Center for Research on Consumer Financial Decision Making

2011 Boulder Summer Conference on Consumer Financial Decision Making

June 26-28, 2011

Welcome

Welcome to the 2011 Boulder Summer Conference on Consumer Financial Decision Making! On behalf of the University of Colorado and the Center for Research on Consumer Financial Decision Making we are delighted to welcome scholars, regulators, and consumer advocates from North America, Europe, Australia, and Asia.

Consumer financial decision making is a topic that is naturally interdisciplinary. No one field can claim to have all the answers, so there is a very real benefit to having a forum like this for conversation with scholars from Finance, Economics, Consumer Sciences, Marketing, Psychology, Behavioral Economics, Sociology, Anthropology, Management, Social Work, and Law. Consumer welfare is strongly affected by household financial decisions large and small, and we are very fortunate to have participation in the conference by people involved in regulation of consumer financial products, and to have participation by experts from nonprofit organizations with a mission to promote better financial decision making and many attendees from the business world of financial services

Over the next three days, we are in for a treat. Sunday afternoon we will have three parallel sessions on: the role of employers in influencing the financial decisions of their employees; individual differences in financial decision-making; and credit use and how perspectives change when looking at a single resource versus the total wallet. Monday, the focus is on consumers' use and misuse of debt and on what regulators and consumer groups can do to help consumers avoid bad decisions about debt. Tuesday, the focus is the accumulation of assets and savings and on the decumulation of those assets by consumption in retirement. The conference will be highly interactive, with plenty of time built into each session for discussion and opportunities for informal interaction built into our receptions and luncheons at fun places near the St. Julien Hotel.

Thank you!

John Lynch Donnie Lichtenstein

2011 Boulder Summer Conference on Consumer Financial Decision Making June 26-28, 2011

PROGRAM

Saturday, June 25

Optional Pre-Conference Fun- Boulder Craft Beer Tour (email Donald.Lichtenstein@colorado.edu to participate, spouses welcome)

Sunday, June 26

8:00 AM – 2 PM Optional **Pre-Conference Rocky Mountain Hike,** Brainard Lake (email Donald.Lichtenstein@colorado.edu to participate, families welcome)

3:30 – 4:00 PM **Conference Packet Pick-up**
St. Julien Hotel Xanadu Ballroom Lobby

4:00 – 4:15 PM **Welcome and Road Map of Conference**
Xanadu Ballroom
John Lynch & Donnie Lichtenstein

4:15 – 5:30 PM **Conversation Starter Session 1: Financial Decisions Through Employers**
Ballroom 1

"Five Steps to Planning Success"
Aileen Heinberg- RAND, Psychology
Angela Hung- RAND, Economics
Arie Kapteyn- Associate Director, RAND Financial Literacy Center
Annamaria Lusardi- Director, RAND Financial Literacy Center
Joanne Yoong- RAND, Economics

"Stock Market Returns and Annuitization"
Alessandro Previtero- University of Western Ontario, Finance

"The Missing Link in Retirement Planning Research—The Human Resources (HR) Department"
Dale Rude- University of Houston, Management
Hwanwoo Lee - University of Houston, Management

4:15 – 5:30 PM **Conversation Starter Session 2: Individual Differences in Financial Decision Making**
Ballroom 2

"Too Smart to Forgo: Cognitive Ability and Subsidized Prescription Drug Insurance"
M. Kate Bundorf- Stanford University, School of Medicine
Helena Szrek- University of Porto, Centre for Economics and Finance

"Successful Completion of a Matched Savings Program: Impacts of Time Preference and Loss Aversion"
Kim Manturuk- University of North Carolina- Center for Community Capital, Sociology
Jessica Dorrance- University of North Carolina- Center for Community Capital, Public Administration
Sarah Riley- University of North Carolina- Center for Community Capital, Economics

"How Financially Capable is the Dutch General Population? Validation of a New Index in a Representative Sample of Dutch Households"
Mark van Overveld- Erasmus University, Marketing
Ale Smidts- Erasmus University, Marketing
Gilbert Peffer- University of Barcelona- Centre Internacional de Mètodes Numèrics en Enginyeria, Spain

4:15 – 5:30 PM **Conversation Starter Session 3: Credit Use and the Total Wallet**
Ballroom 3

"How People Use Multiple Credit Cards: Deconstructing a Debt Puzzle"
Victor Stango - University of California, Davis, Economics
Jonathan Zinman- Dartmouth College, Economics

"Partitioning, Self Control, and $100 Bills"
Helen Colby – Rutgers University-New Brunswick Dept. of Psychology
Gretchen Chapman - Rutgers University – New Brunswick Dept. of Psychology

"Check Cashing: Time Preferences and Rationality among the Unbanked"
Paige Skiba – Vanderbilt University Law School
Susan Payne Carter – Vanderbilt University, Economics
Justin Sydnor – University of Wisconsin-Madison, Actuarial Science, Risk Management, and Insurance

5:45 – 7:45 PM **Reception**- Absinthe House, 1109 Walnut Street

Monday, June 27

7:00 – 8:00 AM **Breakfast Buffet**- St. Julien Hotel- Food served in Ballroom Lobby, dine in Ballrooms 2 and 3

Plenary Session for the Day is held in Ballrooms 2 and 3

8:00 – 9:15 AM **Session 1: Helping Consumers Understand Debt**

Discussant: **Craig McKenzie**- University of California, San Diego

"Borrow Less Tomorrow"
Jonathan Zinman- Dartmouth College, Economics
Dean Karlan- Yale University, Economics

"Consumers' Understanding of Credit Card Debt: Shortcomings and Solutions"
Jack Soll- Duke University, Management
Ralph Keeney- Duke University, Decision Sciences
Rick Larrick- Duke University, Management

9:30 – 10:45 AM **Session 2: Individual Differences in Ability to Make Wise Financial Decisions**

Discussant: **Stephen Spiller**, Duke University and UCLA

"Cognitive Ability and Financial Decision Making"
Sumit Agarwal- Federal Reserve Bank of Chicago, Economics
Bhashkar Mazumder- Federal Reserve Bank of Chicago, Economics

"Are Financial and Debt Literacy Separable from Each Other and from Cognitive Abiility?"
Ye Li- Columbia University, Center for Decision Sciences
Eric Johnson- Columbia University, Marketing

10:45 – 11:00 AM **Beverage Break** in Ballroom Lobby area

11:00 – 12:15 PM **Session 3: Social Perceptions and Self-Perceptions of Debtors**

Discussant: **Joel Cohen**, University of Florida

"Perceived Wealth: On the Asymmetric Role of Assets and Debt"
Abigail Sussman- Princeton University, Psychology
Eldar Shafir- Princeton University, Psychology

"Living Capitalism: The Normalization of Credit Debt in the U.S. Middle Class"
Lisa Peñaloza- EDHEC Business School, Marketing

12:30 – 1:45 PM **Lunch**- Bacaro, 921 Pearl Street

2:00 – 3:15 PM **Session 4: Mortgages Gone Bad**

Discussant: **Susan Woodward**, Sand Hill Econometrics

"Market-Based Loss Mitigation Practices for Troubles Mortgages Following the Financial Crisis"

Sumit Agarwal- Federal Reserve Bank of Chicago, Economics
Gene Amromin- Federal Reserve Bank of Chicago, Economics
Itzhak Ben-David- Ohio State University, Finance, Economics
Souphala Chomsisengphet- Office of the Comptroller of the Currency, Economics
Douglas D. Evanoff- Federal Reserve Bank of Chicago, Economics

"The Effects of Foreclosure Counseling for Troubled Borrowers"

Michael J. Collins- University of Wisconsin Madison, Center for Financial Security, Consumer Science

3:15 – 3:30 PM **Beverage/Snack Break** in Ballroom Lobby area

3:30 – 4:45 PM **Session 5: Credit Counseling and Debt Management**

Discussant: **Mark Cole**, CredAbility.org

"Do Consumers Benefit from Credit Counseling Payment Plans?"

John Barron- Purdue University, Economics
Michael Staten- Director, Take Charge America Institute
Cathleen Johnson- University of Arizona, Economics

"Meeting the Demand for Debt Relief"

Robert M. Hunt- Federal Reserve Bank of Philadelphia, VP and Director, Payment Cards Center, Economics
Stephanie Wilshusen- Federal Reserve Bank of Philadelphia, Economics

5:30 – 7:00 PM **Reception**- Bacaro, 921 Pearl Street

Tuesday, June 28

7:00 – 8:00 AM **Breakfast Buffet**- St. Julien Hotel- Room: Food served in Ballroom Lobby, dine in Ballrooms 2 and 3

Plenary Session for the Day is held Ballrooms 2 and 3

8:00 – 9:15 AM **Session 6: Advice Seeking and Investment**

Discussant: **Ellen Merry**, Federal Reserve Board, Division of Consumer & Community Affairs

"Asking for Help: Survey and Experimental Evidence on Financial Advice and Behavior Change"
Angela Hung- RAND, Economics
Joanne Yoong- RAND, Economics

"What Are Investors Willing to Pay to Customize their Investment Product?"
Thomas Langer- University of Muenster, Finance

9:30 – 10:45 AM **Session 7: Paying for Consumption in Retirement**

Discussant: **Martin Boileau**, University of Colorado, Economics

"Live to or Die by: Framing Effects on Life Expectations and Life Annuity Choice"
John Payne- Duke University, Management
Namika Sagara- Duke University, Management
Suzanne Shu- University of California, Los Angeles, Marketing

"Why Americans Claim Benefits Early and How to Encourage Them to Delay"
Kirstin Appelt- Columbia University, Psychology
Eric J. Johnson- Columbia University, Marketing
Melissa A.Z. Knoll- Social Security Administration

10:45 – 11:00 AM **Beverage Break** in Ballroom Lobby area

11:00 – 12:15 PM **Session 8: Saving by the Financially Pressed and the Comfortable**

Discussant: **Gülden Ülkümen**, University of Southern California

"Financial Wellbeing and Willingness to Take Risk"
Kees Koedijk- Tilburg University, Finance
Rachel Pownall- Maastrict University, Finance
Meir Statman- Santa Clara University, Finance

