

WHY do people save so little, despite generous subsidies and counseling?

WHY do people sign unaffordable mortgages, despite disclosure laws?

WHY do people not take up training programs, despite their economic returns?

WHY do so many social programs fall short of expectations, despite the expense and thought put into them?

Psychology Matters

At ideas42 we bring a fresh perspective to these questions. We believe the answer lies in a richer understanding of human psychology. Success of any social program depends on recipients' choices and behaviors—from program enrollment to continuation and completion. Yet program designs often draw on an incomplete understanding of psychology and decision-making, presuming that stronger incentives will change behavior, that more information will promote awareness, or that more choices will improve well-being.

Such approaches are sensible but incomplete. They ignore the lessons of decades of research in psychology and economics; research that suggests powerful and counter-intuitive factors that can have dramatic effects on behavior. Incentives may be less powerful in promoting program enrollment than simply changing the forms to make participation easier: automatic 401(k) enrollment with the discretion to opt-out increases retirement savings dramatically. Information may fail to promote awareness if it is not

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What Is ideas42?

ideas42 is a laboratory for applied behavioral economics where social scientists, policy experts, and program practitioners work together, using cutting-edge research to tackle stubborn social problems by designing and testing innovative interventions.

We are a unique organization. Though we contain world-class researchers, we are not solely a research center; though we focus on policy, we are not only a think tank; instead we combine elements of each. ideas42 is similar to an R&D lab in the natural sciences, but we focus on persistent social problems. ■

When Small Changes Make a Big Difference

In a small conference room Chicago, an eloquent financial counselor leads a workshop for people struggling to manage their finances. She introduces them to a bank account that is low in fees and will help them avoid check-cashing and other costs. She gives them lots of good information and is clear and persuasive. 90% of the participants express their intention to go out and open a bank account! But in reality fewer than half of the participants actually end up opening the account.

On a different day, the counselor has a very different experience. She gives the same talk and is equally persuasive. This time, though, a representative from the bank is in the room. Instead of going to the bank to sign up, participants can enroll right then and there. They save little time since they still need to go to the bank to use the account. But this “foot in the door” made a huge difference: many more people opened and used the account. ■

— Providing Low-fee Bank Accounts, A study by ideas42 members Eldar Shafir and Sendhil Mullainathan with Marianne Bertrand

Psychology Matters

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framed well: the disclosure of mortgage features matters little if individuals focus only on the interest rate. Increasing choices may not promote well-being if all those choices make decisions seem too complicated: under the load of a hectic life, people may not have the energy to think about the benefits of various training programs.

We are discovering that policy and program designs can be greatly improved by incorporating psychological insights. We draw on behavioral economics to tackle the toughest social problems from poverty alleviation to energy conservation with a richer, more accurate model of human behavior. We operate by combining behavioral insights with the most rigorous approaches in social science. We do qualitative and quantitative work to translate insights and findings into workable designs. We use careful testing—from observational studies to randomized experiments—to validate or refine the designs. We use cost-benefit frameworks to assess the outcomes. The result is innovative program design. Sometimes it reshapes our thinking about a problem. Sometimes it draws attention to a small feature—something easy to ignore—yet proven to have significant impacts. In all cases, it provides a fresh perspective on important problems. ■

The Promise of Behaviorally-Informed Program Design

Because basic human decisions underlie so many programs, behaviorally informed program design is broadly applicable. Here are some examples:

- **Saving for retirement:** People often procrastinate in signing up for a retirement program. As a result the default choice (the one that takes effect if you do nothing) often prevails. This has led to a powerful lever for inducing savings. A 2001 study found that only 36% of people joined a 401(k) plan when they had to sign a form to participate, but 86% joined when they had to sign a form to *not* participate. This difference persisted for years.
- **Getting people to vote:** Our intentions often fail to materialize into real action. One reason is that vague intentions never become concrete plans. This principle can be applied to voting. A forthcoming study by ideas42 member Todd Rogers (with Nickerson) found that simply asking people whether they will vote yielded good intentions but few actual voters. A simple follow-up question—when will you vote—increased actual turnout significantly.
- **Conserving energy:** Social norms shape behavior in powerful ways. Studies show that simply changing the presentation of energy bills to show people their usage rates relative to their neighbors can reduce energy use by 2%. This may sound small, but if implemented nationally, this minor (costless)

A New Technology Is Emerging

“There’s new technology emerging from behavioral economics, and we are just starting to make use of that. I thought the input of psychology into economics was finished, but clearly it’s not!” ■

– Professor Daniel Kahneman,
Nobel Laureate in Economics

change would result in a \$300 million annual savings and substantial environmental benefits.

