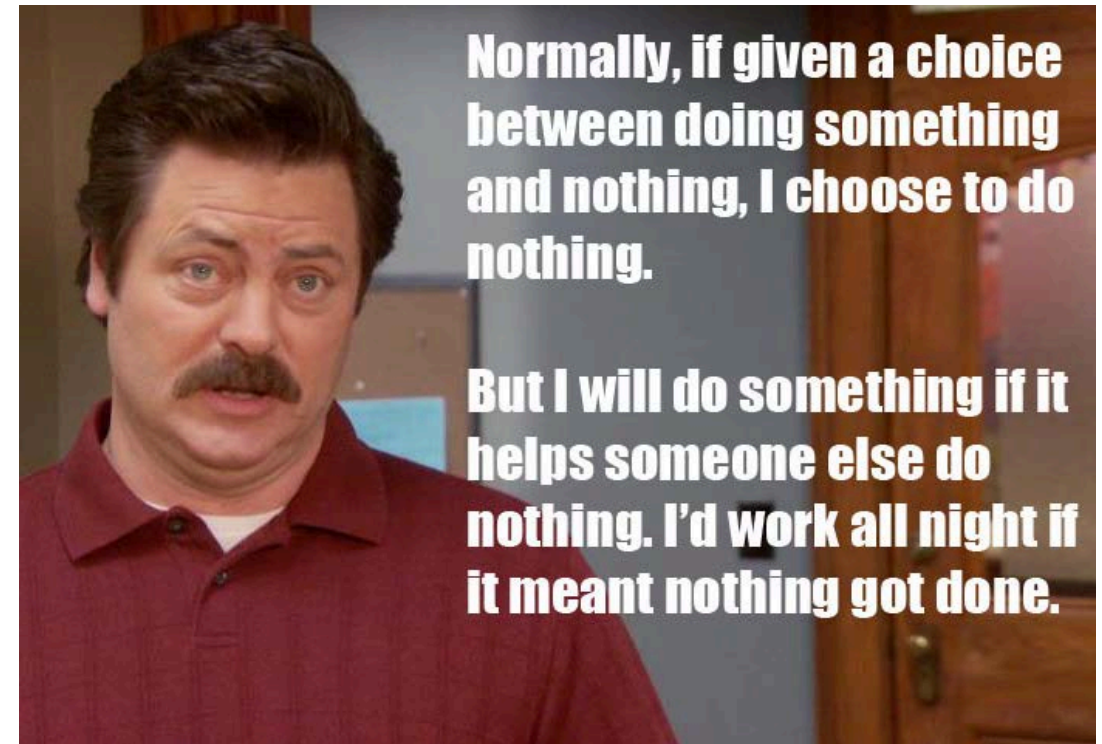
# Humans & Their Heuristics

## Loss Aversion



© Behavior Gap

## Status Quo Bias or Inertia



© NBC

# This is why we need nudges!

- Homer is usually in control
- Too many choices
- We're not experts



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# This is why we need nudges!

“A **nudge**, as we will use the term, is any aspect of the **choice architecture** that alters people’s behavior in a predictable way **without forbidding any options** or significantly changing their economic incentives. To count as a mere nudge, the intervention must be easy and cheap to avoid.”