"Can Child Development Accounts Increase College Savings? Evidence

from SEED for Oklahoma Kids Experiment"
Michael Sherraden- Washington University in St. Louis, Center for Social Development
Yunju Nam- Washington University, Social Work
Youngmi Kim- Washington University, Social Work
Robert Zager- Washington University, Social Work
Margaret Clancy- Washington University, Social Work

12:30 – 1:45 PM **Lunch**- Bacaro, 921 Pearl Street

2:00 – 3:15 PM **Session 9: Risk Presentation and Risk Taking**

Discussant: **Dan Goldstein**, Yahoo! Research and London Business School

"Economic Rationality, Risk Presentation, and Retirement Portfolio Choice"
Hazel Bateman- Australian School of Business, Economics
Christine Ebling- University of Technology, Sydney, Marketing
John Geweke- University of Iowa, Economics
Jordan Louviere- University of Technology, Sydney, Marketing
Stephen Satchell- University of Cambridge, Economics
Susan Thorp- University of Technology, Sydney, Finance

"Does Risk-Taking Depend on the Risk-Return-Profile Given?"
Christian Ehm- University of Mannheim, Banking
Christine Kaufmann- University of Mannheim, Banking
Martin Weber- University of Mannheim, Banking

3:15 – 3:30 PM **Beverage/Snack Break** in Ballroom Lobby area

3:30 – 4:45 PM **Session 10: Expectations and Stock Market Investing**

Discussant: **Michael Jay Stutzer –** University of Colorado, Finance

"Do Investors Put Their Money Where Their Mouth Is? Stock Market Expectations and Trading Behavior"
Christoph Merkle- University of Mannheim, Banking
Martin Weber- University of Mannheim, Banking

"Once Burned, Twice Shy and You've been Good to Me So Far: How Naïve Learning, Counterfactuals, and Regret Affect the Repurchase of Stocks Previously Owned"
Michal Strahilevitz- Golden Gate University, Marketing
Terrance Odean- University of California, Berkeley, Finance
Brad Barber- University of California, Davis, Finance

4:45 – 5:00 PM **Closing Remarks**

Victor Fleisher – University of Colorado Law School

2011 Boulder Summer Conference on Consumer Financial Decision Making June 26-28, 2011

PROGRAM & ABSTRACTS

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"Five Steps to Planning Success"

Aileen Heinberg- RAND, Psychology
Angela Hung- RAND, Economics
Arie Kapteyn- Associate Director, RAND Financial Literacy Center
Annamaria Lusardi- Director, RAND Financial Literacy Center
Joanne Yoong- RAND, Economics

Abstract: While financial knowledge has been convincingly linked to improved financial behavior, there is little consensus on the value of financial education, in part because rigorous evaluation of various programs has yielded mixed results. However, given the heterogeneity of financial education programs in the literature, focusing on "generic" financial education can be inappropriate and even misleading. Lusardi (2004) and others argue that pedagogy and delivery matter significantly. In this paper, we draw on insights from psychology to design and field a low-cost, easily-replicable financial education program called "Five Steps", covering five basic concepts in financial planning for retirement. Using a series of randomized controlled trials, we evaluate the overall impact of "Five Steps" on a probability sample of the American population as well as the relative impact of delivering the program through video and narrative formats. Our results show that "Five Steps" has sizable effects on objective measures of respondent knowledge. Moreover, keeping informative content relatively constant, format has significant effects on other psychological levers of behavioral change: effects on motivation and self-efficacy are significantly higher when videos are used, which ultimately influence knowledge acquisition. The findings demonstrate the effectiveness of using simple precepts from behavioral economics to enhance financial education and the need to take seriously features of program design other than factual content.

"Stock Market Returns and Annuitization"

Alessandro Previtero- University of Western Ontario, Finance

Abstract: Managing retirement wealth is one of the major financial decisions that individuals face. In

this setting, I document a strong *negative* relationship between stock market returns and annuitization. Using a novel dataset with more than 103,000 actual payout decisions, I find that positive stock market returns decrease the likelihood of employees choosing an annuity over a lump sum, and vice versa. More precisely, only *recent* market performance drives annuitization with almost no weight assigned to returns for two years before the decision date. Several explanations can account for these findings: wealth effects generated by movements of the stock market; endogenous timing of retirement; volatility of stock market returns and time varying risk aversion; and expectations about labor income or inflationary periods. After addressing these explanations, I present evidence consistent with employees extrapolating from recent stock market returns. I conclude showing that this *myopic* extrapolation – based on very recent stock market returns – can bar serious welfare consequence and significantly reduce retirement wealth if, for example, individuals annuitize too early because of a market drop.

"The Missing Link in Retirement Planning Research—The Human Resources (HR) Department"

Dale Rude- University of Houston, Management
Hwanwoo Lee - University of Houston, Management

Abstract: The Human Resources (HR) Department plays a pivotal role in employee retirement planning. The HR Department chooses the retirement plan options for the organization and orients employees to them. To illustrate shortcomings in this process, a seven-year case study of the University of Houston is presented. The HR staff is prohibited from advising employees and has limited background for effectively managing the retirement system. Employees are left on their own for major retirement decisions: 1) the irrevocable choice between defined benefit and a defined contribution programs and 2) if the defined contribution program is selected, the choice among retirement service providers. Steps taken to improve the situation are described. This case study has evolved into an examination of the HR field's approach to managing retirement programs. Unfortunately, the typical HR professional lacks the incentive, knowledge base, and tools to manage programs well. There is little or no financial incentive for effective management of retirement programs by organizations. In addition, federal legislation (e.g., ERISA) discourages active involvement. Financial planning is not part of the traditional HR education and credentialing process. Inadequate tools have been developed to assess the health of defined contribution retirement programs. Better tools are needed to help HR professionals assess the status of plans they manage.

Biographies:
Aileen Heinberg is an Associate Behavioral Scientist at the RAND Corporation, where she is a member of the Center for Financial and Economic Decision Making and a researcher at the Financial Literacy Center. Her research focuses on the psychology of financial decision making. More specifically, she studies emotional influences on decisions, framing effects, presentation effects, decision making under conditions of uncertainty, and intertemporal choice. Current projects also include design and evaluation of financial education interventions. In addition, Dr. Heinberg works with financial institutions to apply research findings and serves as a member of the HelloWallet Research Advisory Board. In the past, she has also studied cognitive correlates of aging, child and maternal health, and mental health at UCLA, Columbia University's Sergievsky Center, and the New York State Psychiatric Institute. She received a Ph.D. in psychology and an M.A. in clinical psychology from the University of California, Los Angeles and a B.A. in psychology from Columbia University.

Alessandro (Ale) Previtero is a Finance Assistant Professor at the Richard Ivey Business School at the University of Western Ontario. Ale joined Ivey in 2010 after being a Postdoctoral Fellow at the UCLA Anderson School. Previously, Ale completed a PhD in Management (Finance) at the University of Lecce (Italy) and worked as lecturer and research fellow at Bocconi University of Milan (Italy). Ale's research investigates individual financial decisions. Individuals are becoming directly responsible for securing a comfortable retirement. Achieving individual retirement goals involves addressing a set of fairly complicated decisions: i) deciding how much to save; ii) choosing how to invest these savings;

and iii) managing retirement wealth and spending after stop working. This is the focus of Ale's research. More specifically, his current projects focus on: (i) saving for retirement; ii) retirement income and annuities; and (iii) nonstandard (behavioral) preferences and beliefs. His work has been covered by – among the others – the *New York Times*, the *Wall Street Journal* and *Money Magazine*.

Dale Rude is an associate professor of management in the Bauer College of Business, University of Houston. He published the software package The Decision Analysis System. His articles have appeared in *Journal of Applied Psychology, Academy of Management Review, Human Relations, Judicature, Journal of Operations Management*, and others. Current research interests include the role of the Human Resources Department in retirement systems. He has worked extensively with the Human Resources Department on his campus to improve retirement programs. He has been teaching decision behavioral finance for over 12 years, accumulating a wide variety of behavioral finance-related exercises and video clips which he is happy to share.

4:15 – 5:30 PM **Conversation Starter Session 2: Individual Differences in Financial Decision Making**
Ballroom 2

"Too Smart to Forgo: Cognitive Ability and Subsidized Prescription Drug Insurance"

M. Kate Bundorf- Stanford University, School of Medicine
Helena Szrek- University of Porto, Centre for Economics and Finance

Abstract: Research has documented negative effects of extensive choice, but has not analyzed whether set size has differential effects across subgroups. We build on research demonstrating that individuals with greater cognitive ability generally make better decisions than their lower ability counterparts by analyzing the relationship between cognitive ability, choice set size, and decision quality among older adults choosing prescription drug insurance plans. Within a framework that suggests that the benefits and costs of choice increase with more options, we test a moderated mediation model in which the costs and benefits of additional options affect decision quality differentially depending on individuals' cognitive ability. In this setting, ability is strongly and positively correlated with decision-making quality. We also find evidence that increases in the number of plans reduce decision quality via choice difficulty and that the effect is moderated by cognitive ability. Our results suggest that, in the context of Medicare Part D, policies which make decision making less costly such as reductions in choice set size would improve decision quality primarily among beneficiaries with greater cognitive ability.

"Successful Completion of a Matched Savings Program: Impacts of Time Preference and Loss Aversion"

Kim Manturuk- University of North Carolina- Center for Community Capital, Sociology
Jessica Dorrance- University of North Carolina- Center for Community Capital, Public Administration
Sarah Riley- University of North Carolina- Center for Community Capital, Economics

Abstract: There is a general consensus among researchers and policymakers that matched savings programs can significantly increase the propensity to save among low-income households. This study offers a unique contribution to the field by testing whether principals and theories from behavioral economics affect the decisions that participants make in these savings programs. Using a sample of people participating in the $aveNYC program, a matched savings program for very low-income households, we test whether information failure, time preference, and financial hardship affected people's ability to complete the program and receive the match money. We find that future orientation does not significantly impact program completion, but both information failure and financial hardship increase the hazard of early account closure. We discuss how these findings can inform program design and suggest future research.

