Applied Behavioral Economics

October 23, 2018

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AGENDA

1 Welcome
2 Introduction to Behavioral Economics
3 Insights from the Financial Health Check
4 Recent Learnings from the Common Cents Lab
5 Questions
6 Small Group Exercise
7 Wrap-Up
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Intention–Action Gap

People don’t actually do what they intend to do.
The Ultimate Rational Actor

- Accumulates Information
- Accounts for probabilities
- Accurately weighs costs and benefits
- Maximizes own utility
- Has stable preferences
SAVINGS & CDS

Compare our savings accounts and visit a branch or open one online today.

SAVINGS GROWTH OVER TIME

- Starting at age 25
- Starting at age 35
- Starting at age 45
- Starting at age 55

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Real People in the Real World

• Take the easy path over the “right” path
• Are hyper-focused on NOW
• Are ego-centric
• Are “cognitive misers”
• Are inherently social beings
I should have computed the historic co-variances of the asset classes and drawn an efficient frontier. Instead...

I split my contributions fifty-fifty between bonds and equities.

—Harry Markowitz, Nobel Laureate
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$1015
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$1015

$1007
RELATIVITY

People evaluate options by comparing them to what else is around.
KNOWING INFORMATION DOES NOT LEAD TO BEHAVIOR CHANGE
What about our **HUMAN PSYCHOLOGY** makes good financial behavior so hard?
FRICTION

Even small hassles can have outsized effects on our choices.
PRESENT-BIAS

People put an unrealistically high value on the here and now and an unrealistically low (and inconsistent) value on the future.
LIMITED ATTENTION

Attention is a scarce resource. This means that sometimes we miss important details, especially if other things are demanding our focus.
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Insights from BECU’s Financial Health Check
People recognize that savings and debt are important components of financial health

83%
As many as 83% of Americans worry about a lack of savings

49%
49% of credit card holders worry about paying their card bills
Behavioral barriers to saving

Save?

How much?
- Look up balance in checking account
- Look up balance in savings account
- Think about other upcoming expenses
- Coordinate with others in household

When?
- Check other due dates
- Time with paycheck

Log into accounts
- Remember password
- Find the right page
- Don’t forget!

Go to the bank
- Work around carpool
- Fit into lunch break
- Bring card / ID
- Don’t forget!

Save!
However, traditional approaches to supporting financial resilience often fall short.

Programs often focus on knowledge and information over action. Evidence from meta-analysis of 201 studies of financial literacy and counseling suggest limited effects on behavior.
Ideas42 designed the FHC to help people follow through on intentions and build financial stability

1. Schedule time to make decisions and take actions on savings and debt
2. Review monthly budgets and identify goals that fit personal circumstances
3. Automate savings transfers and debt payments so that goals are prioritized by default with no ongoing action needed
4. Label savings accounts with goals to separate those funds from daily spending
5. Set up online + mobile tools to easily track cash flows
6. Take care of action items in real-time with live support and accountability

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The Financial Health Check:
A new model of scalable support

Key Features

• One-time, 30-60 minute phone session
• Confidential, one-on-one conversation
• Focused on building liquid savings and reducing high-interest credit card debt
• Support for real-time action
## Piloting The FHC at BECU

### Before the call
- Schedule session
- Complete budget worksheet
- Receive personalized appointment reminders

### During the call

**Work on Decisions**
- Review goals and budget
- Decide how much money to put toward each goal

**Work on Actions**
- Set up automated transfers
- Set up alerts

### After the call
- Thank you email
- Follow up from other teams
~ 1,300 FHC sessions completed during pilot

1,291 sessions completed from 08/2015 to 05/2016

38 minute average call time

21% of sessions delivered to LMI members

3-4 FTE over the course of the pilot
Changes in savings behavior

34% increase in net deposit amounts

- RCT compares outcomes of members who had access to FHC appointments (regardless of session attendance) with outcomes of members who did not have access
- All were interested in working on financial goals
- Data cover the 12-month period following contact
Changes in savings behavior

Boost in deposit count and amount

Data also show a 5% boost in deposit counts and a 12% boost in dollars deposited
Since the pilot

**Follow-on Work**
- Pilot expanded to entire BECU membership
- CFSI financial health framework incorporated into health checks

**Next Steps**
- Investigating expansion of the FHC into BECU’s retail branches
- Studying options for creating scale through digitization with ideas42
Design principles & operational lessons

- Create a moment that fits people’s lives
- Facilitate follow through in real time using existing tools
- Make it automatic
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How can we redirect members into a payday loan alternative?
Lump Sum

QMoney is a better option than high interest payday loans

A payday loan can cost you an extra $223 per loan.

$37 QMoney cost

$260 Payday loan cost

*Costs are based on a $500 dollar loan over 60 days. QMoney requires a $20 application fee which is automatically deducted from a Credit Human account at the time of application. QMoney has an Annual Percentage Rate (APR) of 28% and is valid as of February 9, 2018 and has a maximum term of 60 days. For complete details visit, CreditHuman.com/QMoney. Federally insured by NCUA.
Lump Sum

Better High APR loans
an extra $223

$37 QMoney cost
$260 Payday loan cost

you lose $223 per loan

Daily Sum

Better High APR loans
an extra $3.70

$0.62 QMoney cost
$4.32 Payday loan cost

you lose $3.70 daily

50 days. QMoney requires a $20 application fee which is automatically deducted from a QMoney has an Annual Percentage Rate (APR) of 28% and is valid as of February 9. For complete details visit, CreditHuman.com/QMoney. Federally insured by NCUA.
What led to more loan applications?

If scaled across U.S.,
1.8M people switched
$400B saved
RELATIVITY

People evaluate options by comparing them to what else is around.
OPPORTUNITY COST NEGLECT

It’s hard for us to think about the trade-offs when making decisions.
How can we help borrowers also be savers?
Your payment is $250.

$217 is for your loan and $33 goes into a savings account you can access at anytime.

Does that sound ok?
Your payment is $250.
$217 is for your loan and $33 goes into a savings account you can access at anytime.

Does that sound ok?

Your payment is $250.
$217 is for your loan and $33 goes into a savings account you can access at anytime.

You’ll have $1,330 at the end of your loan.

Does that sound ok?
If scaled across LCCU, 2,000 new savers can save $19/month in savings.
PAIN OF PAYING

Some purchases – such as incremental payments or paying with cash – are more painful than others, so people will try harder to avoid them.
LOSS AVERSION

We work harder, sacrifice more, and take bigger risks to avoid a loss compared to a gain of the same value.
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Designing interventions is like building a rocket ship.
REDUCE FRICTION

CHANGE/REMOVE UNNECESSARY PARTS
Activity: Thinking Like a Behavioral Scientist

1. Choose your key behavior
2. At your table, review the behavior map
3. How could you make this process **EASIER**?
   - Reduce friction
   - Remind people what to do
4. How could you make this process **MORE REWARDING**?
   - Provide feedback
   - Reward actions
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