- **Loan Take-up:** A recent paper by ideas42 members Sendhil Mullainathan and Eldar Shafir (with collaborators Bertrand, Karlan, and Zinman) quantifies the importance of psychological cues in dollar terms. We partnered with one of the largest banks in South Africa to learn more about how clients decide whether to take out a loan. We found that any one psychological cue on the loan offer letter (for example, offering fewer loan options or adding a photo of a smiling person) could affect take-up by as much as a one to two *percentage point* reduction in the *monthly* interest rate. These findings are striking: psychological cues cost very little, while price changes (subsidies) cost a lot.

ideas42: Operationalizing Behavioral Economics

These examples illustrate the promise of behaviorally informed program design: increased impact, sometimes at lower costs and often with a much higher return on investment. Translating this promise into reality requires many ingredients. Practical designs and applied psychology require attention to nitty-gritty details. They demand a deep dive into problems requiring content expertise, as well as quantitative and qualitative work. Ensuring effectiveness demands careful testing and retesting both in the lab and in the field under live conditions. Scalability requires cost-benefit analyses. Our operating model and team are built with these diverse skills in mind.

We begin every project by reconceptualizing the underlying problem. The behavioral lens reveals more than potential policy levers—it works best when it suggests an entirely new perspective on the problem.

- In designing low-income assistance programs, the focus is often on mobility, offering or requiring training and education. The behavioral lens suggests an important impediment to mobility. When economic lives are unstable, people may not have the psychic energy to think and invest in education and training. This suggests that providing stability first may be an important precondition to successful training and education programs.
- In preventing foreclosure, loan modification programs were designed to allow borrowers and lenders to renegotiate. The focus was on the affordability of the new mortgage payments. The behavioral lens suggests an important wrinkle. Borrowers facing financial distress often seek to avoid the debt problem altogether. As a result, simply getting borrowers to the table to negotiate—even on a very good offer—may be the first challenge that needs attention.

From reconceptualization we move to interpreting evidence—looking at both quantitative and qualitative data—to designing an intervention that targets key behavioral levers.

- In rethinking income programs, we focus on what generates instability. It turns out that novel financial products with easy tools for budgeting and “sticky” accessible savings accounts can help people attain a critical level of stability.
- In preventing foreclosure, outreach to borrowers becomes central. The specific framing of a message can counter-intuitively increase outreach, especially to those borrowers in the greatest distress, the ones we often want to reach most. For example, the more the message conveys the threat of foreclosure, the less likely people may be to attend to it as they seek to avoid stressful and negative thoughts.

Once the intervention is designed,
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ideas42 Operating Model

Reconceptualize the problem

Draw on area expertise and existing data

Design an intervention

Draw on psychology, qualitative and quantitative data

Test and evaluate the intervention

Draw on statistical tools, randomized evaluations

Analyze and disseminate the results and policy implications

Perform cost-benefit analysis, make the case

The Promise

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we work with program partners to implement a scientific pilot with rigorous evaluation design. We focus on both on program impact and larger policy lessons. What do our findings imply for the particular design? What do they mean for policy as a whole and how can we eventually re-craft policies and regulations tomorrow? Therefore, our final results are not simply scalable designs but also contributions to the broader policy debate.

From Ideas to Impacts

Applying behavioral science to re-think traditional social programs is a relatively new approach, but it is already generating excitement and influencing public conversation. Our work has been cited in leading publications such as the *New York Times*, *Time* magazine, *Science*, and *The Wall Street Journal*. Equally important, ideas42 research has influenced proposed policies. For example, parts of the credit card reform legislation recently enacted by Congress and the proposed bill to create a Consumer Financial Protection Agency were influenced by our work on behaviorally informed financial regulation. Other ideas 42 work—such as research on Medicare Part D and energy efficiency—has been cited in congressional testimony. ■

Domestic Issue Areas

Re-designing Social Policies: We draw on behavioral insights to improve the performance of social insurance programs that improve the economic security of all individuals, as well as social safety net policies that provide assistance to the poor. Framing, social norms, and procrastination can affect program enrollment and program retention. This area of work informs policymakers as well as community agencies and non-profits that create and deliver services.