"How Financially Capable is the Dutch General Population? Validation of a New Index in a Representative Sample of Dutch Households"

Mark van Overveld- Erasmus University, Marketing
Ale Smidts- Erasmus University, Marketing
Gilbert Peffer- University of Barcelona- Centre Internacional de Mètodes Numèrics en Enginyeria, Spain

Abstract: In the general population, alarming levels exist of financial illiteracy. Many people do not understand financial products very well, and this may have severe consequences for the finances of individual households. Yet, in addition to financial literacy, it may also be that some individuals are more skilled to make financial decisions than others. That is, individual levels of financial capability may vary. The present study provides a first psychometric exploration of a newly developed questionnaire on financial capability (Financial capability Questionnaire; FCQ), and tested it in a large and representative sample of the Dutch population (N=5435). Further, indices on emotion regulation were administered which show that emotion regulation influences financial capability after controlling for various variables (i.e., demographic, socio-economic and personality variables). In specific, those who actively address problems in general (high re-appraisal) would also do so in financial affairs while problem-avoiders (high suppression) demonstrated a lack of interest in problems concerning their personal finance. The data implicate that financial capability programs could be improved by focusing on emotion regulation strategies.

Biographies:
Helena Szrek received her Ph.D. from the Health Care Systems Department at the Wharton School of the University of Pennsylvania in 2005 and is now a Research Assistant Professor at the Centre for Economics and Finance at the University of Porto. Helena studies individual decision processes relevant to health care and public policy. Her current work focuses on prescription drug choice amongst older adults in the USA and on individual differences amongst business owners and non-owners in South Africa. She has publications in various decision-making and health care journals including Medical Decision Making, Psychology and Aging, Judgment and Decision Making, Health Economics, and Health Affairs.

Kim Manturuk is a research associate at the Center for Community Capital, a research institute at the University of North Carolina at Chapel Hill. She has conducted research on the costs and benefits of various short-term credit products and has provided expert testimony to several state legislatures on this topic. Presently, her research focuses on consumer debt and credit use and the social and financial impacts of homeownership in urban neighborhoods. Her work has appeared in *Sociological Inquiry, Sociological Forum, Cityscape, Children and Youth Services Review, Social Service Review*, and the *Journal of Urban Affairs*. She received her PhD in sociology from the University of North Carolina in Chapel Hill.

Mark Van Overveld: After graduating in Health Sciences and Biological Psychology at Maastricht University, Mark van Overveld obtained his PhD with a dissertation on the emotion of disgust in relation to specific phobias at the Department of Clinical Psychological Science at Maastricht University. Following, he started working as a post-doc researcher at the Marketing Management Department at the Rotterdam School of Management (Erasmus University Rotterdam) on the EU-funded Pan-European xDelia-research project (www.xdelia.org). Here, he examines the role of emotions in financial decision-making, as well as how improvements in emotion regulation strategies can enhance financial decision-making in both professional decision-makers (e.g., traders and investors) and in the general population. Research interests: emotions, emotion regulation, (financial) decision-making, psychophysiology, experimental psychology, mindfulness, disgust.

4:15 – 5:30 PM **Conversation Starter Session 3: Credit Use and the Total Wallet**
Ballroom 3

"How Do People Use Multiple Credit Cards? Deconstructing a Debt Puzzle"
Victor Stango - University of California, Davis, Economics
Jonathan Zinman- Dartmouth College, Economics

Abstract: Most consumers in the United States have multiple credit cards, and many simultaneously carry debt on several cards. Understanding how people make multi-card use/repayment decisions is important in its own right, and also because it speaks to the many other "debt puzzles" observed in household finance. We examine transaction-level administrative credit card data for several thousand individuals, many of whom have multiple cards. Our data contain detailed information about card terms, use and repayment as well as a rich set of demographic characteristics. We find that individuals holding many cards are higher-income, better-educated and better credit risks than those with few cards. Multi-card users transact and borrow on their credit cards more than those with fewer cards. Within-cardholder price (APR) dispersion is substantial and grows with the number of cards held. Those with many cards seem like better shoppers than those with fewer cards, holding credit cards with significantly lower APRs even conditional on credit risk. While those with multiple cards sometimes make "inefficient" purchase and repayment choices, large purchases and repayments are most often allocated to the right card. Customers with many cards therefore pay, conditional on observed credit risk, lower weighted average interest rates than those with fewer cards. We discuss implications for consumer protection policy.

"Partitioning, Self Control, and $100 Bills"
Helen Colby – Rutgers University-New Brunswick Dept. of Psychology
Gretchen Chapman - Rutgers University – New Brunswick Dept. of Psychology

Abstract: This research examined how large denomination bills affect consumer willingness to make discretionary purchases. The first experiment examined consumer perception of large denominations as an effective tool for monitoring spending and reducing discretionary consumption. A second experiment showed large denominations can act as spending deterrents, with the reported likelihood of purchasing a discretionary item reduced when the purchase would require breaking a large denomination bill that could otherwise remain unbroken. Experiment 3 compared fungibility, processing fluency, and partitioning explanations for the effect, finding the strongest support for a partitioning based explanation.

"Check Cashing: Time Preferences and Rationality among the Unbanked"
Paige Skiba – Vanderbilt University Law School
Susan Payne Carter – Vanderbilt University, Economics
Justin Sydnor – University of Wisconsin-Madison, Actuarial Science, Risk Management, and Insurance

Abstract: One third of all low-income families in the United States are unbanked and more than 50 percent of those use check-cashers to manage their personal finances. We are interested in exploring the reasons consumers use these services. The scant literature discusses many possibilities for the prevalence of the unbanked, such as present bias, financial illiteracy, geography, high bank fees, and sociological reasons. To address which of these explanations are important, we use administrative data from a large check-casher with a dozen stores in the Bronx and Harlem supplemented by a customer survey. Further, there is a perception that these types of fringe-banking services are expensive or exploitative. We explore these issues and how they compare to similar services via banks in more detail. A notable consequence of being unbanked is a lack of access to simple savings mechanisms. We are interested in understanding the consequences of this lack of access to savings devices and whether these customers have a demand for simple savings mechanisms. A preliminary pilot survey suggests a majority of customers are interested in savings accounts. We hope these results can inform future studies of financial innovations targeted to this population.

Biographies:
Victor Stango is Associate Professor of Economics in the Graduate School of Management at UC, Davis. His research examines links between household financial decisions and consumer financial protection. Professor Stango's research appears in the American Economic Review, the Journal of Finance, the Review of Financial Studies, and other leading academic journals as well as applied and mainstream media outlets. His prior experience includes positions in the Tuck School of Business at Dartmouth College, the Federal Reserve Banks of Chicago and New York, and other academic institutions.

Helen Colby is a third year Ph.D. student in cognitive psychology and marketing at Rutgers University. Her research interests focus on economic decision-making and consumer behavior. She is especially interested in savings behavior, surrogate risk preferences, and mental budgeting. She received her undergraduate degree in economics and psychology from the University of Chicago.

Paige Marta Skiba has conducted innovative research in the area of behavioral law and economics, particularly on topics related to her dissertation, Behavior in High-Interest Credit Markets. Professor Skiba received her Ph.D. in economics from the University of California at Berkeley in 2007. She studies the ways in which self-control and procrastination affect financial decision-making. Her current research focuses on the causes and consequences of borrowing on high-interest credit, such as payday loans and pawnshops, as well as the regulation of these industries. She has been the recipient of numerous research grants and fellowships from institutions such as National Institute on Aging, the National Science Foundation, the Federal Reserve Board of Governors, the Burch Center for Tax Policy and Public Finance and the Horowitz Foundation for Social Policy. She was a senior research associate of the Federal Reserve Bank of Saint Louis from 1999 to 2001, where she conducted research on monetary policy and regional and urban economics.

Susan Carter is a PhD candidate in the Economics Department at Vanderbilt University. Her areas of research include applied microeconomics, consumer finance, law and economics, bankruptcy law, and behavioral economics. Her research focuses on gaining better understanding of the financial services used by low-income populations, specifically payday loans, check cashing, and pawnshop loans. Additionally, she studies the impact that state exemption laws have on bankruptcy filers. In the past, she has investigated the costly pecuniary mistakes credit union members make when deciding between payday loans and other forms of credit. In more recent work, she surveyed check-cashing customers in the South Bronx to study the demand for financial products among the unbanked. Currently, she is studying how the use of payday loans and pawn loans are related and whether there is an increased probability of individuals using pawnshops which payday loans are unavailable.

5:45 – 7:45 PM **Reception**- Absinthe House, 1109 Walnut Street

Monday, June27

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8:00 – 9:15 AM **Session 1: Helping Consumers Understand Debt**

Discussant: **Craig McKenzie**- University of California, San Diego

"Borrow Less Tomorrow"

Jonathan Zinman- Dartmouth College, Economics
Dean Karlan- Yale University, Economics

Abstract: Many public policies focus on encouraging people to save more than they would otherwise. Yet for many households, the wealth-maximizing strategy is to pay down debt, not accumulate assets. Here we designed and tested a product that focused on reducing expensive debt for households. The product, named Borrow Less Tomorrow (BoLT), is modeled loosely on Save More Tomorrow™. BoLT is designed to counter several behavioral tendencies that can lead to high leverage by providing borrowers with information, reminders, and a social commitment (peer support) to speed up repayment of expensive debt. Here we present results from our initial marketing, administration, and randomized evaluation of BoLT in partnership with the Community Action Project of Tulsa. Preliminary results, on a sample of 505 clients with a credit card or auto loan who we approached while waiting for free tax preparation services, suggest that BoLT is a viable product innovation. We find strong demand for BoLT, with a take-up rate approaching 40%. One-half of those taking-up BoLT also take up peer support when it is offered. Post take-up, we are monitoring BoLT plan compliance using credit reports. Estimated effects on debt loads held 6-months after the random assignment to a BoLT offer or a control group are consistent with plausibly-sized reductions: all of our econometric specifications point to a 3 percentage point (8-14%) increase in the likelihood of 5% or 10% reduction in credit card or auto loan debt, although none of the p-values on these estimates are less than 0.097. We are continuing the study to a second year to increase the sample size and hence the precision of these estimates.