- *Thaler & Sunstein 2008, p. 6*

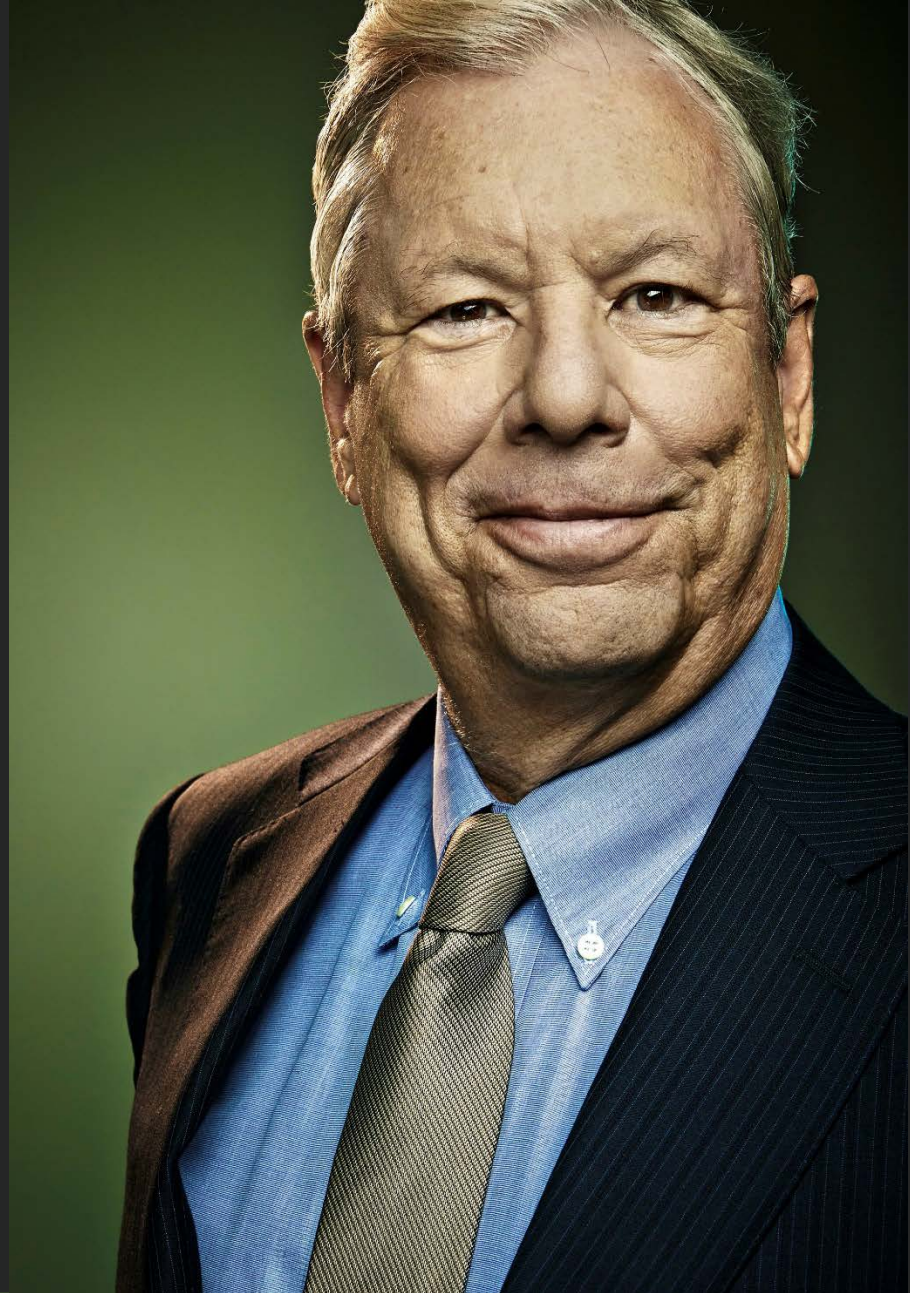
Do we have any  
choice architects  
with us today?

# Choice Architects

“If anything you do influences the way people choose, then you are a choice architect.”