Sample projects:

- Health insurance take-up: Medicaid enrollment is often complex and as a result take-up is lower than expected. We are designing an intervention to test the combination of incentives and psychological nudges to assess budget-neutral ways of appealing to those

who would benefit most from coverage.

- Welfare and work incentives: Programs that incentivize employment take-up are only successful when participants view the program as valuable. Enrollment may suffer if participation carries a stigma. We are developing tests of approaches to strengthen work incentives in programs like TANF by changing the ways program features are presented to recipients without altering the financial value or structure of benefits. This might be done, for example, by highlighting for individuals how their use of benefits compares with their peers in order to activate social norms that might encourage participation.

Consumer Finance Innovation: We seek to address two burning issues:

Rigor, Imagination, and Practicality

“Academic think tanks are ubiquitous, so why another one? ideas42 is special because the team possesses the unique combination of strong cross-disciplinary skills in economics, finance, and psychology plus the ability and interest to think creatively about real world problems. I don't know of any group like it. They have a real chance to make progress on some of the world's thorniest problems by combining rigor, imagination, and practicality.” ■

– Richard Thaler, Professor of Behavioral Science and Economics, University of Chicago, and Author of *Nudge: Improving Decisions About Health, Wealth, and Happiness*

How can regulators protect customers without hindering financial innovation that might help those consumers, and how can we improve people's lives by designing financial products that fit their needs, from promoting long-term savings to encouraging financial health? In addressing these issues, we are focused on design solutions that are attractive to consumers and economically sustainable for the financial industry.

Sample project:

- Behaviorally informed foreclosure mitigation: Working closely with Government Sponsored Enterprises (GSEs) and interested lenders, we are attempting to transform the foreclosure process by focusing on the three critical steps in foreclosure: 1) employing different psychological levers by using hard and soft messages in lender outreach to delinquent borrowers to address different borrower psychologies; 2) guiding customers through the process of modification with more care so as to maximize retention; 3) constructing differentiated loan modification offers targeted toward different borrowers to minimize default.

Economic Stability Leads to Mobility: The poor live volatile lives—working hours fluctuate, cars breakdowns are frequent, and health crises can lead to catastrophic debt. Attempts to contain these “shocks” can just exacerbate the problem (taking out an expensive pay-day loan to repair a car, for example) leaving less energy to make major plans like investing in education or long-term saving. This instability can

undermine even the most promising social programs. We believe that a focus on stability may be a previously overlooked precondition to the success of many income-raising strategies. Focusing on the monetary and psychic costs of instability may transform our understanding of poverty in that it reshapes how we think about benefit program take-up, and highlights, for example, the importance of work-hours volatility.

Sample project:

- **StabilityFirst** is a pilot program that contains financial “shocks”, promotes stability, and optimizes opportunities for income growth. We have designed a stabilizer package that includes a multi-use reloadable pre-paid card and counseling services that would allow clients to streamline income, automate many fixed expenses, enroll in easy “sticky” savings, and access a small personal line of credit for times of financial distress. The goal is to reduce reliance on predatory providers while giving people a set of tools that make budgeting and spending discipline easy. These tools aim to help people gain control over their financial lives and free up valuable energy that can be used to take advantage of employment or educational opportunities.

Energy Conservation: By applying a scientific approach we will produce significant insights in the field of energy conservation that will reveal which conservation interventions are promising and which should be discarded. In addition to crafting more effective and scalable energy efficiency programs that reduce costs and greenhouse gas

emissions, our efforts will improve scientific understanding of human energy use behaviors.

Sample project:

- We are currently collaborating with OPOWER to improve their home energy use reporting system, which uses the power of social norms to decrease energy consumption by giving consumers information about how their consumption compares to that of their peers. Led by Hunt Allcott, Assistant Professor of Economics at New York University, we are working with OPOWER to use behavioral theory to generate and refine new ideas, improving the efficacy of energy reports and rigorously testing ideas through randomized trials. We draw on a variety of tools—from real-time reporting which draws attention to selectively targeting pocket-book appeals (“save money”) versus charitable appeals (“do something for the planet”).

Direct Field Work: This project is an innovative attempt to build a better bridge between research and practice. Our researchers conduct behavioral audits for select organizations, walk through programs’ goals and processes to target critical leverage points, propose behaviorally informed design changes, and measure effects of the intervention. Mindy Hernandez, the lead researcher in this area was recently awarded the Innovator-in-Residence award from the Corporation for Enterprise Development (CFED), which will allow ideas42 to work closely with a variety of high-capacity programs in the field.