"Consumers' Understanding of Credit Card Debt: Shortcomings and Solutions"

Jack Soll- Duke University, Management
Ralph Keeney- Duke University, Decision Sciences
Rick Larrick- Duke University, Management

Abstract: This paper examines people's misunderstanding of debt caused by the non-linear relationships among interest rates, monthly payments, and time to pay off a debt. The paper also tests whether misunderstanding is less for people with stronger numerical skills or who are using the new statement format required by the CARD Act of 2009. A first study showed that people underestimate the amount of time it takes to eliminate a debt when payments barely cover interest owed, and this effect was worse for those low in numerical skill. A second study showed that less numerate individuals tend to underestimate the monthly payment required to pay off a debt in three years, whereas those more numerate tend to overestimate. These biases are dramatically reduced with the revised statement required by the CARD Act, although much less so when cardholders continue to use the card. A third study identified new misunderstandings caused by the revised statement. The paper considers additional techniques to help credit card holders understand the relationship between payments and eliminating debt.

Biographies:
Craig R. M. McKenzie holds a joint appointment in the Rady School of Management and the Department of Psychology at UC San Diego, where he has been a professor since receiving his Ph.D. in psychology from the University of Chicago in 1994. He has a general interest in the psychology of inference, uncertainty, and choice, and his research has won awards from NSF, the Operations Research Society of America, and the Society for Judgment and Decision Making. He serves on several editorial boards and is currently associate editor of the *Quarterly Journal of Experimental Psychology*.

Jonathan Zinman is a tenured Associate Professor of Economics at Dartmouth College, and Director of the U.S. Household Finance Initiative of Innovations for Poverty Action. He also serves as a member of the Consumer Advisory Council to the Federal Reserve Board, a Visiting Scholar at the Federal Reserve Bank of Philadelphia, a member of the Behavioral Finance Forum, a research affiliate of Innovations for Poverty Action (IPA) and the M.I.T. Jameel Poverty Action Lab, a Research Advisory Board member of stickk.com and HelloWallet, and a member of the Sage/Sloan Foundations working group on Behavioral Economics and the Regulation of Retail Financial Markets. He has papers published or forthcoming in several top journals in economics, finance, and general-interest science, and his work has been featured extensively in popular and trade media as well. Professor Zinman applies his research by working with policymakers and financial institutions around the globe. He works directly with institutions to develop and test and innovations throughout the retail space— in pricing, product development, marketing, risk assessment, risk management, and client communication—that are profitable for firms and beneficial to their clients.

Jack B. Soll is an associate professor of management at Duke University's Fuqua School of Business, having joined Duke in 2005. Previously, he was on the faculty at INSEAD in Fontainebleau, France. He has also served as a visiting professor at the University of Pennsylvania and the University of Chicago. Professor Soll has taught courses in decision making, managerial effectiveness, leadership, negotiation, and statistics. Professor Soll received his Ph.D. from the University of Chicago Booth School of Business in 1997. He has taught extensively in both executive education and daytime MBA programs. Professor Soll's research focuses on the psychology of judgment and decision making. His research with Richard P. Larrick on the MPG illusion has been covered widely in the national media, and was featured in the "Year in Ideas" issue of the New York Times Magazine in 2008. One of his major research areas is on combining opinions. Professor Soll's work shows that whereas people often prefer to follow the opinion of a chosen expert, they would often do better to average the opinions of multiple individuals. In 2010 Professor Soll and his co-authors received the "Best Empirical Paper" from the Conflict Division of the Academy of Management for their paper "Powerful and unpersuaded: The implications of power for confidence and advice taking." Professor Soll has also written extensively on the phenomenon of overconfidence—the tendency for people to believe that outcomes are more certain than they really are. He has published in a number of scholarly journals, including Science, Management Science, Cognitive Psychology, and the Journal of Experimental Psychology.

Rick Larrick is Professor of Management and Organizations at Duke University's Fuqua School of Business. He is currently a William and Sue Gross Research Fellow and serves as the faculty director for Fuqua's Center for Energy, Development, and the Global Environment (EDGE). He is a faculty affiliate of the Center for Research on Environmental Decisions (CRED) located at Columbia University. Larrick's research focuses on decision making and motivation. Specific areas of research include environmental decision making, negotiation, group decision making, goal setting, and "debiasing". Larrick has published in psychology and management journals, including the *Journal of Personality and Social Psychology, Psychological Review, Cognitive Psychology, Management Science, Organizational Behavior and Human Decision Processes*, and *Research in Organizational Behavior*, and is an associate editor for the journal *Management Science*. Larrick designed and teaches the core Fuqua MBA course on management in the daytime program (entitled "Leadership, Ethics, and Organizations") and has taught MBA and executive courses on leadership, negotiation, and power and politics in organizations. Larrick received his Ph. D. in social psychology from the University of Michigan in 1991. Prior to joining Duke in 2001, he taught at Northwestern's Kellogg Graduate

School of Management (1991-1993) and at the University of Chicago's Graduate School of Business (1993-2001). Larrick received his B.A. in psychology and economics from the College of William and Mary.

9:30 – 10:45 AM **Session 2: Individual Differences in Ability to Make Wise Financial Decisions**

Discussant: **Stephen Spiller**, Duke University and UCLA

"Cognitive Ability and Financial Decision Making"

Sumit Agarwal- Federal Reserve Bank of Chicago, Economics
Bhashkar Mazumder- Federal Reserve Bank of Chicago, Economics

Abstract: We analyze the effects of cognitive abilities on two examples of consumer financial decisions where suboptimal behavior is well defined. The first example features consumers who transfer the entire balance from an existing credit card account to a new account, but use the new card for convenience transactions, resulting in higher interest charges. The second example features consumers who are penalized with a higher annual percentage of rate (APR) on a home equity loan or line of credit application because they inaccurately estimate their property value but nonetheless proceed to take out the loan. We match individuals from the US military, for whom we have detailed test scores from the Armed Services Vocational Aptitude Battery test (ASVAB), to administrative datasets of retail credit from a large financial institution. We show that our matched samples are reasonably representative of the universes from which they are drawn. We find that consumers with higher overall composite test scores and specifically those with higher math scores are substantially less likely to make a financial mistake later in life. These mistakes are generally not associated with the non-mathematical component scores. We also conduct some complementary analyses using two other data sources. We use the National Longitudinal Survey of Youth (NLSY) to show that higher ASVAB math scores are associated with lower subjective discount rates. Finally, we use the Health and Retirement Survey (HRS) to demonstrate that particular forms of cognitive ability matter for specific types of suboptimal behavior. We find that the mathematical component of the test is what matters most for financial decision making and financial wealth. In contrast, non-mathematical aptitudes appear to matter for non-financial forms of suboptimal behavior (e.g., failure to take medicine). The HRS results also demonstrate the large ramifications of low math ability on long-term economic success.

"Are Financial and Debt Literacy Separable from Each Other and from Cognitive Abiility?"

Ye Li- Columbia University, Center for Decision Sciences
Eric Johnson- Columbia University, Marketing

Abstract: The decline of fluid intelligence with age is well-documented but research on the relationship of age with decision-making has found decidedly mixed results. Our perspective is that both fluid and crystallized intelligence contribute to performance on many decision-making tasks and that making predictions about performance on these tasks requires that we understand the interplay between the factors that decline with age and those that improve. In particular, we hypothesized that increasing crystallized intelligence would help offset the decline of fluid intelligence for older decision-makers and that decision-making performance would increase or decrease with age depending on the relative importance of each factor. We verified this hypothesis by collecting battery of standard cognitive measures as well as assessing multiple measures of economically important decision-making abilities including temporal discounting, loss aversion, and financial and debt literacy. We found that older participants performed as well or better than younger participants on all decision-making measures. Structural equation modeling revealed that fluid intelligence, crystallized intelligence, and inhibitory control partially mediated the effect of age on decision-making. In particular, we found the hypothesized countervailing effect of increasing crystallized intelligence on declining fluid intelligence for temporal discounting, and financial and debt literacy, but not for loss aversion.

Biographies:
Stephen A. Spiller will be joining UCLA's Anderson School of Management as an Assistant Professor in the marketing area on July 1. He received his Ph.D. in Business Administration from Duke University in 2011 and his B.A. in Psychology and Economics from the University of Virginia in 2006. His research interests revolve around how consumers think about and plan their uses of their time and money. His dissertation explored the conditions under which consumers do and do not consider their opportunity costs, focusing on the roles of resource constraints and accessibility in memory. His research has been published in the *Journal of Consumer Research* and the *Journal of Business Research* and covered by *Yahoo! Finance* and *The Wall Street Journal*.

Sumit Agarwal is a senior financial economist in the research department at the Federal Reserve Bank of Chicago. His research interests include issues relating to household finance, financial institutions and consumer behavior. His research has been published in the *Journal of Political Economy, Journal of Financial Economics, Review of Financial Studies* and many other journals. Additionally, he has co-edited a collected volume on *Household Credit Usage: Personal Debt and Mortgages*. Prior to joining the Chicago Fed in July 2006, Agarwal was a senior vice president and credit risk management executive in the Small Business Risk Solutions Group of Bank of America. He also served as an adjunct professor in the finance departments at George Washington University, DePaul University and the Indian School of Business. Agarwal received a Ph.D. from the University of Wisconsin–Milwaukee.

Ye Li is a Postdoctoral Research Fellow at the Center for Decision Sciences at Columbia Business School. He majored in both business economics and electrical engineering at Caltech, and received his MBA and Ph.D. degrees from the University of Chicago Booth School of Business, where he focused on behavioral economics, judgment and decision-making, and marketing. His broad research interest is in how different pieces of information are perceived, processed, and used by consumers and managers to make judgments and decisions. More specifically, some topics his research explores include the influence of today's weather; sequentially later experiences; multiple anchors; social expectations; unevenly distributed information; and one's own perspective. A second line of research examines compromised decision-makers, whether the source of compromise is age-related cognitive decline or an emotional state, such as sadness. His research uses a range of tools from both psychology and economics, including laboratory and online experiments, archival data analysis, mathematical modeling and simulations, instrumental variable regression, and structural equation modeling. His work has appeared in *Psychological Science, Journal of Behavioral Decision Making*, and *Artificial Life*.

10:45 – 11:00 AM **Beverage Break** in Ballroom Lobby area

11:00 – 12:15 PM **Session 3: Social Perceptions and Self-Perceptions of Debtors**

Discussant: **Joel Cohen**, University of Florida

"Perceived Wealth: On the Asymmetric Role of Assets and Debt"
Abigail Sussman- Princeton University, Psychology
Eldar Shafir- Princeton University, Psychology

Abstract: We study the perception of wealth as a function of varying levels of assets and debt. Keeping total wealth constant, we find that people with positive net worth feel and are seen as wealthier when they have lower debt (despite having lower assets). In contrast, those with equal but negative net worth feel and are considered wealthier when they have greater assets (despite larger debt). This pattern persists both in the perception of self and of others, and extends to judgments that conflict with standard economic thinking. Consequences for the willingness to borrow, lend, and spend are explored, and policy implications are discussed.

