CFDM 2019 Notes

[Program]

Rawley Heimer, Shale Shock: The long-run impact of wealth shocks on debt

[Paper]

Context:

- How more wealth → more and different usage of debt.
- Are people poor because they make bad decisions? Or does being poor make you make bad decisions.
- Mike Meru, high student loan debt. Pays $1.5k a month, $1m in student loan debt, balances growing. Owns a Tesla.

Random wealth shock:

- ~15bn in mineral rights paid out to mineral rights owners by mining companies.
- Very diverse people - poor, wealth, middle, all across the US, great cross-section. $50k shock,
- rights owner vs other local people.
- Random outcomes - price of natural gas
- Not necessarily current land owner - mineral rights are separate. Many people inherit mineral rights from initial settlers (dust bowl)
- Evidence that mineral rights revenues are complete surprise to recipient.
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Takeaways

- Your initial conditions when the wealth shock occurs influences what happens:
    - If in sub-prime group, they:
        - pay down debt, improve credit scores
        - reduce revolving credit
        - No change for autoloans
    - If in prime group, they:
        - increase your consumption
        - Bigger houses --> mortgages
        - more delinquent accounts.
        - more revolving balances

        - Auto-loans: increase in balances by 2%

If we give people more wealth, how does this change risk taking?

- Reduced risk-taking by subprime
- Increase by prime individuals
- Improved credit scores for everyone

Friends with bankruptcy protection benefits: household leverage

[paper]

Context

- Household debt/leverage is at 124% of disposable income, up from 50% in 1970s.
- More deliquency, defaults, over a third of households have debt in collection

Debt relief:

- Write downs or reduced interest rates on debts
- Generally improve consumer outcomes.
- But incentives! Increases default, reduces credit from lenders who are burnt.
- Hits low income households worse.
- How to target those who are *unable* rather than *unwiling*

How can social/peer groups help/hinder?

- People could share benefits of debt relief
- People are ashamed to admit they've fallen behind on their debts/need help.

Looking at consumer personal bankruptcy

- 10% of households file in their lifetime
- 97% of all bankruptcy proceedings in the US
- Huge benefits to consumer, > medicaid/medicare

Dismissal of a bankruptcy appeal *by a peer* reducing the probability of filing by about 2%. Family is more powerful.

On the flip, some evidence that when a peer is granted bankruptcy, *solvent* households more likely to strategically file.

Usually a judge dismisses because you're abusing the system.
DIsmissal: → Higher unemployment, lower wages, more likely to die

Filing for bankruptcy is risk:
If insolvent, wage garnishment etc

Uses SEC registered financial advisors since they have to list personal bankruptcies. Uses SEC registered financial advisors since they have to list personal bankruptcies for regulatory reasons.

1100 requests, 23% dismissal rates.

Lots during 2008/2009.

Reasons given:
- unemployment
- real estate shock
- health
- divorce
- 'other'

Can identify peers easily: median firm has 10 employees.

Judges are different! Persistent in ‘nice’ versus ‘strict’ judgements, year over year, can predict out of sample. But judges are randomly assigned!

Are financial advisors representative?

- More financial advisors don’t seem that savvy about filing for bankruptcy.
- But you can see other advisors filings. Stigma, disclosure effects.
- Dismissal → greatly increased likelihood of advisor misconduct

Takeaways:

- Due to peer networks, ‘Nice’ vs “Strict” Judges can huge impacts on a *group* of people.
- A huge part of the decision to file is how likely you are to be dismissed. The consequences are worse for invsolvent individuals.
- They are more likely to rely on peer networks to understand those rates.
- Which judge you get is the biggest driver of your outcome.
- Basically, there are many positive externalities/ upsides to borrower-friendly bankruptcy decisions that only become apparent later.

How can/should we influence/train judges to consider the wider impact of their dismissal decisions?

