

Applying Behavioral Science to Improve Financial Aid

► Executive Summary

A growing body of empirical evidence shows how insights from behavioral science can improve the design and effectiveness of public policies and programs—from tax compliance and water conservation to education and healthcare. This is because behavioral models enhance traditional economic models used to design policy, accounting for myriad psychological and contextual factors that can promote better decisions and actions on the part of beneficiaries, leading to better outcomes overall.

The behavioral approach is particularly pertinent for problems of communications and paperwork, such as applying for, maintaining, and repaying financial aid. Millions of student borrowers fail to apply for financial aid by the priority deadline and/or renew each year. In addition, students fail to effectively select repayment plans and pay down their balances once they graduate despite numerous supports provided by their colleges and universities and the Department of Education. In 2014, forty million Americans on financial aid had at least one outstanding student loan.¹ Today, delinquent student loans make up the highest delinquency rate of any form of household credit.²

Drawing on the insights from behavioral science and the results of four studies ideas42 completed in 2015, we outline four actions, identified through our work to date, the Department of Education is uniquely positioned to take to improve outcomes related to financial aid:

1. Work with colleges to communicate directly with parents/guardians about FAFSA deadlines using behaviorally-informed messaging that segments the FAFSA application process into achievable steps and includes simple, straightforward language.
2. Work with colleges to build effective communications regarding the consequences of course selection on financial aid, with clear, in-the-moment feedback for students who select courses that reduce their financial aid packages.
3. Using principles of behavioral science, optimize the language and presentation of the Department of Education's overview of Direct Loan and FFEL Program repayment plans to de-bias student choices.
4. Encourage loan servicers to use behaviorally-informed communications to improve follow-through rates for students who want to change their repayment plans or enroll in federal debt relief programs.

► Recommendations

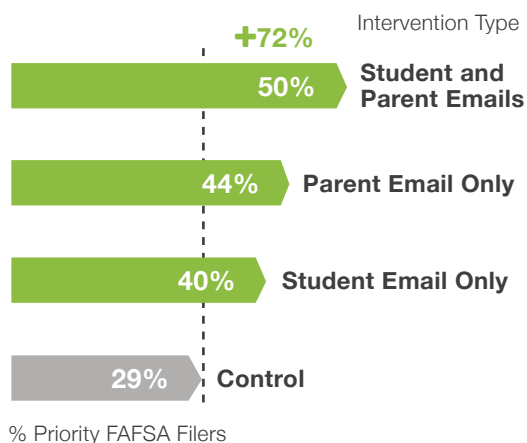
Applying for Financial Aid

FAFSA completion is rife with small challenges (and these remain despite positive changes to the process). Students have difficulty gathering financial materials from their families, and must sort through an overwhelming list of benefits programs and sources of income to determine which financial information they need to report. Additionally, many students have inaccurate perceptions of who applies for and receives aid. As a result of these and other issues, students often miss filing for aid by the priority deadline or at all. Therefore, we recommend one action the Department of Education can take to address these behavioral challenges:

1. Work with colleges to communicate directly with parents/guardians about FAFSA deadlines using behaviorally informed messaging that segments the FAFSA application process into achievable steps and includes simple, straightforward language.

- Experimental research by ideas42 in partnership with Arizona State University revealed that behaviorally-designed emails to parents/guardians about upcoming FAFSA deadlines increased FAFSA completion by 52% over a control group, and 72% when combined with emails to students. The emails were designed with several behavioral interventions such as breaking down the application process into achievable steps, simplifying language, conveying a sense of progress, and nudging students to take immediate action based on the email.
- A barrier to applying this treatment to all students was the lack of contact information for parents. The Department of Education should direct colleges to collect parents and guardians' cell phone numbers and email addresses at the first instance of contact, and then support colleges to send behaviorally designed messages regarding upcoming FAFSA application and renewal deadlines to parents and students over the course of their college careers. The entire system for gathering contact information and delivering messages can be automated, making it a very low cost intervention.

Chart 1: *Students and parents/guardians who received behaviorally designed emails regarding FAFSA increased their completion rate by the priority deadline by 72% over a control group.*



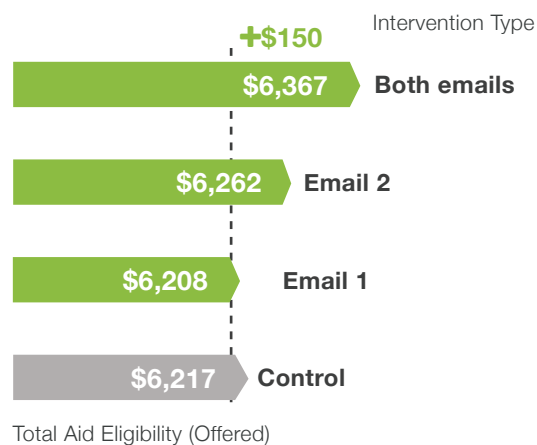
Maintaining Financial Aid

For many community college students, course registration is not merely the gateway to the semester; it is also a lifeline to maintaining financial aid. Unfortunately, too few students receive in-the-moment guidance from schools on the most critical aspects of their course choice, such as fit with their majors and their financial aid packages. Many schools fail to redirect students towards appropriate courses when they inadvertently register for those that reduce their aid award. We recommend one action the Department of Education can take to improve financial aid continuance:

2. Work with colleges to build effective communications regarding the consequences of course selection on financial aid, with clear, in-the-moment feedback for students who select courses that reduce their financial aid packages.

