

Financial Behavior in Turbulent Times

Lessons and Limits from Behavioral Economics

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Perspectives



- Creative projects in the lab and with field partners
- Central question: How can consumers make better financial decisions?
- Deep conceptual issues with prime-time practical implications
 - Attention
 - Nudges
 - Numeracy

“When a Nudge Isn't Enough: Defaults and Saving Among Low-Income Tax Filers,” by Erin Todd Bronchetti, David Huffman, Ellen Magenheim, and Thomas Dee

- Mechanisms for defaults
 - Status quo bias
 - Procrastination (hyperbolic naivete)
 - Implicit suggestions
- Tax refund setting
 - The 2010 tax season was an inopportune time to be promoting saving among low-income US households
 - Unemployment rate in April 2010: 9.8%
 - Small interventions *can* matter for the poor at the time of tax filing: FAFSAs
 - Here: default allocation of refund to Savings Bonds of \$0 or of rounded 10% of refund amount
 - Huge proportional refunds: \$1900, compared to AGI of \$17990
 - Can rule out effects of even 1/5 of the 401(k) effects

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□ Discussion

- Specific question– how to exploit “savable moment”– vs broad question– when do nudges work?
- Huge proportional refunds: \$1900, compared to AGI of \$17990
- Perhaps the savings bond advertising drew attention, while nudges work best due to inattention
- A plausible reason for early-season filing is impatience to receive a refund, which would also be correlated with lack of interest in savings bonds
- The study was not double-blind. VITA staff could (consciously or not) have compensated for the weaker opt-in condition by promoting saving more heavily, but experimental procedures were very careful
- This sounds (p. 19) much more like “active decision” than opt-in or opt-out. Also, perhaps the 10% default is low (implicit suggestion *not* to save)
- How are the bonds redeemed? This population may have little confidence in their ability to collect
- Nudged refund recipients could have decided to save in other forms
- Useful additional information about a well-designed nudge

“Limited and Varying Consumer Attention: Evidence from Shocks to the Salience of Bank Overdraft Fees,” by Victor Stango and Jonathan Zinman

- Overdraft fees understudied: \$35B/year
- Administrative panel data on 7400 people from Lightspeed
 - Aggregate to the person-month
 - Observe participation in up to 21 surveys, of which 6 had content about overdrafts; and observe subsequent overdraft behavior
 - Survey response rates 20-30%, unrelated to inclusion of overdraft content
 - Exploit variation in who responds to surveys with overdraft content
- Biggest concern: Omitted variable bias
 - There are only six OD surveys
 - Could macro shocks be correlated?
 - Regress an indicator for OD survey on macro variables

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- Main effect: reduction of 3.7 percentage points, off a baseline of 30%, for the contemporaneous effect of an OD survey
- Extensive and admirable robustness analysis
 - ▣ Different lag structures
 - ▣ Different outcome variables
 - ▣ Placebo treatments (in the form of tangentially related or unrelated survey questions)
- Internal validity
 - ▣ These households may have some accounts that are not included in the dataset. Perhaps overdrafts shift to those accounts.
- External validity
 - ▣ This population wants to track their household finances
 - ▣ Perhaps especially responsive to subtle cues

“Limited and Varying Consumer Attention: Evidence from Shocks to the Salience of Bank Overdraft Fees,” by Victor Stango and Jonathan Zinman

- Most amazing feature of the study:
 - Survey content *was not designed* to reduce overdrafts
 - How powerful might purposeful reminders be for a motivated population?

- Other comments
 - Important to think about how attention and salience evolve in market equilibrium
 - Puzzling to find an effect on the overdrafting extensive margin, but not on total fees paid
 - Do the data aggregate properly to the \$30-40B nationwide annual total?
 - Do banks ever waive the fees ex post?

“Consumer Misunderstanding of Credit Card Use, Payments and Debt: Causes and Solutions,” by Jack B. Soll, Ralph L. Keeney, and Richard P. Larrick

- Dig into cognitive mechanisms
 - => What role for *numeracy* in credit card borrowing and repayment?
- Four hypotheses
 - 1. Ratio of interest charges to principal is high (conditional on monthly payment) → people underestimate payoff time
 - 2. Greater numeracy → less bias in estimating payoff time
 - 3. Greater numeracy → understand when debt trajectory is ever-increasing
 - 4. Low numeracy → underestimate necessary payments; High numeracy → overestimate necessary payments
- Also tests the CARD Act disclosures

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- Confirmation of the hypotheses in fairly clean tests
- Options for disclosure and support for numeracy
- What abilities are most decision-relevant?

Summary



- Three creative papers
- Theoretical punchlines
- Practical implications