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Domestic Issue Areas

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Sample project:

- **Making saving at work easy:** MDRC and the New America Foundation, through their project AutoSave, wanted to find a way to make workplace saving in an employer setting as easy as possible. We have designed various enrollment forms (variations based on unique needs and specifications of different employers) that nudge employees toward a particular savings amount with an option to enroll now for future saving. The enrollment forms present the savings option as an expected choice with a pre-checked box next to the “standard” savings option, give a savings reference point (although people can save more), and leverage people’s tendency to procrastinate by allowing them to enroll today to save in three month’s time. Enrollment in the program also sets up savings through direct deposit so saving is easy and automatic.

Special Opportunities

Our specialty is in applying behavioral science to tough social problems. Any issue with a behavioral challenge and the potential for an innovative behavioral response is ripe for our work. Beyond the areas above we are interested in topics ranging from increasing high school graduation rates to influencing prescription drug adherence. ■

Who We Are

To create the profound changes and test the innovative ideas we believe are possible, we have brought together an exceptional group of people who are subject-experts in areas ranging from international finance to inter-group conflict, as well as people with experience translating theoretical interventions into large-scale experimental pilots. This combination of deep conceptual knowledge of behavioral science with substantial expertise in designing and managing field experiments is what allows ideas42 to generate new and useful ideas and translate them into low-cost, high-impact projects that benefit project partners and help identify important new policy directions.

Areas of Expertise

Our network is designed to bring together the leading experts in psychology, business, health, public policy, law, economics, finance, income security, and large experimental design management. Our senior staff have led large-scale anti-poverty and housing studies that have contributed to state and federal policymaking, managed financial service projects for senior executives in the financial industry, and produced influential studies on asset-building, income-security, mortgage reform, and Medicare coverage. In addition to research experience in influencing asset-building behaviors, our academic expertise ranges from regulatory policy in energy markets to prejudice and inter-group conflict resolution to motivating pro-social behaviors.

A Unique Link to Policymaking

Our team has both strong research as well as policy credentials with several ideas42 members currently serving, or having recently served, in senior positions in government. For example, **Sendhil Mullainathan** is currently dividing his time between Harvard University and the Treasury Department where he is a Senior Policy Advisor. **Jeff Kling** (on leave) is now Assistant Director of the Congressional Budget Office and **Michael Barr** (on leave) is Assistant Secretary of the Treasury. **Katherine Baicker** previously served on the President’s Council of Economic Advisers.

Founders and Directors

Sendhil Mullainathan is a Professor of Economics at Harvard University. He is one of the world’s leading experts on behavioral economics, development economics, finance, and applications of behavioral science to policy. He is a recipient of a MacArthur Foundation “genius grant” and is a founding member of the Poverty Action Lab.

Antoinette Schoar is an expert in venture capital, entrepreneurial finance, household finance, and corporate governance. In 2008 she received the Kauffman Foundation Prize Medal for distinguished research in entrepreneurship. She also is a co-organizer of the National Bureau of Economic Research’s entrepreneurship group and an associate editor of the Journal of Finance.

Eldar Shafir is a Professor of Psychology and Public Affairs at Princeton University. He is one of the leading experts on human inference and decision-making. His research focuses primarily on how people make judgments and decisions in situations of conflict and uncertainty. Most recently, his focus has been on decision making in the context of poverty.

Our Partners

Our work depends on strong relationships with program partners,

funders, policy experts, and policy-makers.

Program partners: We have a variety of program partners from the World Bank to Allstate Insurance.

Funders: Support for ideas42 comes from sources ranging from government funders such as the National Science Foundation to corporate funders such as TIAA-CREF to private foundations such as the Annie E. Casey Foundation. We are especially grateful for the early and generous support of the

William and Flora Hewlett Foundation and the Russell Sage Foundation.

Researchers and content-area experts: We collaborate with a range of content-experts at institutions such as the National Bureau of Economic Research, the Brookings Institution, and CFED (Corporation for Enterprise Development). ■

ideas42
asking the right questions

How to Get Involved

Emerging evidence from economics and psychology is challenging long-held assumptions that underlie how we design our social programs and policies. The exciting work of rethinking those assumptions, realizing new results in full, and the research that it ultimately requires, is just now beginning. We look forward to partnering with you to put these powerful ideas into practice.

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