- Experimental research by ideas42 in partnership with Valencia Community College revealed that sending just **two** behaviorally designed emails to students about the impact of their course choice on financial aid, including a list of courses that meet the requirements, **increased students' aid awards by \$150 per student** over the control group. Minority (non-white) students saw even greater increases with **\$182 more aid per student**, totaling an additional \$1.5 million in potential aid eligibility if applied across our sample of ten thousand students in the Spring 2015 semester.
- The Department of Education should work with colleges to develop guidelines and templates for schools regarding how to present degree compliance information to their students and how to word school warning emails for those students who register for courses that do not count towards their degree. The messages should clearly communicate the impact of course selection on financial aid in a way that is easy to understand and made salient during course registration.

Chart 2: *Students who received just two behaviorally designed emails about the impact of their semester course choices on their financial aid package received an average of \$150 more in aid than those who did not receive the communications.*



Reducing Post-Graduation Financial Distress

Unfortunately, even when prompted to review the Department of Education's overview of the Direct Loan and FFEL Program repayment plans in detail, many students misunderstand key features of their plans, like what their monthly payments, total interest costs, and total debt amount will be. This misapprehension of key plan information reduces the likelihood that students are enrolled in optimal plans for them, which in turn increases their risk of financial distress. For those students who end up in delinquency, significant hassles get in the way of enrolling in relief programs. We recommend the Department of Education take two actions to address these behavioral challenges:

3. **Using principles of behavioral science, optimize the language and presentation of the Department of Education's overview of Direct Loan and FFEL Program repayment plans to de-bias student choices.**
- The Department of Education should redesign the overview of Direct Loan and FFEL Program repayment plans to simplify language and highlight key features of these payment plans such as the monthly payment, total interest cost, and total debt amount. In a study at Valencia Community College, ideas42 found that responses of up to 43% of students who selected the standard repayment plan after reviewing an overview of

plan options indicated that they incorrectly believe it has the lowest monthly payment requirement of all plan options given their circumstances.

- Additionally, the Department of Education could consider relabeling repayment plans where possible. In the same study at Valencia Community College, ideas42 found that a greater proportion of students recommend an income-based repayment plan for a 'low-earning friend' when the title "Income-Based Repayment" was shown (18%) than when it is hidden (10%) from the plan information. This suggests that students rely on signals like plan titles rather than core plan features when selecting repayment plans.

4. Encourage loan servicers to use behaviorally informed communications to improve follow-through rates for students who want to change their repayment plans or enroll in federal debt relief programs.

- Our work with Great Lakes Higher Education Guaranty Corporation - a student loan guarantor that serves hundreds of thousands of borrowers, more than 6,000 campuses, and 1,100 lenders - revealed that just 43% of delinquent borrowers who commit to send paperwork to change their repayment plan or enroll in federal debt relief programs like deferment or forbearance actually follow through, thereby opening themselves up to even higher levels of delinquency.
- Borrower engagement with and comprehension of current application forms can be substantially improved by drawing on behavioral insights. Redesigning the email messages and application forms to include simplified language, electronic signing and submission, easy-to-use checklists and guidelines, and salient principal information, may drastically increase follow-through rates.

➤ Conclusion

We have only briefly described four actions the Department of Education can take to improve outcomes for students based on the insights of behavioral science and results from field experiments. We invite further conversations to delve into the details of these solutions and the opportunity for operationalizing them to benefit millions of students.

Contact Information

Alissa Fishbane
Managing Director, ideas42
alissa@ideas42.org

Piyush Tantia
Executive Director, ideas42
piyush@ideas42.org

Who We Are

ideas42 is a unique social enterprise bringing together highly creative practitioners, industry leaders, and policy experts with world-renowned economists and psychologists from top-tier universities. Our mission is to apply our expertise in behavioral science to invent fresh solutions to the world's toughest social problems with the goal of improving tens of millions of lives. Our work draws upon decades of experimental scientific research in decision-making and the most rigorous methods in program and policy evaluation.

¹ <https://www.experianplc.com/media/news/2014/experian-analysis-finds-student-loans-increased-by-84-percent-since-the-recession-40-million/> and <https://consumermediallc.files.wordpress.com/2014/09/news-release-experian-student-loan-research-final-sept-9-2014.pdf>

² <http://economistsview.typepad.com/economistsview/2015/02/student-loan-delinquency-rate-defies-overall-downward-trend.html>