"Living Capitalism: The Normalization of Credit Debt in the U.S. Middle Class"
Lisa Peñaloza- EDHEC Business School, Marketing

Abstract: This research develops a theoretical account of cultural meanings as integral mechanisms in the normalization of credit/debt. Analysis derives these meanings from the credit/debt discourses and practices of 27 white middle-class consumers in the United States and tracks their negotiation in patterns and trajectories in social and market domains. Discussion elaborates the ways informants normalize credit/debt in transposing their categories, in improvising meaning combinations, and in suturing the meaning patterns to particular subject positions in constituting themselves as consumers. Theoretical contributions (1) distinguish consumers' collaborative production of cultural meanings with friends, family, and others in the social domain and with financial agents and institutions in the market domain and (2) document the productive capacities of these meanings in patterns and trajectories in configuring people as consuming subjects. Implications situate such cultural reproduction processes in the United States in discussing how the national legacy of abundance informs the normalization of credit/debt.

Biographies:
Joel B. Cohen is Distinguished Service Professor Emeritus at the University of Florida where, as Chairman of the Marketing Department from 1974-1983, he played a major role in developing its highly regarded consumer behavior program. Professor Cohen has published numerous journal articles and book chapters applying cognitive social psychological concepts to the study of consumer's evaluative and affective processes. The *Journal of Consumer Research* honored him with their best paper award in 2009 for his work on attitudes and also presented him with its Distinguished Service Award in 2007. Professor Cohen is also highly regarded for his expertise on marketing and society issues involving public policy, consumer protection and regulation, receiving the 2011 Pollay Prize for this body of work. He has served as a consultant and expert witness for the Federal Trade Commission and has testified before congressional committees regarding cigarette advertising and warning information. He was also selected by the National Cancer Institute to conduct a national survey investigating consumer understanding of cigarette health risks, reporting the results to the President's Cancer Panel and in an *American Journal of Public Health* lead article. He served as editor of the *Journal of Public Policy and Marketing* from 2002 to 2006. Some of his recent research examines the marketing of products and services, such as identity theft insurance and debt consolidation loans, as preventative and curative remedies. Aggressive and one-sided promotion of such products can make these remedies seem to be equivalent to "get out of jail free" cards leading people to avoid taking steps to get out of "harm's way" or even to undertake greater risks.

Abigail Sussman is a doctoral candidate in psychology and social policy at Princeton University. Her research broadly addresses questions at the intersection of psychology and behavioral economics, examining how people form judgments and make decisions, with a focus on applying psychological insights to improve people's choices in areas relevant for public policy. Areas of interest include mental accounting and budgeting, causal reasoning, and first impressions. Before coming to Princeton, she worked in equity research and corporate treasury at Goldman Sachs, and as a researcher at ideas42. She received her undergraduate degree from Brown University with dual concentrations in cognitive science and economics.

Lisa Peñaloza is Professor of Marketing, Department of Humanities, Markets, and Culture, EDHEC Business School, France. Her research explores intersections of cultural signification and economic valuation in families, communities, and business organizations. Her work has been published in such academic journals as the *Journal of Consumer Research, Journal of Marketing, the International Journal of Research in Marketing, Marketing and Public Policy Journal, Marketing Theory*, and *Consumption, Markets, Culture*. The paper presented at this forum, coauthored with Michelle Barnhart (Oregon State Univ.), will appear in the *Journal of Consumer Research* in December. She has produced two films, *Generaciones: Cultural Memory, Identity, and the Market and Inside the Mainstream: Credit in the U.S. White Middle Class* (with Michelle Barnhart), and written a play, *Dinner with Marx and Baudrillard*. Her work targeted to marketing practitioners includes an EDHEC position paper, "On the Impossibility of Sustainable Development without Culture: The Gaze of Art and Perspectives on a Cultural Approach

to Marketing," (with Guergana Guintcheva, EDHEC, and Guillaume Logé, Musée d'Orsay) and a forthcoming text, *Marketing Management: A Cultural Approach* (coeditors Nil Toulouse, Univ. Lille II, and Luca Visconti, Bocconi Univ). Current projects detail the Catholic consumption ethic among Mexican families as they utilize the remittance funds sent to them by family members working in the U.S. (with Judith Cavazos Arroyo, UPAEP, Mexico), and the mixed role of organizational identity for multinational companies learning about consumers and adapting their marketing strategies in India (with Julien Cayla, Australian Grad. School of Management).

12:30 – 1:45 PM **Lunch**- Bacaro, 921 Pearl Street

2:00 – 3:15 PM **Session 4: Mortgages Gone Bad**

Discussant: **Susan Woodward**, Sand Hill Econometrics

"Market-Based Loss Mitigation Practices for Troubles Mortgages Following the Financial Crisis"

Sumit Agarwal- Federal Reserve Bank of Chicago, Economics
Gene Amromin- Federal Reserve Bank of Chicago, Economics
Itzhak Ben-David- Ohio State University, Finance, Economics
Souphala Chomsisengphet- Office of the Comptroller of the Currency, Economics
Douglas D. Evanoff- Federal Reserve Bank of Chicago, Economics

Abstract: The meltdown in residential real-estate prices that commenced in 2006 resulted in unprecedented mortgage delinquency rates. Until mid-2009, lenders and servicers pursued their own individual loss mitigation practices without being significantly influenced by government intervention. Using a unique dataset that precisely identifies loss mitigation actions, we study these methods—liquidation, repayment plans, refinancing, and loan modification—and analyze their effectiveness. We show that the majority of delinquent mortgages do not enter any loss mitigation program or become a part of foreclosure proceedings within 6 months of becoming distressed. We further document large heterogeneity in practices across servicers—differences that are not accounted for by borrower populations. Finally, we find loan modification is relatively uncommon and we find evidence that when it does occur, affordability is the prime reason for loan performance. Our regression estimates suggest that a 100 basis point decline in the mortgage interest rate is associated with a nearly 4.0 percent decline in default probability within six months of lowering the rate.

"The Effects of Foreclosure Counseling for Troubled Borrowers"

Michael J. Collins- University of Wisconsin Madison, Center for Financial Security, Consumer Science

Abstract: This paper uses data on non-agency securitized subprime loans made in 2004 to 2006, linked to Home Mortgage Disclosure Act (HMDA) data to assess borrower use of a national mortgage default counseling hotline. The results suggest borrowers in most distress are most likely to seek counseling, as well as borrowers with loans located in areas with higher unemployment and declining home values. Counseling is related to the use of loan modifications and borrowers with counseling appear to receive lower monthly payments than uncounseled modified loans. While fixed effects models suggest some loan performance improvements after counseling, these results were not robust to a model with an instrument for counseling. It appears counseling helps borrowers in distress to provide more favorable information to lenders and obtain a lowered payment but does not dramatically improve loan outcomes in the short run. There is no evidence that minority or low-income borrowers, or borrowers in neighborhoods that show signals or lower levels of financial capability receive differential benefits from counseling.

Biographies:
Susan Woodward is a financial economist who began listening to psychologists when she was working on mutual fund disclosures at the SEC in 1992. She is still making herself useful pointing out that most people don't understand numbers whose significant digits are all on the right hand side of the decimal. Her main interests at present are consumer finance, venture capital, and other small business, though she has worked on a wide variety of issues in housing finance and securities in her career. She served as chief economist at HUD and at the SEC, in succession, during her decade in Washington, 1985-1995.

Souphala Chomsisengphet is a Senior Financial Economist in the Credit Risk Analysis Division of the Office of the Comptroller of the Currency (OCC). Her primary banking supervisory duty at the OCC involves evaluating statistical methods used by banks to develop and validate credit risk models for underwriting, risk management, or capital allocation. In addition, she conducts research in the areas of household finance, real estate finance, banking and financial institutions. Currently, she is working on a number of research projects to study loan modifications, consumer contract choices, consumer bankruptcy and default behaviors, the impact of financial counseling, and the effect of anti-predatory lending laws on the mortgage market. Some of her research is published in the *Journal of Financial Economics, American Economic Review Papers & Proceedings, Journal of Money, Credit and Banking, Journal of Urban Economics, Journal of Financial Intermediation*, and *Journal of Housing Economics*. Before joining the OCC in 2004, she was an Economist at the Federal Housing Finance Agency (FHFA). Chomsisengphet earned a Ph.D. in Economics from the University of Wisconsin–Milwaukee.

Michael J. Collins is faculty director of the Center for Financial Security at the University of Wisconsin, Madison. He teaches personal finance and is a faculty affiliate of the Institute for Research on Poverty, the La Follette School of Public Affairs and Wisconsin Cooperative Extension. Collins studies consumer decision-making in the financial marketplace, including the role of public policy in influencing credit, savings and investment choices. His work includes the study of financial literacy and counseling with a focus on low-income families. He is leads the Social Security Administration Financial Literacy Research Consortium site at Wisconsin, a multi-disciplinary project focused on financial literacy for vulnerable populations. Collins founded PolicyLab Consulting Group and co-founded MortgageKeeper Referral Services, Inc., worked for NeighborWorks America (Neighborhood Reinvestment Corporation) and the Millennial Housing Commission. He holds an MPP from the John F. Kennedy School of Government, a PhD from Cornell University, and a BS from Miami University (OH).

