OES 2016 Project Abstract

Income-Driven Repayment: Scale-Up

Scaling targeted messages for specific borrower groups to 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.[43] 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 15 percent of Federal student loan borrowers are in IDR repayment plans.[44] 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.[45]

Methods. Scaling the most successful messages from the IDR Targeted Messages pilot, the Department of Education's Office of Federal Student Aid (FSA) sent behaviorally informed emails to a number of borrower groups. A total of 3,036,691 borrowers were randomly allocated to receive either the most effective message from the Targeted Messages pilot, or no email (control group).

Borrowers who had shown interest in IDR plans either by previously submitting an IDR application or by indicating a preference for IDR during their exit loan counseling were sent a short email starting with a prompted action and one step to leverage primacy and simplicity of action.

Borrowers who were in forbearance or economic deferment were sent an 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.

Borrowers who were 31-227 days delinquent were sent an email with a prompted choice to sign up for IDR or do nothing and potentially suffer the negative consequences of default.

Borrowers who had Federal Family Education Loans (FFEL), and needed to consolidate loans before being eligible for REPAYE, were sent an email that presented the benefits of REPAYE first and the eight action steps to consolidate and sign up for IDR second.

Results. The short email prompting action increased IDR submissions among borrowers who had previously submitted an IDR application by 0.28 percentage point (p = 0.02, 95% CI [0.04, 0.52]) compared to a 5.93 percent application rate in the control group. The same email increased IDR submissions among borrowers who indicated a preference for IDR during exit loan counseling by 0.63 percentage point (p < 0.01, 95% CI [0.37, 0.88]) compared to a 6.81 percent application rate in the control group.[46]

The email containing loss aversion language increased IDR submissions among borrowers in forbearance by 0.72 percentage point (p < 0.01, 95% CI [0.53, 0.90]) compared to a 3.55 percent application rate in the control group. The same email increased IDR submissions among

[43] Federal Student Aid, *Data Center*; data accessed September 2016 at https://studentaid.ed.gov/sa/about/data-center/student/portfolio.
[44] Ibid.
[45] 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.

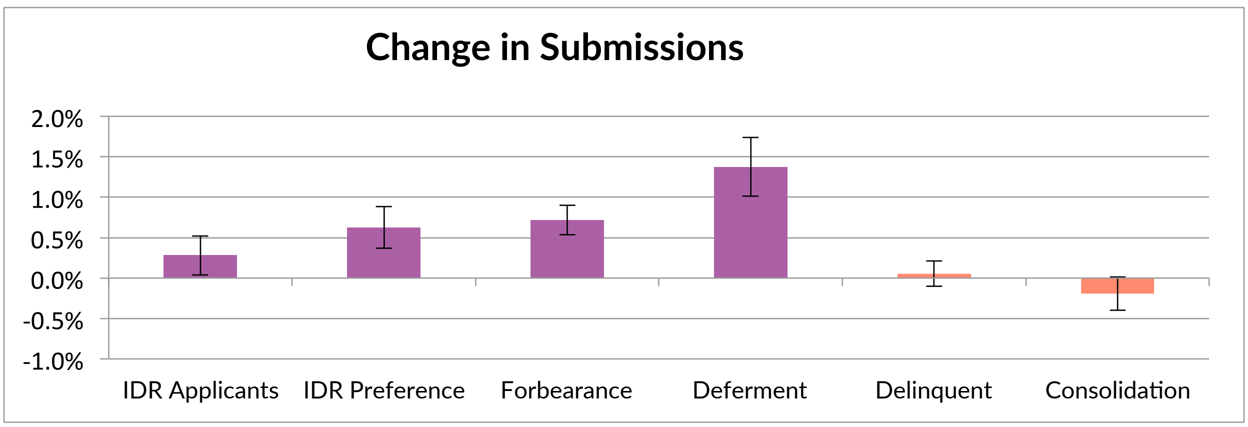
[46] All regressions reported here included controls indicating if the borrower's loan was serviced by PHEAA, the servicer responsible for borrowers in the Public Service Loan Forgiveness program.

borrowers in deferment by 1.37 percentage points ($p < 0.01$, 95% CI [1.01, 1.74]) compared to a 4.82 percent application rate in the control group.

The email containing a prompted choice increased IDR submissions among borrowers in delinquency by 0.06 percentage point ($p = 0.48$, 95% CI [-0.10, .21]) compared to a 2.96 percent application rate in the control group.

The email containing an explanation of benefits and action steps decreased IDR submissions among FFEL borrowers by 0.19 percentage point ($p = 0.07$, 95% CI [-0.01, 0.40]) compared to a 5.18 percent application rate in the control group.

Conclusions. On average, sending an email increased submissions by 0.35 percentage point over the control submission rate of 4.74 percent ($p < 0.01$, 95% CI [0.26, 0.44]), controlling for borrower group. The campaign resulted in over 6,000 more borrowers signing up for IDR, shifting approximately $300 million of Federal student loans into income-driven repayment plans.



Notes: The percentage point change in IDR application submission rates compared to no email 119 days after the first emails were sent.