Generous to a Fault: The Effect of Generosity of Employers Retirement Plan Contribution on Leakage from Cashing Out at Job Separation (John Lynch)

Context

- Leakage from 401(k) plans
  - Both in-service, non-repayment of loans
  - Leakage at job termination
  - Income tax + 10% penalti
  - $0.40 leaks out
- Laibson
  - Different view: leakage isn't bad?
  - Hard to differentiate between optimal
  - Loans are good: borrowing from yourself.
- Thoughts
  - If employer match, leakage is rational.
  - Leakage should go up with employer match generousity
- Results
  - When it looks like most money comes from employer, rainy day fund, cash out
  - When most balance is from employee, more likely to keep it.
  - People seem quasi-rational depending on statement format.
  - Leakage in about 40% of employee terminations (not fired)
    - 90% total cash-out within first month after leaving
    - Much higher if 401(k) loan outstanding (need the cash)
  - Two effects of higher match
    - Higher employer-contributed balance (increases leakage)
    - Higher balances overall (reduces leakage)
    - The first one is stronger.
    - More generous employee matches increase leakage.
- Datase
  - 29 401(k) plans
  - 600k employees

From Nest Egg to Seed Capital: Empirical Evidence from ROBS Plans: David Robinson

Context

- Most entrepreneurs/business people are older: 40+.
- Not young tech Zuckerbergians.
- As US population ages, this will become more prevalent.
- More skills needed to run own business.
- Using 401(k) savings as seed capital
- Do it through ROBS transaction
    - Not leakage, create C-Corp, fund with 401(k) rollover from previous employer
    - Using with a specific firm who specializes in this.
        - Their responsible for > 50% of ROBS in the US
        - SBA loans
    - Parsing form 5500 from employers, looking for ROBs filers.

Data

- Survey from financial services firm
- ROBs users are White, college educated, late 50s.
    - Very large rollovers - $350k + for top quintile
- Why start a business?
    - ROBs
        - More likely to be dissatisfied, laid off, not ready to retire,
        - Equally like being own boss, opportunity, passionate, life event
    - ROBs filers are being pushed into self-employement.
- About half of ROBs-founded firms fail, so seems like leakage?

Jean Young, Vanguard, Discussion

- Some 401(k) facts
- Auto-enrollment doubles the chance of cash-out from 14% to 27%.
- Some plan force cash-outs for low balance clients, not client’s decision.
- Seems like peopel are still better off than they would be.

When Shrouded Prices Seem Transparent: A Preference for Costly Complexity Shannon White

Context

- Why a preference for complexity?
    - The more number of lines, the clearer it seems what you're getting charged for.
    - People like more information, even if it doesn't serve a purpose
    - More confident w/more information
    - When companies disclose unit cost, people see it as a signal of transparency.
- Complexity strongly signals transparency - people gave much higher trust ratings to complex price schedules.
- Complexity strongly signals transparency - people gave much higher trust ratings to complex price schedules.
- A 'combo' disclosure which has both a simple summary and a breakdown is preferred,
    - but complex still > simple.
    - But people more likely to select a better option in cost
    - In complex option, they paid more
- People can have a preference for price complexity that costs them
    - Companies can lean in and shroud prices while making clients happy
    -

Removing the Fine Print: Standardization, Disclosure, and Consumer Loan Outcomes

Context

- Financial products are complex, regulations try to improve the market.
- Disclosure (so much fine print)
- Standardization of contract features
    - Can’t modify term/contract after approval by regulator.
    - If you want another rider, need to go separately.
- More requirements to put numbers ‘up top’ → more noise to consumers?
- Better loan disclosures → reduced deliquency, 1% less likely to default. All disclosure, not standardization.
- Less educated borrowers understand the contracts better, avoid defaults.
- More educated borrowers shop around more, get better prices/terms.
- Individual effects

Let the Rich Be Flooded: The Unequal Impact of Hurricane Harvey on Household Debt

Context

- Does flooding impose an undo burden on certain households?
- Use of insurance flood maps
- Homeowner insurance doesn't cover floods
  - Costs $5k a year
  - Required if you live in a floodplane for mortgages
- Usually a small initial payout ~ $7k
  - Rest is held in escrow as repairs occur
  - Not very fungible
- Federal assitance grants are meant to complement (not be) flood insurance
  - More fungible, can be spent on whatever.
  - SBA, FEMA
- How do people cope after a natural disaster?
  - - Insurance
  - - Federal assistance (FEMA)
  - - Loads (SBA disaster, IRS refunds)
- All help relatively high income/wealthy people a lot more.
- Floodplain status is big driver of decisions
- Poor people are hurt more and helped less than the wealthy.