Richard Thaler

© Matt Furman

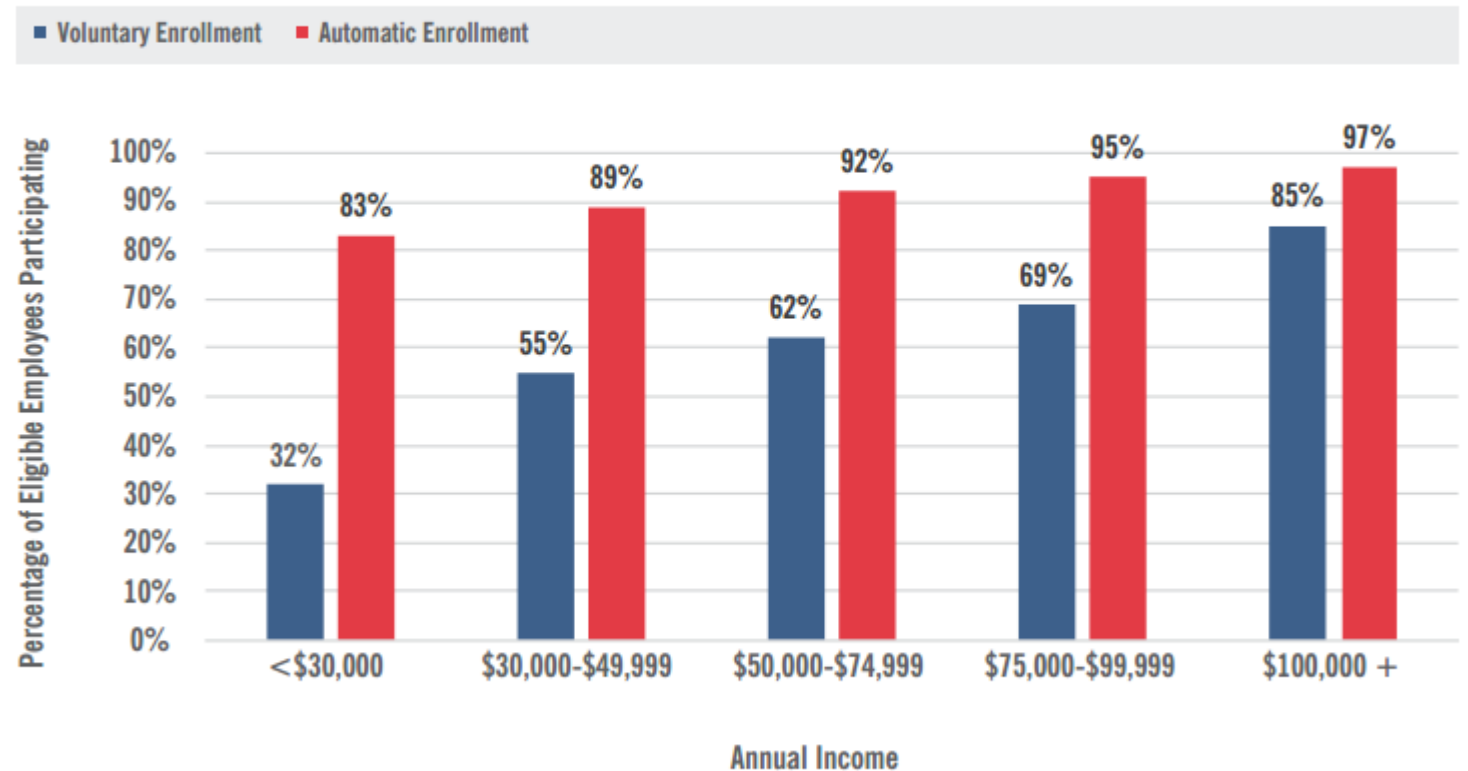


# Choice Architecture in Action

- Functional spaces
- Cafeteria
- Urinals (yes, urinals!)
- Retirement planning

Figure 19. Workers Are More Likely to Participate With Automatic Enrollment

Participation rates, by plan design and income.



Source: Vanguard<sup>164</sup>



# So, how do I nudge?

iNcentives

Establish 'what's in it for me'

Understand Mappings

See how they see

Defaults

Take advantage of status quo/inertia

Give feedback

Let them know how they're doing

Expect error

Plan for Homer Simpson

Structure complex choices

Create bite-size pieces

Source: Nudge, Thaler & Sunstein

# Ethics of Nudge Theory

- Nudges already exist
- Choice architecture is inherent
- Do no harm

Nudges are most helpful when:

- Decisions require **expertise**
- Decisions are not **routine**
- When **feedback** is not immediate
- **Immediate payoff** with uncertain future costs