3:15 – 3:30 PM **Beverage/Snack Break** in Ballroom Lobby area

3:30 – 4:45 PM **Session 5: Credit Counseling and Debt Management**

Discussant: **Mark Cole**, CredAbility.org

"Do Consumers Benefit from Credit Counseling Payment Plans?"
John Barron- Purdue University, Economics
Michael Staten- Director, Take Charge America Institute
Cathleen Johnson- University of Arizona, Economics

Abstract: This paper reports on the final phase of a multi-year project to identify whether a credit counseling experience leads to longer-term improvements in consumer credit profiles and credit usage behavior. The paper analyzes the experience of 29,000 clients who were counseled by five non-profit, 501(c)3 counseling agencies in 2007. Among the 45% of clients who were recommended for an agency-administered Debt Management Plan (DMP), it is clear that the decision to start a DMP is linked to significant credit score improvement and reduced likelihood of bankruptcy. That is, between two clients for whom the counselor has judged that a DMP is both a workable option and the best option, the client who actually starts payments in a DMP fares significantly better over a three year period in terms of credit score and reduced incidence of bankruptcy. A statistical procedure to control for client self-selection reinforces the finding that it is the DMP experience and not selection that

drives the result. It also appears that agencies can, and do, influence individuals' decisions with respect to DMP participation and those efforts can improve clients' outcomes. Moreover, the longer the client sticks with the DMP payment program, the greater is the pay-down of debt and the greater the corresponding improvement in credit score. Larger reductions in the interest rate (relative to the original loan agreement) offered to clients who agree to a DMP also increase time on plan and the amount of debt repaid. The rationale is straightforward. The interest rate reduction associated with the DMP program is the incentive for clients to start and stick with a monthly repayment plan. The larger the reduction, the greater is the incentive.

"Meeting the Demand for Debt Relief"

Robert M. Hunt- Federal Reserve Bank of Philadelphia, VP and Director, Payment Cards Center, Economics
Stephanie Wilshusen- Federal Reserve Bank of Philadelphia, Economics

Abstract: The economic recession and resulting job losses, coupled with the devaluation of assets stemming from the foreclosure crisis, have driven a record number of consumers to seek assistance in managing their debts. At a time of unprecedented demand for their services, nonprofit credit counseling agencies in the United States are unable to assist all financially distressed borrowers who seek their help. Many of those consumers lack sufficient income to qualify for the single workout product that nonprofit credit counseling agencies can offer—the traditional debt management plan (DMP). There appears to be ample demand for a new form of workout product for the unsecured debts of highly leveraged consumers. At the same time, an increasing number of consumers are responding to the pervasive advertising by for-profit credit counseling agencies and a new class of firms—debt settlement companies. The need for careful assessments of existing and new workout options could not be greater. It is imperative that in designing new products and treatments, counseling agencies (and policy makers) develop a deeper understanding of how consumers make decisions about incurring and repaying debt and the long-run impact of those choices. We review the methodological and organizational challenges to performing such research. In choosing among debt relief options consumers often rely on the expertise of others, but they often have little or no experience evaluating that expertise. In addition the features of some options are not observable in advance, which can leave consumers vulnerable to opportunistic debt relief service providers. There have been numerous complaints about unfair and deceptive practices within the debt relief industry. We review the arguments, available evidence, and recent developments in the vigorous debate over regulation of this industry.

Biographies:
Mark Cole: As Executive Vice President and Chief Operating Officer, Mark Cole is responsible for the agency's direct services to financially distressed individuals and families. He oversees the agency's contact center, counseling, debt management services, quality assurance and technology functions, with a focus on delivering compassionate service and innovative and practical solutions. He also leads CredAbility's research efforts, measuring the effectiveness of services and developing new assessment tools, such as the CredAbility Consumer Distress Index. Cole joined CredAbility in 2000. He has been involved in the counseling service sector for more than 20 years at the local and national levels. Before joining CredAbility, he served as President of Phoenix-based Personal Debt Solutions, Chief Operating Officer for the National Foundation for Credit Counseling and President of Consumer Credit Counseling Service of Greater Fort Worth. Cole is currently the immediate past Chairman of the board of directors of the Better Business Bureau of Metropolitan Atlanta and serves on the board of directors of Neighborhood Nexus, a collaborative organization that brings better data to metro Atlanta decision-makers. A graduate of Leadership Atlanta's class of 2009, he has previously served on the board of directors of Community Friendship, a supportive community for adults with disabling mental illness, and TechBridge, an organization that helps nonprofits use technology to serve the community. He is also a graduate of NeighborWorks' prestigious Achieving Excellence in Community Development program, hosted in collaboration with Harvard University's Kennedy School of Government. Cole is active at Cross Pointe Church as a teacher and lay leader and is also involved in international missions work through his church and service on the board of Conexión 10/40. Cole is a graduate of the University of Texas at Arlington.

Michael E. Staten holds the Take Charge America endowed chair in the Norton School of Family and Consumer Sciences at the University of Arizona. He is also director of the Take Charge America Institute for Consumer Financial Education and Research. Over the past 20 years Dr. Staten has designed and conducted research projects on a wide range of policy-oriented issues involving consumer and mortgage credit markets, initially as director of the Credit Research Center at Purdue University (1988 – 1997), and later as Distinguished Professor and Director of the re-located Credit Research Center at Georgetown University (1997 - 2006), and the George Washington University School of Business (2006-2007). He has published numerous articles on retail financial services in academic journals and edited volumes. He has made invited presentations at workshops and events sponsored by the Federal Trade Commission, the Federal Deposit Insurance Corporation, the Federal Reserve Board, and Washington, DC think-tanks including the American Enterprise Institute and the Brookings Institution. Staten received his Ph.D. in economics from Purdue University's Krannert Graduate School of Management in 1980. He currently serves as a trustee for the American Financial Services Association Education Foundation, and is on the Advisory Council for the National Foundation for Credit Counseling. He also served as Chairman of the Board of Directors of the Purdue Employees Federal Credit Union from 1995-1997.

Cathleen Johnson is an economist at the University of Arizona. Her public policy-oriented research develops experimental economic instruments to measure consumer preferences, with special emphasis on attitudes towards risk and inter-temporal preferences. She has designed and implemented several large-scale, innovative field studies that examined individual investment in post-secondary education in Canada. She also used experimental methods to measure inter-personal preferences, and time and risk preferences among Houston high school students in an ongoing study of student drop-out rates. Johnson also serves as the Director of the Office of Economic Education in the University of Arizona's Norton School of Family and Consumer Sciences. The Office of Economic Education offers workshops and university courses to Arizona K-12 teachers to help them become Highly Qualified in Economics. Johnson also serves on the board of the University of Arizona's Take Charge America Institute for Consumer Financial Education and Research. She received her Ph.D in economics from Virginia Tech.

Robert Hunt is Vice President and Director of the Payment Cards Center at the Federal Reserve Bank Philadelphia. Bob became Director of the Center in April 2009. Prior to this appointment he was a senior economist in the bank's Research Department. Bob's research has focused on consumer payments, consumer finance, and the economics of innovation. His published research includes studies of the dynamics of the consumer credit reporting industry, credit counseling organizations, the collections industry, and antitrust issues in consumer payment networks. He has also published papers on topics in economic geography and intellectual property. Before joining the Bank in 1998, Bob worked for the U.S. Congressional Budget Office. Prior to attending graduate school, he was an industry risk analyst for Bank One, Indianapolis. Bob received a Ph.D. in economics from the University of Pennsylvania in 1996 and a BA in political science and economics from Butler University in 1986.

Stephanie Wilshusen is an industry specialist within the Federal Reserve Bank of Philadelphia's Payment Cards Center where her research focuses on analyses of consumer credit markets and payment behavior. Prior to joining the Bank in May 2009, she served as associate director of the Financial Services Research Program at George Washington University and as assistant director and senior research associate at Georgetown University's Credit Research Center. Before that, she worked for Charles River Associates and the Brookings Institution. Her current research projects include a transaction-based analysis of consumers' use of prepaid cards, a study exploring the relationship between collection activity and the pricing and supply of unsecured credit, and a paper on the use of non-tradeline data in the calibration of credit scoring models.

5:30 – 7:00 PM **Reception**- Bacaro, 921 Pearl Street

Tuesday, June 28

7:00 – 8:00 AM **Breakfast Buffet**- St. Julien Hotel- Room: Food served in Ballroom Lobby, dine in Ballrooms 2 and 3

Plenary Session for the Day is Held Ballrooms 2 and 3

8:00 – 9:15 AM **Session 6: Advice Seeking and Investment**

Discussant: **Ellen Merry**, Federal Reserve Board, Division of Consumer & Community Affairs

"Asking for Help: Survey and Experimental Evidence on Financial Advice and Behavior Change"

Angela Hung- RAND, Economics
Joanne Yoong- RAND, Economics

Abstract: When do individuals actually improve their financial behavior in response to advice? Using survey data from current defined-contribution plan holders in the RAND American Life Panel (a probability sample of US households), we find little evidence of improved DC plan behaviors due to advice, although we cannot rule out problems of reverse causality and selection. To complement the analysis of survey data, we design and implement a hypothetical choice experiment in which ALP respondents are asked to perform a portfolio allocation task, with or without advice. Our results show that unsolicited advice has no effect on investment behavior, in terms of behavioral outcomes. However, individuals who actively solicit advice ultimately improve performance, in spite of negative selection on financial ability. One interesting implication for policymakers is that expanding access to advice can have positive effects (particularly for the less financially literate); however, more extensive compulsory programs of financial counseling may be ultimately ineffective.

"What Are Investors Willing to Pay to Customize their Investment Product?"

Thomas Langer- University of Muenster, Finance

Abstract: Even though buy-and-hold (B&H) investment strategies can take into account the investor's risk tolerance by specifying a suitable stock proportion, the outcome profiles of B&H strategies are restricted to a specific class of distributions. For investors with particular risk preferences, further customization should thus provide additional value. The paper's objective is to investigate the strength of preference for such customized distributions and to draw conclusions about the demand for personalized investment products. In two experimental studies, 256 participants could adjust the return distribution of an initially chosen B&H investment by use of an interactive software program. As our main finding, we observe that (1) most investors make intensive use of the customization option and many are willing to pay a substantial fee for being offered this additional flexibility. We further find that (2) the willingness to pay for customization is significantly lower if the fee is integrated into the display of the return distribution, making its impact on final returns more obvious. We also observe that (3) investors can be clustered into distinct subgroups via their adjustment patterns, but (4) individually elicited Prospect Theory parameters are not able to explain and predict these adjustments. As a robustness check, we also survey real investors at an investor's fair to compare their preferences with those of our main pool of student subjects. We find that (5) the willingness to pay for customization is slightly lower for the real investors whereas the main effect of fee integration remains unchanged. In summary, we observe a strong willingness to pay for additional flexibility even though the actual benefits of customization vary largely by the individual. In many cases the accepted fees are so high that standard B&H-strategies stochastically dominate the customized distributions after fee integration.