Results

- Harvey itself hit wealthy people fairly hard.
  - - Floodplain status is big driver of decisions
  - - Poor people are hurt more and helped less than the wealthy.
- People who weren't forced to have insurance (outside the floodplain) had higher bankruptcy rates, drops in credit scores.
- If your inside the floodplain, your repair. If you're outside and not well off, you sell your house.

The Influence of Budgets on Consumer Spending: Evidence from the UK's Largest Financial Aggregation App

Context

Dataset

- MoneyDashboard
- 70k users, 32y/0, 32% female
- 2014 - 2016
- Budgets from 9,403 clients
  - No push notifications, client monitoring only
- Dining, drinking out / groceries/gasoline

Results

- For dining and drinking, groceries budgets are very optimistic (spend more than budget)
- Gasoline under-budget
- Skew is predictive of mis-prediction of spending/budgeting
- After inflation, gasoline was right on.
- Not related to optimizing
  - Login frequency
  - Income
  - Seasonality
  - No balancing across categories
- Budget setting
  - Those who set budgets will spend less (in that category) than those who didn't
    - Next month: Yes, but not close. Always over-optimistic.
    - Following months (month 6)
    - Spending is still > budget
- Causality (MTurker)
  - Forecasting future based on looking at past spending was higher (marginal)
  - But not that improved
- Conclusions
  - Budget optimism (aggressive budgets) is not always a bad thing
  - Surpisingly sticky over time
  - It's not that people are sad that they're missing budgets, but they're happy they are spending less than they used to

How Spending Categorization Impacts Budget Optimism and Likelihood of Success

Context

- How do people set budgets
- Why “don’t budgets work”?
  - Didn’t lower spending
  - Didn’t help plan appropriately
- Should awareness & adherence, and planning.
- So why do they fail?
  - Emotional
  - Not flexible
  - Retroactive tracking to spending
  - -- people suck at “modulating spending”
  - It’s hard
  - Budgets aren’t set appropriately
- Setting appropriate budgets
  - Goal pursuit: Challenging but achievable
    - People guess
    - Don’t plan for ‘extraordinary events
    - → set lower budgets than they should
  - Planning: predict available funds for rainy day funds
- How people categorize:
- Bills (known, regular) vs Expenses (variable, exciting)
- Guessing amounts
  - 28% overall
  - 15% in bills
  - 31% in expenses
  - Round number budgets are $55 lower than in non-round number budgets.
- Spending
  - Bills category: over by about $24
  - Expense: 43% more
  - Round budgets expenses: $29 more
  - “Failing” in month 1 vs Month 2
    - 0.28 for bills, 0.84 for expenses
    - Success is not as persistent.
- MTurk experiments
  - “Write down a budget for your circumstance”
  - “For each category how much did you spend last month, what is your budget”
  - “For each category we’ll give you a range for people like you”
  - Perpetually think we’ll spend less on expenses next month, same on bills.

- Debias
    - How much you should spend next month
        - a) you
        - b) someone like you
        - c) last month & how you spent (unusual or unexpected) think about it.
    - (b) debiases expense projections

Discussion: Mariel Beasely, Common Cents Lab

Why do we care about budgeting?

No savings, retirement, revolving CC debt.