**\*\*Very Applicable To Financial Education\*\***

# Nefarious Nudges



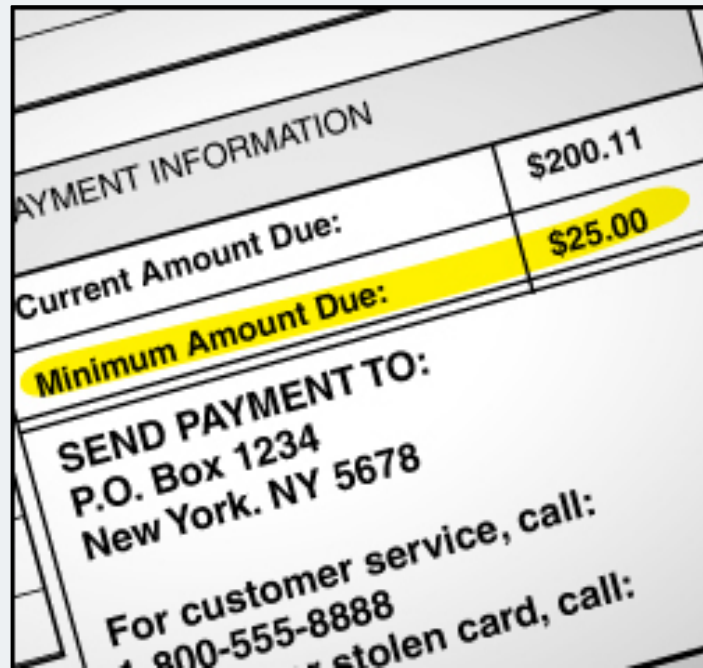
The screenshot shows the Amazon.com homepage with several nudges highlighted by red circles and text annotations:

- Free shipping!**: A red circle highlights the Amazon Prime logo in the top left navigation bar.
- My name!**: A red circle highlights the user's name "Janet Aronica Client" in the top right navigation bar.
- I clicked on this from a fitness blog, yesterday**: A red circle highlights the "Related to Items You've Viewed" section, which displays a row of GNC Puredge Energy and Protein supplements.
- I watch chick flicks...**: A red circle highlights the "New For You" section, which displays a row of movies, including "The Other Woman".
- Shoes! They know I love shoes.**: A red circle highlights the "Best Sellers" section, which displays a list of women's sandals.

Source: <https://www.klaviyo.com/blog/5-email-marketing-lessons-from-amazon>

# Nefarious Nudges

## Credit card minimum payments



## Mortgages

Teaser rates

(Anchoring)

Complex and jargon-filled

(Inertia)

APR vs. lifetime interest

(Framing)

# Nudges for Good

## Credit Cards

Nudge through informing

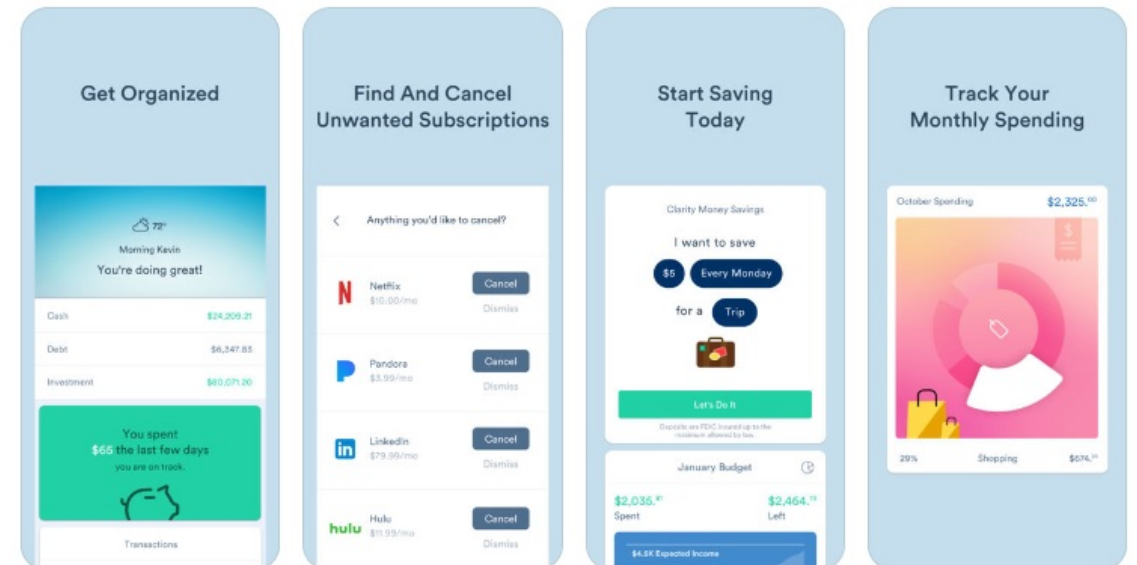
<b>If you make no additional charges using this card and each month you pay...</b>	<b>You will pay off the balance shown on this statement in about...</b>	<b>And you will end up paying an estimated total of...</b>
Only the minimum payment	11 years	\$4,745
\$103	3 years	\$3,712 (Savings = \$1,033)