Biographies:
Ellen A. Merry is a Senior Economist in the Consumer Education and Research Section of the Division of Consumer and Community Affairs at the Federal Reserve Board. Her research has focused on household financial behavior, particularly in mortgage markets. In recent years, she has collaborated on the Division's review and revision of Truth in Lending Act mortgage disclosures. Ellen joined the staff of the Board in 2000 as an economist in the Flow of Funds Accounts Section of the Division of Research and Statistics. There she worked on research and analysis of U.S. mortgage and real estate markets and on data and measurement issues in the Flow of Funds Accounts statistical release. Her previous work experience includes three years as a Research Associate at Research Atlanta (now the Civic League for Regional Atlanta), a nonprofit public policy research institute housed within the Andrew Young School of Policy Studies at Georgia State University. Ellen received a B.S. in Mathematical Economics from Wake Forest University and an M.A. and Ph.D. in Economics from the University of Virginia.

Joanne Yoong is a Full Economist at RAND and the Associate Director of RAND's Center for Financial and Economic Decision-making. Her work at RAND is focused on individual decision-making with an emphasis on finance, health, and economic development. She received her Ph.D. in economics at Stanford University as an FSI Starr Foundation Fellow, and her AB in economics and applied and computational mathematics from Princeton. Prior to attending Stanford, she was a credit derivatives research analyst in the Fixed Income, Commodities and Currencies Division of Goldman Sachs in New York and London

Thomas Langer is a full professor of Finance at the University of Muenster (Germany) since 2004. He studied mathematics and computer sciences at the University of Kiel and received his PhD (1998) as well as his habilitation (2004) in business administration from the University of Mannheim. In his PhD thesis he examined "Behavioral Decision Concepts in Banking Theory", his habilitation thesis dealt with "Behavioral Aspects of Individual Retirement Savings Decisions". His current research is in the field of experimental and behavioral finance with a strong emphasis on decision-making in the context of retirement provisions. From 2007 to 2010, he was Academic Director of the DIA (German Institute for Retirement Provisions) and organized an International Summer School in Behavioral Economics and Retirement Savings at the University of Muenster in 2008. He was a visiting scholar at Duke's Fuqua School of Business (2000/2001) and at CalTech (2008/2009) and is a coauthor of the textbook "Rational Decision Making".

9:30 – 10:45 AM **Session 7: Paying for Consumption in Retirement**

Discussant: **Martin Boileau**, University of Colorado, Economics

"Live to or Die by: Framing Effects on Life Expectations and Life Annuity Choice"
John Payne- Duke University, Management
Namika Sagara- Duke University, Management
Suzanne Shu- University of California, Los Angeles, Marketing

Abstract: Expectations about longevity are essential for making informed choices about both the accumulation and decumulation of retirement wealth as well as other important personal financial decisions. This paper proposes that beliefs (expectations) about how long one might live are a response constructed at the time of judgment. Specifically, we examine whether longevity (life) expectation judgments reflect, in addition to public and private knowledge, irrelevant task factors such as how expectations questions are framed. We elicited individuals' probabilities for life expectancy in two frames. In one frame, people were asked to provide probabilities of **living to** a certain age or older; in the other frame, they were asked to provide probabilities of **dying by** a certain age or younger. These two answers should be complements, but we find that estimated probabilities differed significantly in the two conditions. In the **live-to** frame, for example, thought they had about a 55% chance of being alive at age 85, but people in the die-by frame thought they had only a 32% chance (i.e., a 68% chance

of being dead at age 85). Based on judged probabilities, estimated mean life expectations were 9.38 years longer when solicited in the live-to frame. These expectations also reflected factors that actually affect longevity, such as the age, gender, and self-reported health status of the respondent. Importantly, we show that the framing effect on judgments for age 85 are partially mediated by the relative number of thoughts in favor of being alive at that age. This suggests that people construct their responses using different information in different frames. We also find that individual differences in life expectations carry forward to differences in stated preference for life annuities, a product that provides insurance against outliving one's savings.

"Why Americans Claim Benefits Early and How to Encourage Them to Delay"

Kirstin Appelt- Columbia University, Psychology
Eric J. Johnson- Columbia University, Marketing
Melissa A.Z. Knoll- Social Security Administration

Abstract: Most Americans do not save sufficiently for retirement, yet many accept permanent reductions in their monthly Social Security retirement benefits by claiming benefits as soon as possible. Research suggests that, for many Americans, delaying claiming would be a better decision economically. In three studies we use behavioral economics and decision research to understand the claiming decision and to test interventions that might encourage people to claim benefits later. Study 1 finds that early claiming (i.e., claiming before full retirement age) is the reference point for many participants. Additionally, as predicted by Query Theory, the prominence of thoughts in favor of early claiming (i.e., the clustering and balance of thoughts favoring early rather than later claiming) predicts preferences for early claiming. Study 2 tests a choice architecture display intervention designed to shift the reference point from early claiming to full claiming; we find that manipulating the standard graphical depiction of monthly benefits produces a non-significant delay in preferred claiming age. Study 3 tests a choice architecture process intervention designed to change how participants approach the claiming decision. Asking participants to "frame the future first" and consider thoughts in favor of later claiming before thoughts in favor of early claiming produces a significant delay in preferred claiming age. The effect of thought order on claiming is mediated by the (reduced) prominence of thoughts in favor of early claiming. We conclude with a discussion of the relative merits of different intervention strategies.

Biographies:

Martin Boileau is an Associate Professor in the Department of Economics at the University of Colorado Boulder and an associate member of the Inter-University Center on Risk, Economic Policies and Employment. He received a PhD in Economics from Queen's University in 1994. He has been a visiting Associate Professor of Finance at the Wharton School and a visiting scholar at the Federal Reserve Bank of Minneapolis. His research is in dynamic corporate finance, macroeconomics, and international finance.

John W. Payne is the Joseph J. Ruvane Professor of Business Administration at the Fuqua School of Business, Duke University. He is also has appointments at Duke as a Professor of Psychology and Neuroscience, as a Professor of Law, and as a Research Professor in The Institute of Statistics and Decision Sciences. Among many other administrative duties, John Payne was the Deputy Dean at Fuqua from 2000-2002 and from 2004-2006. Professor Payne's education includes a B.A. 1969, M.A. 1972, Ph.D. 1973 in Psychology from the University of California, Irvine. He also did a postdoctoral fellowship in Cognitive Psychology at Carnegie-Mellon University, 1973-75. Dr. Payne has been an assistant professor at the University of Chicago (1975-77), a visiting professor at Carnegie-Mellon University (1974), a visiting professor at the University of California, Irvine, and a visiting scholar at Columbia University and at the University of California, Los Angeles. Among his honors, Professor Payne has been elected President of the Judgment and Decision Society, 2005-2006. He has won the Leo Melamed Prize for scholarship at the University of Chicago, 2000, for the most significant research by business school faculty in the previous two years. He was awarded the first (2002) JCR award for long-term contribution to consumer research And, he has been selected as a Fellow, American Psychological Association, 2007, and a Fellow, American Psychological Society, 1995.

Professor Payne's research deals with how people make decisions, and how decision making might be improved. Much of his research has focused on how individuals adapt their processing of information, and decisions, to the demands of the task and contexts. He has also worked extensively on the topic of decision making under risk. More recently, he is exploring how cognition and emotions interact in decision making. Professor Payne has extended his research to a variety of applied problems such as consumer choice, management decision behavior, environmental resource valuation, household financial decisions such as retirement planning, and jury decisions, particularly those dealing with punitive damages. Professor Payne's research has resulted in more than 90 publications including four books on decision making.

Namika Sagara is a post-doctoral associate at the Fuqua School of Business at Duke University where she works with Dr. John Payne, Dr. Mary Frances Luce, and Dr. Jim Bettman on the effects of emotions on information processing and risky choices using eye-tracking equipment. Before joining Fuqua School of Business, she has worked at Decision Research as a research associate with Dr. Ellen Peters and Dr. Paul Slovic. She has a B.S. and M.S. in Psychology and Ph.D. in Marketing from University of Oregon. Her research interest includes how affective and deliberative processes influence judgment and decision making. She is also interested in how consumers use (or do not use) numeric information, and how numeracy, the ability to work with numbers, influences number processing in consumer decision making. In her dissertation, she has demonstrated that consumers, those lower in numeracy in particular, are susceptible to an Illusion of Numeric Truth effect (cf. a tendency to believe false numeric claims if they are familiar). In addition, she demonstrated that the effects of numeracy on the Illusion of Numeric Truth effect are mediated by consumers' earlier affective reactions to numeric information. Her recent publications includes "Affective Motivations to Help Others: A two-stage model of donation decisions" (*Journal of Behavioral Decision Making*) and "Distributions of observed death tolls govern sensitivity to human fatalities." (*Proceedings of the National Academy of Sciences of the USA*).

Suzanne Shu is an Assistant Professor of Marketing at UCLA's Anderson School of Management. She received BS and Masters of Engineering degrees in Electrical Engineering from Cornell University and MBA and PhD degrees from University of Chicago, where her work focused on behavioral economics and marketing. Her research interests include intertemporal choice and multi period decision making, the influence of self-control and procrastination on consumer behavior, and consumer decisions about financial products. Professor Shu's work on financial products, specifically mortgages and annuities, was recently awarded with a grant from the Alfred P. Sloan Foundation, and she is a member of the Behavioral Economics and Consumer Finance Working Group sponsored by the Russell Sage Foundation. She has publications in top marketing and psychology journals as well as a chapter in The Blackwell Handbook of Judgment and Decision Making, and her research has been featured in the New York Times, the Atlantic, Time, USA News and World Report, CBS News, NBC News, CNN Money, National Public Radio, Yahoo Finance, and other national and international media outlets. Professor Shu has taught marketing and decision making courses to MBA students at UCLA, SMU, the University of Chicago, and INSEAD.

