Income-Driven Repayment

Notifications to borrowers about income-driven repayment (IDR) plans increase application rates

P R O J E C T A B S T R A C T

Agency Objective. Increase applications for income-driven repayment plans among delinquent student loan borrowers with email notices designed using behavioral insights.

Background. As student loan balances have risen in recent years, an increasing numbers of borrowers have struggled to stay on track with their payments.[52] At-risk and delinquent borrowers may benefit from income-driven repayment (IDR) options, which link monthly payment amounts to their incomes, and can make repayment more manageable.[53] However, enrolling in an IDR plan requires that borrowers learn of and apply for such a plan. In late 2013, the office of Federal Student Aid (FSA) within the Department of Education (ED), in collaboration with the Social and Behavioral Sciences Team (SBST), conducted an email campaign to help at-risk student loan borrowers learn of and apply for these alternative payment plans.

Methods. Borrowers who were 90 to 180 days delinquent (n = 841,442) were randomly assigned along two, independent dimensions. First, the timing of the email was varied so that half of the sample was sent the email in November and half in December 2013. Second, the format and content of the email were varied, comparing four variants designed using behavioral insights: a longer, more comprehensive email; a shorter and less-detailed version of the email; a loss-framed email; and a gain-framed email.[54]

Results. Emails had a significant, positive impact on completed IDR applications. Of those borrowers who were sent an email, 1.02 percent submitted an IDR application in the 20 days following the email, compared with only 0.23 percent of those not sent the email, a difference of 0.79 percentage point ($p < 0.01$, 95% CI [0.75, 0.82]). Across variants, the longer email was slightly more effective at prompting IDR applications. Borrowers sent the longer email completed applications at a rate of 1.04 percent in the 20 days after sending, compared with 0.86 percent of those sent the shorter email ($p < 0.01$, 95% CI [0.12, 0.24]). The loss-framed email was slightly more effective at leading to applications than the gain-framed email, but each was less effective than the more comprehensive, longer email (all differences $p < 0.05$).

Conclusions. These findings suggest that low-cost, timely notices can make a significant difference on IDR enrollment rates among struggling student loan borrowers. While the effects are small in size in relative terms, this outcome is a measure of application rates within a twenty-day window following a single email. Given the large population of at-risk and delinquent borrowers, the absolute effect is substantial: the results suggest that sending just a single email led roughly 6,600 additional borrowers to sign up for an IDR plan.

[52] See: newyorkfed.org/studentloandebt/
[53] For more on IDR plans, see: studentaid.ed.gov/sa/repay-loans/understand/plans/income-driven
[54] Saurabh Bhargava and Dayanand S. Manoli, "Psychological Frictions and the Incomplete Take-Up of Social Benefits: Evidence from an IRS Field Experiment," *American Economic Review* (forthcoming). Raj Chetty and Emmanuel Saez," Teaching the Tax Code: Earnings Responses to an Experiment with EITC Recipients," *American Economic Journal: Applied Economics 5* (2013): 1–31. Jeffrey B. Liebman and Erzo F.P. Luttmer, "Would People Behave Differently If They Better Understood Social Security? Evidence From a Field Experiment," *American Economic Journal: Economic Policy 7* (2015): 275–299. Daniel Kahneman and Amos Tversky, "Prospect Theory: An Analysis of Decision Under Risk," *Econometrica 47* (1979): 263–291.