Source: Federal Reserve Board:

[http://www.federalreserve.gov/consumerinfo/wyntk\\_creditcardrules.htm](http://www.federalreserve.gov/consumerinfo/wyntk_creditcardrules.htm)

## Personal Finance Apps

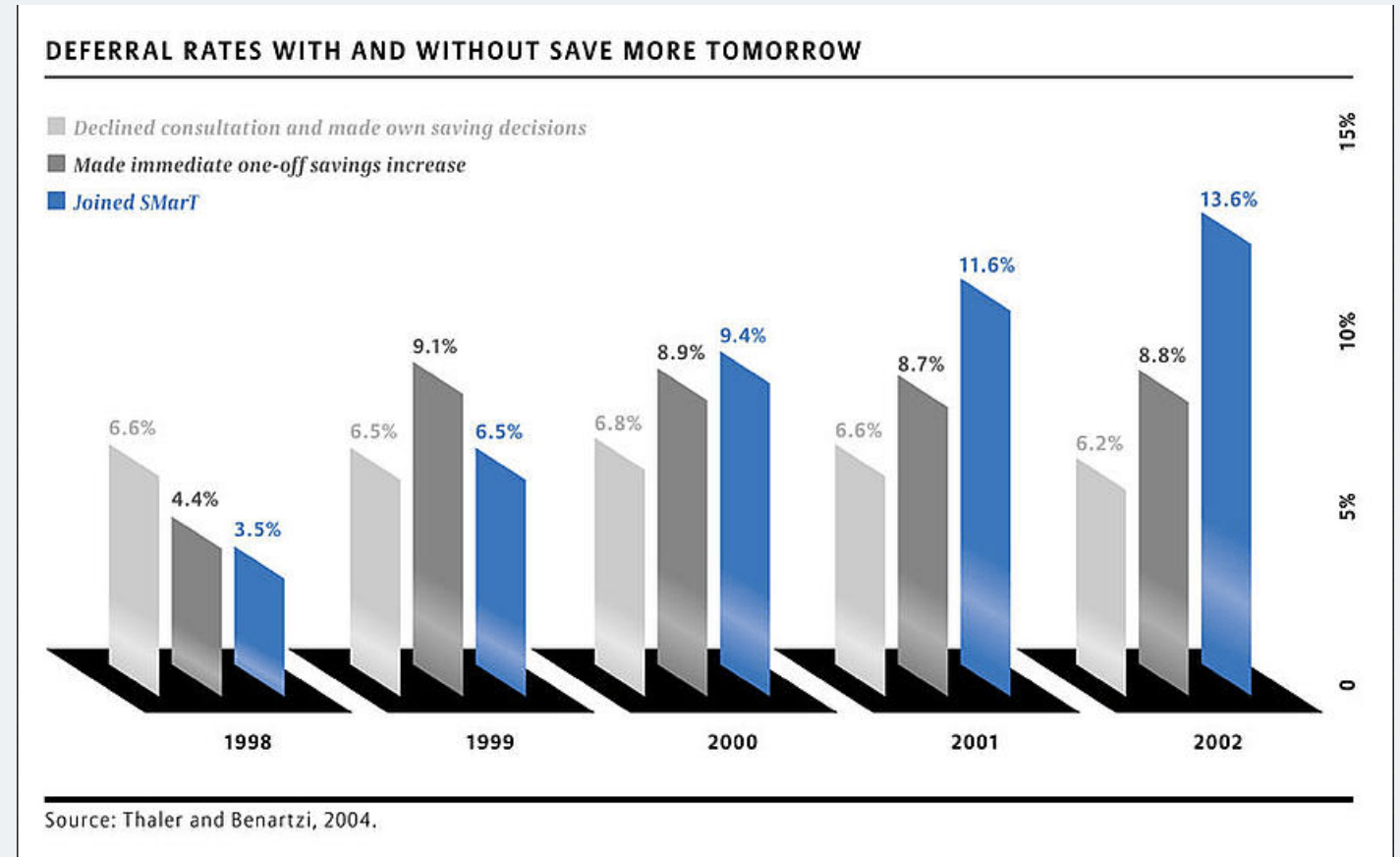
Nudge through reinforcement



# Nudges for Good

## Save More Tomorrow

- No action today
- Gradual annual increases that coincide with raises
- Pre-determined maximum increase