Spending plans, not budgets

A Prediction Gap in Effect of Income Tax on Effort

Context

- How do people respond to income taxes?
- Yes, people avoid transactional taxes, but what about income taxes?
- Mixed findings: sometimes people work more in response to taxes, sometimes less.
- Let's differentiate between ongoing vs anticipated taxes
- Study anticipated efforts to avoid, sentiment

Results

- People anticipate they will work less with higher tax rates
- Actual response: people are relatively insensitive
- Study 1: How do people respond to income taxes?
    - Setup:
        - Tax rates of 0 | 10% | 40%
            - Payments in higher tax conditions were increased so that after-tax payouts were the same.
        - x by anticipate vs actual effort
        - DVs:
            - Effort: how many captchas
            - positive sentiment
    - Results
        - People anticipate they'll work slightly less in higher tax settings
        - Everyone works far less than they anticipate
        - Sentiment is lower in higher tax conditions
- Study 2: How do people respond to changes over time?
    - What about **changes** in tax rates?
    - Setup
        - Tax rates: 0 | 10 | 55 (wooo doggie)
        - 10 -> 55% for some people
    - Results
        - People believe that 10 -> 55% tax rate will be very demotivating
        - But the real effect is very muted.
- Study 3: Are people more sensitive to changes in taxes vs payments?
    - Basically, do people change behavior based on tax aversion, or take-home wages?
    - Results
        - People anticipate being much less happy and work less when taking home less due to taxes
        - Above and beyond change in take-home wage
- Little evidence of tax aversion in ongoing labor responses when after-tax earnings held constant.

- Tax sentiments are consistent with tax aversion

Behavioral Food Subsidies

Context

- Getting people to use food subsidies more, and more effectively.
- SNAP
  - Unrestricted
  - What do people spend SNAP
  - Soda is the most commonly bought item
  - $0.20 on every dollar is spend on unhealthy food (salt, sugar, junkfood)
- WIC
  - Coupon-base, specific item only
  - Different eligibility
- USDA
  - Wants to offer 30% subsidy on health subsidies for SNAP participants on healthy foods (fruit, vegetables)
  - After checkout, rebate is put right back onto card
  - 25% increase in F&V consumption
  - 11% increase on expenditures
  - More feasible than negative food ban?

Research questions

- How to maximize the effectiveness of subsidy programs?
  - Agency: let shoppers choose their subsidies
  - Waiting periods: prompt deliberation before purchases (akrasia)
  - Commitment: commit to a subsidy before you get to a store?

Data

- Field agents, receipts, food diaries
- 83% female
- 66% have children
- 38% SNAP participants
- Treatment timing
  - Before (4 - 48 hours)
  - During (in store)
  - After
- Agency: could giving them control over subsidies lead them to make better choices?

Additional effects of behavioral interventions (above subsidy) decays from 100% to 50%.

The more impatient a shopper was, the more powerful the treatments were.

Evidence that child F&V consumption goes up (hmmm)

Key Takeaways

- Subsides more than double healthy spending
- Agency makes subsidies more effective
- Waiting period increased healthy spending too
- Some usage of commitment
- Taken together, the interventions tripled spending on healthy food.

Delegating Decision-Making to the Machine: Experimental Evidence from Health Insurance

Context

- Health insurance decisions are **hard**
- Predictive algos available, mechanical or strategic bias
  - Don't ignore base rates
- Do consumers change behavior when exposed to algorithmic recommendations
  - Which consumers and why?
- Medicate part D prescription drug benefit
  - Subsidized coverage administered by private plans with medicare
  - People have to choose between 20 plans - people don't like doing this.

Data

- Randomized treatment of getting decision support software
- Within DSS, some people also get a human expert rec
- Personal data into software + expert rec has largest impact on decisions.
- Those who didn't use the software on average would have been better off if they had used it.
- Gains to use are highly skewed.

Results

- Top level
  - More likely to switch plans
  - More likely to be satisifed with process
  - Expected spending went down by ~ $100
  - People spent more time with the DSS
- Selection
  - Younger, male, white, married, healthier, tech savvy
  - People who had higher expected treatment effects of DSS avoided using it !?!

