Income-Driven Repayment: Targeted Messages

Targeted messages for specific borrower groups increase income-driven repayment applications

Agency Objective. Increase enrollment in Revised Pay As You Earn (REPAYE) and Income-Driven Repayment (IDR) plans among those who would benefit.

Background. Student loan borrowers have over $1.26 trillion dollars in outstanding Federal student loan debt.[39] Income-driven repayment plans can help Americans manage this debt by limiting their monthly payments to a percentage of their discretionary income and providing for loan forgiveness. Despite these benefits, fewer than 24 percent of student loan borrowers are in IDR repayment plans.[40] REPAYE plan was released by the Department of Education in 2015 to simplify and expand IDR eligibility. The plan caps monthly payments at 10 percent of a household's discretionary income, limits interest capitalization, and enables loan forgiveness after 20 or 25 years of qualifying payments for undergraduate or graduate borrowers, respectively. Despite these benefits, those borrowers who could benefit may not sign up for REPAYE or another IDR plan if they do not think they are eligible, are not aware of the benefits, need a prompt or reminder, or are avoiding facing their financial situation.[41]

Methods. To assist individuals in overcoming barriers to application, the Department of Education's Office of Federal Student Aid (FSA) tested behaviorally informed emails sent to a number of different borrower groups, each described below. A total of 460,000 borrowers were randomly allocated to receive either one of a series of emails or no email (control group).

Two generic emails were sent to all types of borrowers and used as baseline emails; the first contained information about benefits and five action steps (E1); the second was a shorter email starting with a prompted action and one step to leverage primacy and simplicity of action (E2). A series of targeted emails was sent to borrowers who were distinguished by certain characteristics.

One group of borrowers interested in IDR included previous IDR applicants and those who indicated a preference for IDR during their exit loan counseling. Borrowers in this group were either sent an email that began with action steps and highlighted that the borrower was "guaranteed to qualify" (E3).

Second, borrowers who were in forbearance or economic deferment were sent a targeted email containing loss aversion language ("Avoid making monthly student loan payments of more than 10% of your income") and using an example of the income that would result in a monthly payment of $0 (E4).

Third, borrowers who were 31-240 days delinquent were sent a targeted email with a prompted choice to sign up for IDR or do nothing and potentially suffer the negative consequences of default (E5).

Fourth, borrowers who had Federal Family Education Loans (FFEL) and needed to consolidate their loans before being eligible for REPAYE were sent two emails.[42] One email (E6) presented the benefits of REPAYE first and the eight action steps to consolidate and sign up for IDR afterwards. The second email (E7) presented the action steps first and explained the benefits second.

Results. All emails sent to borrowers who had shown interest in IDR or were in financial hardship resulted in significantly more submitted IDR applications compared to the control group.

[39] Federal Student Aid, *Data Center*; data accessed 2016 at https://studentaid.ed.gov/sa/about/data-center/student/portfolio. See "Federal Student Aid Portfolio Summary."

[40] Ibid. See "Direct Loan Portfolio by Repayment Plan." Twenty four percent of direct loan borrowers who are in repayment, deferment, or forbearance are enrolled in an IDR plan as of Q3 2016.

[41] Niklas Karlsson, George Loewenstein, and Duane Seppi. "The ostrich effect: Selective attention to information." *Journal of Risk and Uncertainty* 38, no. 2 (2009): 95-115.

[42] This group of borrowers were not sent the two generic baseline emails.

E2, which prompted interested borrowers to submit an application with minimal discussion of benefits, had the highest IDR submission rate (8.9 percent) among IDR Applicant borrowers, but the difference was statistically insignificant compared to the baseline email (difference=0.31 p.p., *p*=0.70, 95% CI [-0.42, 1.03]). Among IDR Preference borrowers, the baseline email had the highest submission rate (9.0 percent), although there were no significant differences with the second email (difference=0.13 p.p., *p*=0.97, 95% CI [-0.61, 0.86]).

Among borrowers who were in financial hardship, E4 had the highest submission rate. The increase was not statistically distinguishable from the baseline emails for those in forbearance, who had a 5.6 percent application rate (difference=0.36 p.p., *p*=0.39, 95% CI [-0.22, 0.94]), but was significantly higher than the baseline email among borrowers in deferment, increasing submissions by 0.96 percentage points from a base rate of 6.8 percent (*p*<0.01, 95% CI [0.29, 1.63]).

Among delinquent borrowers, E5 was the only email to significantly increase IDR submission rates compared to the no-email control group's rate of 3.45 percent (difference=0.52 p.p., *p*= 0.03, 95% CI [0.03, 1.01]).

Among FFEL borrowers, neither E6 nor E7 significantly changed applications submission rates compared to the control group. The email presenting the benefits of REPAYE first (E6) increased applications from 6.1 percent to 6.6 percent (*p*=0.14, 95% CI [-.11, 1.03]), while E7 increased applications to 6.5 percent (*p*=0.25, 95% CI [-0.18, .96]).

Conclusions. Borrowers who had previously shown interest in IDR were more likely to submit an IDR application if sent an email prompting application. Borrowers who had taken action to claim a forbearance or deferment of their loan payment due to economic hardship were more likely to submit an IDR application after receiving a targeted email using loss aversion along with a specific example of how they can pay $0 per month. Borrowers who were in delinquency and had not taken any action were more likely to submit an IDR application after receiving a targeted email containing a prompted choice. FFEL borrowers were not likely to respond to an email campaign encouraging them to proactively choose a new repayment plan.