# Nudge Theory In Higher Education

# Students

- Heuristics run amok!
- Prime candidates based on our previous criteria:
  - Decisions require **expertise**
  - Decisions are not **routine**
  - **Feedback** is not immediate
  - **Immediate payoff** with uncertain future costs



# Administration

- Lead to positive behavior change in students and improved wellness
- Solutions can be low-cost if desired
- Nudges aren't overbearing and can be seen as guides

# Nudging at Indiana University

# Indiana University Affordability Initiative

- Focus on putting tools together to help students lessen financial burden
  - Changes to financial aid business processes
  - Focus on degree completion (finish in 4)
  - Get students to make smart financial decisions through education
- Launched in 2012, along with the Office of Financial Literacy/IU MoneySmarts
- \$112.8 million (17%) reduction in student debt since 2012



# Indiana University Debt Letter

- Focus groups: students don't know how much/if they've borrowed
- Provide estimated monthly payments upon graduation
- Encourages evaluation of borrowing levels
- Lead to smarter borrowing decisions

<https://bit.ly/2KeS60L>

James Kennedy  
1111 Indiana Street  
Bloomington, IN 47405

Dear James:

This is a personalized summary of your estimated current student loan indebtedness. This information is being provided to you *before* you take on additional debt for the upcoming academic year. We encourage you to make use of the academic and financial planning resources suggested here (see other side) to minimize future borrowing while you complete your degree at Indiana University.

**Estimate of Your Total Education Loans:** \$12,000

\*See the "Important Information" section on the other side of this letter regarding all loan estimates.

## Interest Rates

Student loan interest rates vary based on when you borrowed and the loan type. Calculations in this letter are estimated at 6.8%

## Estimated Monthly Payment – All Loans

Total Education Loans:	\$12,000
Standard Repayment Term:	10 years
Assumed Interest Rate:	6.8%
Monthly Payment:	\$138.10
Cumulative Payments:	\$16,571.38
Projected Interest Paid:	\$ 4,571.38

## Federal Stafford Loans

The Federal Stafford Loan program provides the majority of funds for IU students. The total you have borrowed from this program, including both subsidized and unsubsidized loans, is \$10,000

The maximum you may borrow for your dependency status and degree objective is \$31,000

You have borrowed 32% of your current limit.

## Other Education Loans

The estimated total of your education loans includes amounts below, based on Indiana University's records about your borrowing history:

Federal Perkins Loans:	\$2,000
Private Loans Certified at IU:	\$0
Other Loans Certified at IU:	\$0
(May include Grad PLUS and Federal Health Profession Loans)	



# Indiana University Student Cost Calculator

- Provide students with a better estimation of their college expenses
- Let students see the effect of a financial decision – in real time
- Lead them to making smarter, more informed decisions

The screenshot shows the MoneySmarts website interface. At the top, the Indiana University logo and name are visible. The main navigation includes 'ABOUT', 'CONSULT AN EXPERT', 'GET MONEY SMART', 'CALCULATE YOUR COSTS' (which is underlined), 'TAKE A COURSE', and 'CONTACT'. Below this, there are tabs for 'Tuition and Fees', 'Housing' (which is selected), 'Transportation', 'Food', 'Funding', and 'Personal Expense'. The 'Housing' section is active, showing options for 'on campus' (unchecked) and 'off campus' (checked). A dropdown menu for 'Where are you living?' is set to 'Apartment'. A note states: 'Average annual price is \$9,250. Price could increase or decrease based on chosen apartment. View housing totals [here](#).' Three sliders are shown, each set to '\$1,467': 'Monthly Rent' (with a note 'maybe consider roommates'), 'Utilities', and 'Furnishing'. On the right, a summary box displays 'Total Monthly Cost \$2,000'. Below this is a list of categories with their respective costs: 'Tuition and Fees' (checked, XXXX), 'Housing' (selected, XXXX), 'Transportation' (XXXX), 'Food' (XXXX), 'Funding' (+XXXX), and 'Personal Expenses' (XXXX). A 'Monthly Total' of 20,000 and a 'Yearly Total' of 300,000 are shown. A button asks 'Overwhelmed? Make an appointment with us.' with a calendar icon. At the bottom right, there are social media icons for Twitter, Facebook, Instagram, and a '3+' icon. The footer contains the Indiana University logo and name, the slogan 'FULFILLING the PROMISE', and copyright information: 'Copyright © 2017 The Trustees of Indiana University | Privacy Notice | Accessibility'.



