A Little Nudge Goes a Long Way:
GUIDING STUDENTS TOWARD RESPONSIBLE BORROWING

Phil Schuman, Indiana University
Carissa Uhlman, Inceptia

Please come join us in the front rows – we won’t bite!
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

Spock is not amused by your shenanigans
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**

- $99.99
  -50% $49.99

- $99.99
  -20% $79.99

- $99.99
  -30% $69.99

**Framing**

Would you rather have a 10% chance of mortality, or a 90% chance of survival?
Humans & Their Heuristics

Loss Aversion

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.
This is Why We Need Nudges!

1. Homer is usually in control
   “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

2. Too many choices

3. We’re not experts
Choice Architects

“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
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
Bite-size pieces

Source: Nudge, Thaler & Sunstein
Nudge Theory as Part of This Session!

Surprise! Did you know it?

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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 Literacy**
Nefarious Nudges

https://www.klaviyo.com/blog/5-email-marketing-lessons-from-amazon
Nefarious Nudges

Credit card minimum payments

Credit card minimum payments

Mortgages

• Teaser rates
  • (Anchoring)
• Complex & 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>

Personal Finance Apps
• Nudge through reinforcement

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

Sources: Thaler and Benartzi, 2004.
Why Nudge Theory is a Good Fit for Colleges and Universities
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
NUDGE THEORY IN HIGHER EDUCATION

SUNY Brockport
• 2013-2014 – College Rankings:
  • What could Brockport Financial Aid office do to raise college rankings;
  • Borrowing and Cost of Attendance reviewed

• Findings:
  • Brockport had higher annual borrowing compared to other SUNY schools;
  • Students appeared to borrow more than needed
Bi-Annual Brockport Cost of Attendance Survey (COA):

- Campus Labs – survey tool used;
- Broken down by every possible variable (i.e. student year, on or off campus, majors, dependency status, etc.);
- Format – email with opportunity to win $250 bookstore certificate
- 1149 (13.5%) responses received
Bi-Annual Brockport Cost of Attendance Survey (COA):

- Dep/Ind Commuters, Resident & On-Campus, Resident Townhome, Out-of-State On-Campus and Out-of-State Townhome students:
  - Budgets appeared to be right on target

- Resident & Off-Campus, Out-of-State Off-Campus students:
  - COA appeared to be lower, but...students in this cohort were still borrowing full amount of loans available (DL and Alternative)

- Focused financial literacy efforts on this cohort
Actions Taken:

Despite an increased workload in the Financial Aid office and expected backlash from students the following actions were taken:

• Brockport partnered with SUNY Smart Track Financial Literacy Tools;

• All off-campus student budgets were lowered;

• Students in designated cohort that wanted budget increases were required to:
1. Complete the SUNY Smart Track *Foundations of Money* on-line course…
2. Complete the *budgeting plan* in the course and print a PDF copy.
3. Submit appeal form with documentation of expenses to the Financial Aid Office

<table>
<thead>
<tr>
<th>ITEM</th>
<th>DOCUMENTATION REQUIRED</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Housing</td>
<td>Copy of lease, or other rental agreement showing the current amount of your rent/lease; copy of your most recent pay stub or utility bill showing rent/lease amount.</td>
</tr>
<tr>
<td>2. Transportation</td>
<td>Letter from employer indicating mileage traveled per week, taxes for vehicle, frequency of travel, and the amount/</td>
</tr>
<tr>
<td>3. Food</td>
<td>The college or business school dining plan shows how much your meal plan costs. Or the college or business school dining plan shows how much your meal plan costs.</td>
</tr>
<tr>
<td>4. Dental Insurance</td>
<td>Copy of GIC certificate showing income limit to be applied.</td>
</tr>
<tr>
<td>5. Health Insurance</td>
<td>Copy of insurance policy showing covered benefits.</td>
</tr>
<tr>
<td>6. Clothing</td>
<td>A student allowance will be used unless approved for scholarship, or the allowance is used for activities.</td>
</tr>
<tr>
<td>7. Personal, Family, and Other</td>
<td>Copy of expenses incurred for education, and approved by the Financial Aid Office.</td>
</tr>
</tbody>
</table>

Step 1. Submit Appeal Form and Documentation:

The College at Brockport, State University of New York

Financial Aid Office

Student Name: [Redacted]

Office Use Only: [Redacted]

Date: [Redacted]
Alternative Loans

• Off-campus student borrowing appeared to be excessive

• Implemented same process as required for increase in COA:
  ✓ Complete the SUNY Smart Track *Foundations of Money* on-line course;
    ✓ Complete the *budgeting plan* in the course;
    ✓ Receive daily updates from Inceptia of those completing course.
Case Study

Results

• Initially, many appeals filed by students in the cohort;

• Most appeals did not result in a significant increase in COA;

• Usage of Smart Track Financial Literacy Tools showed students:
  • Didn’t need to borrow as much money as they originally thought;
  • Interactive on-line tools appeared to be teaching good financial skills/habits

• Alternative Finding:
  • Could divert more campus based aid to on-campus students because of their greater need
Results

- Indicated in Brockport SIS – student completed requirement;

- SUNY Smart Track (Inceptia) reports:
  - Verified student completed course (Foundations of Money);
  - Pre test v Post Test Knowledge = 29.5% increase in knowledge

<table>
<thead>
<tr>
<th>Course Name</th>
<th>Number Completed</th>
<th>Pre-Test Average</th>
<th>Post-Test Average</th>
<th>Percent Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foundations of Money</td>
<td>558</td>
<td>67.3</td>
<td>87.2</td>
<td>29.5</td>
</tr>
<tr>
<td>Grand Total</td>
<td>558</td>
<td>67.3</td>
<td>87.2</td>
<td></td>
</tr>
</tbody>
</table>
Results

• Having an impact – borrowing is going down!
NUDGE THEORY IN HIGHER EDUCATION

Indiana University
Indiana University Affordability Initiative

• Focus on putting tools together to help students lessen financial burden
  o Changes to financial aid business processes
  o Focus on degree completion (finish in 4)
  o Get students to make smart financial decisions through education

• Launched in 2012, along with the Office of Financial Literacy/IU MoneySmarts

• $98.7 million (15%) reduction in student debt since 2012
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
Bit.ly/moneysmartsu
My personal and social expenses are funded by...
2 Percentage of my meals paid for with a meal plan or prepared at a residence...
My credit card balance is...
My total bank account balances are...
I have tried to run my credit report at AnnualCreditReport.com
I know the amount of student loan debt I'll have at graduation.
I use my summer earnings...
I have a detailed financial plan for my first 6 months post-college.
My student loans will be paid off...
Upon graduation, my retirement investing plan is...
Final Thoughts
What Have We Learned?

1. We are ALL choice architects
2. We must not use our powers for evil
3. 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 Planning Resources

Additional Resources:

• Nudge Theory Toolkit http://bit.ly/1PBJHSM
• ideas42 - Ideas42.org
• Common Cents Lab - http://bit.ly/2n0CndW
Questions

How do you plan to use nudges?
Thank you for attending!

Please contact us with further questions:

• Bill Cavin, SUNY – Bill.Cavin@suny.edu
• Scott Atkinson, SUNY Brockport – satkinso@brockport.edu
• Phil Schuman, Indiana University – phaschum@iu.edu
• Carissa Uhlman, Inceptia – carissau@Inceptia.org

Enjoy your time at ACFE!