Let’s Work TOGETHER

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

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

Spock is not amused by your shenanigans

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Econs vs. Humans

Econs

• Rational decision makers
• Ruled by optimization
• Create the basis for classical “Economics”
Econs vs. Humans

Humans

• Flawed decision makers
• Use mental shortcuts to make decisions (heuristics)
• Possible donut addiction
Humans & Their Heuristics

Anchoring

<table>
<thead>
<tr>
<th>Loss</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>-50%</td>
<td>$49.99</td>
</tr>
<tr>
<td>-20%</td>
<td>$79.99</td>
</tr>
<tr>
<td>-30%</td>
<td>$69.99</td>
</tr>
</tbody>
</table>

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

Normally, if given a choice between doing something and nothing, I choose to do nothing.

But I will do something if it helps someone else do nothing. I’d work all night if it meant nothing got done.

© NBC
This is why we need nudges!

• Homer is usually in control
• Too many choices
• We’re not experts

© 20th Century Fox
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?
“If anything you do influences the way people choose, then you are a choice architect.”

Richard Thaler
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

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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

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

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

Source: Federal Reserve Board: http://www.federalreserve.gov/consumerinfo/syntax_creditcardrules.htm

Personal Finance Apps
Nudge through reinforcement

Get Organized
Find And Cancel Unwanted Subscriptions
Start Saving Today
Track Your Monthly Spending
Nudges for Good

Save More Tomorrow

• No action today

• Gradual annual increases that coincide with raises

• Pre-determined maximum increase

DEFERRAL RATES WITH AND WITHOUT SAVE MORE TOMORROW

- Declined consultation and made own saving decisions
- Made immediate one-off savings increase
- Joined SMacI

Sources: Thaler and Benartzi, 2004.
Nudge Theory In Higher Education
• 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

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
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
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

- ideas42 [Ideas42.org]
- Common Cents Lab [http://bit.ly/2n0CndW]
Questions

How do you plan to use nudges?
Q&A

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.
Next Webinar

How Are Students Really Managing Finances?
Results from a Multiyear Behavioral Assessment
Oct. 10