# MoneySmarts U Score

- We hate credit scores for students
- We wanted a way to measure student financial progress while in school
- 10 questions that students can track year to year

**MONEY**  
**SMART\$ U**




# Final Thoughts

# What have we learned?

- We are ALL choice architects
- We must not use our powers for evil
- Nudge theory is a perfect fit for financial literacy because most:
  - Decisions require **expertise**
  - Decisions are not **routine**
  - Situations do not provide immediate **feedback**
  - **Immediate payoff** items have uncertain future costs



# Nudge Planning Resources

**Nudge Theory Planning Guide**  A DIVISION OF NSLP

Nudge Theory is the practice of using helpful "nudges" to make complicated decisions less complicated. By using nudges in an ethical manner, we can use our expertise to help guide others to make optimal choices, while still allowing them the freedom to arrive at their own decisions.

This guide provides you with a framework, tips, and resources to effectively incorporate nudges into your own educational programs or student communications.

**Remember Nudge Theory Principles**

- Does not forbid options
- Intervention must be easy
- Does not change economic incentives
- Intervention must be cheap to avoid

Nudges are most helpful when:

Decisions require expertise → Decisions are not routine → Feedback is delayed → Immediate payoff, uncertain costs

**Know Your Heuristics**

Heuristic Name	Definition	How to Combat
	Using known	Give the audience <b>factual comparisons</b> and references that are <b>relevant</b> to them. Publicize statistics and facts about things

**Utilize the Decision Map Checklist**

**PROPERTIES OF THE DECISION**

1. Is the decision important to the individual or does it receive little attention?
2. What moments or events motivate an individual to act on the decision?
3. Is this an active or an automatic, passive choice?
4. How many options are available? What is the default option if an individual decides to do nothing?
5. Is feedback available and is it received immediately?
6. What are the incentives? Which ones are most prominent, which ones are not?
7. What are the associated costs (financial, social, psychological)?

**INFORMATION SOURCES**

1. What knowledge or expertise is needed to make a decision?
2. How is information or knowledge communicated to the individual?

<http://bit.ly/InceptiaNudgePlan>



# Nudge Planning Resources

- “A Practitioner’s Guide to Nudging”
- “Nudge Theory Toolkit”
- ideas42
- Common Cents Lab

<http://bit.ly/1gf3K8f>

<http://bit.ly/1PBJHSM>

[Ideas42.org](http://Ideas42.org)

<http://bit.ly/2n0CndW>

# Questions



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How do you plan to use nudges?

## **How are the formulas generated into the debt letter?**

Phil: We base everything off a standard 10-year repayment plan and then use an interest rate that financial aid determines to be a good estimate. In my opinion it's always important to err on the side of caution (i.e. higher interest rate) when estimating the rate.

## **In reference to the 10 questions used to analyze year-to-year progress for students, can you give us some examples of the questions?**

Phil: I can't actually give specific questions as we don't necessarily want people to use our formula, but some of the questions focus on:

- Personal and social expenses
- Dining habits
- Credit card debt
- Student debt payoff plan
- Post-graduation finances

# Q&A

**The cost calculator is an awesome tool. How much time and money was required to create it and how is all of the information within it (e.g. rent costs, utility costs)? That is, how is all of the info within the tool kept up-to-date?**

Thanks! It took us about a year to develop from idea inception to launch. It cost us around \$15k - \$20k to develop but that also includes costs for rebuilding our website, but in terms of cost-per-student (how we assess our costs), it was a no-brainer.

The information regarding tuition and fees is kept in a database and updated by our Bursar's office who supplies the info to our IT team to put it in the calculator. From there, students have to input their own costs into the calculator to get their estimate of total cost, but the sliders for each category makes it much more navigable and less burdensome for students.

# Talk To Us



## Next Webinar

### How Are Students Really Managing Finances?

Results from a Multiyear Behavioral Assessment

**Oct. 10**

888.529.2028 · [TalkToUs@inceptia.org](mailto:TalkToUs@inceptia.org) · [inceptia.org](http://inceptia.org) · [Inceptia.org/webinars](http://Inceptia.org/webinars)