From Novice to Know-it-All: Online Financial Search and Financial (Over)Confidence

Context

- Where do you get info about savings and investments? The internet surges! More than friends/family.
- So what?
- Maybe the internet makes us more confident because we can access info easier?

Data

- Answer 10 trivia questions w/w/o internet
- Cognitive self esteem
- Predict future performance

Results

- Access to the internet raises CSE, made people expect to do better in the future
- Slowing down google access made peopel realize they didn't know (20 seconds)
- People forget that they googled it.
- People use search as a substitute for knowledge.
- Online search doesn't make you better at investment choices (you can't google them)
    - Low expertise actually did worse

What Motivates Social Security Claiming Age Intentions? Testing Behaviorally-Informed Interventions Alongside Individual Differences

[Slides]

Context

- Being wise about claiming social security
- CFPB tool
- Most claim at 62. This is not optimal!
- What type of messaging is influential on SS claiming?
    - E.g. breakeven actually backfired, causes people to claim earlier.
- People's intentions don't map to actual actions
    - Almost always claim earlier than we say we will.

Interventions

- Framing
- Norms
- Future Self
- Information
    - Needs
    - Regret
- Self reflection:
    - Longevity: implications of living longer
    - Generate your own reasons

Results:

- Overall: What worked: regret, thinking about the reasons yourself
- Individual differences
    - ⬆️
        - Life expectancy (strong)
        - Subjective health
        - Relying on SSA for income
        - Patience
        - Financial Literacy
        - Numeracy
    - ⬇️
        - SSA Subjective
        - Belief that SS will be solvent (reverse coefficient, huh?)
        - Subjective ownership (give me my money back)
        - CFPB Financial well being (wrong direction, huh?)
- Since there is not a one-size fits all nudge, need to use individual differences

New Lessons About 529s: What's Left on the Table?

Context

- 529's are the most common way to save for college
- Allows you to borrow less
- People don't use them enough
- 50% of households with kids are using them.
- About 1 trillion dollars
- 21% of college expenses come from savings (versus borrowing)
- 29% of parents use them, versus 45% for general savings accounts
- 529s are too complicated
    - State tax benefits, Δ to K-12 education

Approach

- Project impact of 529 use on college savings
- Financial simulation using SCF data
- Increase balance of $237bn at time of college
    - Primary benefit: investments vs savings: higher returns.
        - 161 bn from returns
        - State/Federal tax benefits
- Average increase of $4,000 per child

Experimental nudge

Left Behind: Partisan Identity and Wealth Inequality

Context

- Inequality is rising
- Democrats tend to invest less in the stock market than republicans
- Impressive time series between political polarization and wealth inequality

Data

- NLSY79
- DVs
    - Stock market participation
    - Stock allocation (percent of wealth)
- Partisan affiliation
    - 4k Democrats, 2k Republicans
- Democrat President dummy
- Generally stock market returns were higher under D presidents.

Results

- 49% of Demos, 68% of Repubs invest in SM
- CP, Democrats are 5.5% less likely to SMP, about 4% less allocated
- Most of gap is concentrated under a Demo President, i.e. doesn't exist during Repub president
- Democrats invest less in the SM during democratic presidencies 🤔
    - Not due to better market timing, labor income hedging
    - Democratic presidencies intensify the identity of Democrats
        - More liberal, more affection for party
    - Wider for college educated persons
    - The negative effect of anti-market rhetoric is largers on more educated people
- Democrats on average accumulated less wealth and the gap widens under democratic presidencies → the partisan gap can explain about half the wealth gap between Demos and Republicans.

Foregone Consumption and Return-Chasing Investments

Context

- How do househoulds finance investments?
- What are the ‘costs’ associated with investment decisions
- Selective Attention: People check returns more
- DUring periods of high uncertainty, investors chase returns less and incrase pre-cautionary savings.
- What types of consumption is responding to returns?
    - Decrease luxuries more than necessities
    - Decrease durables more than services/ nondurables
- Who does it?
    - Married women decrease consumption more
    - Accounts with liabilities and salaried accounts decrease consumption less