Eric Johnson is a faculty member at the Columbia Business School at Columbia University where he is the inaugural holder of the Norman Eig Chair of Business. and Director of the Center for Decision Sciences. His research examines the interface between Behavioral Decision Research, Economics and the decisions made by consumers, managers, and their implications for public policy, markets and marketing. Among other topics, Johnson has explored how the way options are presented to decision-makers affect their choices in areas such as organ donation, the choice of environmentally friendly products, and investments. According to the Institute for Scientific Information, he is one of the most highly cited scholars in Business and Economics. His publications have appeared in the *Science, Psychological Review, Nature Neuroscience, Harvard Business Review*, the *Journal of Economic Theory*, and many other consumer, economic, marketing and psychology journals. He has co-authored two books: *Decision Research: A Field Guide*, published by Sage Publications and *The Adaptive Decision-Maker* published by Cambridge University Press. His research has been supported by the National Science Foundation, The National Institutes of Health, The Alfred P. Sloan and Russell Sage Foundations, and

the Office of Naval Research. He has been an Associate Editor of the *Journal of Consumer Psychology* and is a member of several editorial boards as well as the Senior Editor for Decision Sciences at *Behavioral Science and Policy*.

10:45 – 11:00 AM **Beverage Break** in Ballroom Lobby area

11:00 – 12:15 PM **Session 8: Saving by the Financially Pressed and the Comfortable**

Discussant: **Gülden Ülkümen**, University of Southern California

"Financial Wellbeing and Willingness to Take Risk"
Kees Koedijk- Tilburg University, Finance
Rachel Pownall- Maastrict University, Finance
Meir Statman- Santa Clara University, Finance

Abstract: People suffer low financial well-being when their incomes fall short of their aspirations. We find that such people are more willing to take financial risks than people who enjoy high financial well-being. People with relatively high incomes have relatively high financial well-being, but the aspirations of many people with relatively high income exceed their incomes, whereas the aspirations of many people with relatively low incomes meet or exceed their aspirations. Competitive people are likely to agree with statements such as "To be a real success I feel I have to do better than everyone I come up against." We find that competitive people are more willing to take risk than less competitive people.

"Can Child Development Accounts Increase College Savings? Evidence from SEED for Oklahoma Kids Experiment"
Michael Sherraden- Washington University in St. Louis, Center for Social Development
Yunju Nam- Washington University, Social Work
Youngmi Kim- Washington University, Social Work
Robert Zager- Washington University, Social Work
Margaret Clancy- Washington University, Social Work

Abstract: This study examines the impacts of Child Development Accounts on savings for children, using data from the SEED for Oklahoma Kids experiment (SEED OK). SEED OK provides a college savings account to every infant in the treatment group with automatic account opening and initial deposits. Using a sample of infants randomly selected from birth records (N=2,670), this study runs probit and OLS. Analyses show significant and large differences between the treatment and control groups in all savings measures in the targeted accounts. An acceptance rate of close to 100% of the automatically-opened state-owned accounts and significantly higher account opening rate and deposit amounts in participant-owned accounts suggests that universal CDAs can be implemented in the United States.

Biographies:
Gülden Ülkümen is Assistant Professor of Marketing at the Marshall School of Business, University of Southern California. She received her PhD in Marketing from the Stern School of Business, New York University. She studies how consumers make financial decisions, with a specific focus on budgeting and savings decisions. Her research in this area explores various factors that influence the accuracy of consumers' budget estimates, and the psychological drivers of personal savings. Her other research interests include consequences of categorization on consumers' judgments and choice, and the effects of confidence on the outcome and quality of consumption decisions. She has received numerous awards including Google and WPP Marketing Research Award and the best paper award at the American Marketing Association's ART (Advanced Research Techniques) Forum Conference. Her research has been featured in *The New York Times, U.S. News*, and *Yahoo Finance*. Professor Ülkümen serves on the editorial review board of the *Journal of Consumer Psychology*, and she is an ad-hoc reviewer

for the *European Journal of Social Psychology, Journal of Behavioral Decision Making, Journal of Consumer Research, Journal of Marketing Research*, and *Journal of Retailing*. She teaches Consumer Behavior at the Marshall School of Business at the University of Southern California.

Meir Statman is the Glenn Klimek Professor of Finance at the Leavey School of Business, Santa Clara University and Visiting Professor at Tilburg University in the Netherlands. His research focuses on behavioral finance. He attempts to understand how investors and managers make financial decisions and how these decisions are reflected in financial markets. Meir's book, "What Investors Really Want," has recently been published by McGraw-Hill. The book's subtitles are "Know What Drives Investor Behavior and Make Better Financial Decisions," and "Learn the Lessons of Behavioral Finance." The questions he addresses include: What are the cognitive errors and emotions that influence investors? What are investor aspirations? How can financial advisors and plan sponsors help investors? What is the nature of risk and regret? How do investors form portfolios? How successful are tactical asset allocation and strategic asset allocation? What determines stock returns? What are the effects of sentiment? How successful are socially responsible investors? Meir received many awards for his work, including a Batterymarch Fellowship, a William F. Sharpe Best Paper Award, a Bernstein Fabozzi/Jacobs Levy Outstanding Article Award, a Davis Ethics Award, a Moskowitz Prize for best paper on socially responsible investing, two Baker IMCA Awards, and three Graham and Dodd Awards. Meir consults with many investment companies and presents his work to academics and professionals in many forums in the U.S. and abroad. Meir received his Ph.D. from Columbia University and his B.A. and M.B.A. from the Hebrew University of Jerusalem.

Michael Sherraden, a graduate of Harvard (AB) and the University of Michigan (MSW, PhD), is Benjamin E. Youngdahl Professor of Social Development and founding director of the Brown School's Center for Social Development (CSD) at Washington University in St Louis. CSD tests policy innovations that have the potential to improve social and economic outcomes. Sherraden is the author of *Assets and the Poor* (1991), which proposes Individual Development Accounts (IDAs), matched savings to enable low-income families to save and accumulate assets. Additional research on asset building appears in *Inclusion in the American Dream* (2005) and *Can the Poor Save?* (2007). IDAs have been adopted in federal legislation, in more than 40 states, and in many other countries. An IDA program in Seoul—known as "Hope Development Accounts"—won a United Nations Public Service Award in 2010. Currently, CSD is undertaking an experimental test of Child Development Accounts (universal accounts at birth) in the State of Oklahoma, and research on youth savings is underway in Colombia, Ghana, Kenya, and Nepal. In another areas of work, Sherraden's early research on civic service—*National Service* (1982) and *The Moral Equivalent of War?* (1990)—contributed to the creation of AmeriCorps in 1993, and CSD is today a leading center of research on civic service, especially international service. Also, CSD has large initiatives to study Productive Aging in both the United States and China. In 2010, Sherraden was listed on the Time 100 most influential people in the world.

12:30 – 1:45 PM **Lunch**- Bacaro, 921 Pearl Street

2:00 – 3:15 PM **Session 9: Risk Presentation and Risk Taking**

Discussant: **Dan Goldstein**, Yahoo! Research and London Business School

"Economic Rationality, Risk Presentation, and Retirement Portfolio Choice"
Hazel Bateman- Australian School of Business, Economics
Christine Ebling- University of Technology, Sydney, Marketing
John Geweke- University of Iowa, Economics
Jordan Louviere- University of Technology, Sydney, Marketing
Stephen Satchell- University of Cambridge, Economics
Susan Thorp- University of Technology, Sydney, Finance

Abstract: This research studies the propensity of individuals to violate implications of expected utility maximization in allocating retirement savings within a compulsory defined contribution retirement plan. The paper develops the implications and describes the construction and administration of a discrete choice experiment to almost 1200 members of Australia's mandatory retirement savings scheme. The experiment finds overall rates of violation of roughly 25%, and substantial variation in rates, depending on the presentation of investment risk and the characteristics of the participants. Presentations based on frequency of returns below or above a threshold generate more violations than do presentations based on the probability of returns below or above thresholds. Individuals with low numeracy skills, assessed as part of the experiment, are several times more likely to violate implications of the conventional expected utility model than those with high numeracy skills. Older individuals are substantially less likely to violate these restrictions, when risk is presented in terms of event frequency, than are younger individuals. The results pose significant questions for public policy, in particular compulsory defined contribution retirement schemes, where the future welfare of participants in these schemes depends on quantitative decision-making skills that a significant number of them do not possess.

"Does Risk-Taking Depend on the Risk-Return-Profile Given?"

Christian Ehm- University of Mannheim, Banking
Christine Kaufmann- University of Mannheim, Banking
Martin Weber- University of Mannheim, Banking

Abstract: We know from the literature that investors use certain heuristics like a naïve form of diversification ("i/n n-rule", Benartzi and Thaler, 2001) when allocating their money. With this in mind, the question arises whether investors care about the risk at all. We analyze in a between-subjects-design whether investors' portfolio allocations result in the same risk-return-profile independent of the risky asset presented. We ask participants to allocate an investment amount between a risk-free asset and a risky asset. The assets given can be transferred into each other by combining them with the risk-free asset. We find that naïve diversification is not completely naïve. Investors care about the risk in the sense that they know how much of their wealth should be invested with any risk at all, irrespective of the degree of risk. This amount can be predicted by their risk-attitude. When it comes to the degree of risk of the risky assets - the riskiness - they are less able to choose a completely rational or consistent allocation. It appears that the amount that should have any risk at all serves as an anchor. When judging the riskiness and adjusting the amount invested into the risk asset for the riskiness, investors show an insufficient adjustment. For investors with high financial literacy, the adjustment is much better. Our findings have important implications for the current debate on the communication of investment risks to investors and on the measurement of investors' risk attitude.

Biographies:
Dan Goldstein is Principal Research Scientist at Yahoo! Research and Honorary Research Fellow at *London Business School*. His areas of expertise and research include decision making, consumer behavior, and behavioral economics. Dan's research has been featured by *The Financial Times, The New York Times, The Wall Street Journal, Time, The Washington Post*, as well as in books such as Malcolm Gladwell's *Blink* and Nassim Taleb's *The Black Swan*. Dr. Goldstein sits on the Executive Board of the *Society for Judgment and Decision Making* and the Academic Advisory Board of *Allianz Global Investors*. He received his Ph.D. at *The University of Chicago* and has taught or researched at *Columbia University, Harvard University, Stanford University* and *The Max Planck Institute* in Germany, where he was awarded the Otto Hahn Medal in 1997.

Hazel Bateman is an Associate Professor in the School of Actuarial Studies and Director of the Centre for Pensions and Superannuation (CPS) at the University of New South Wales, Sydney, Australia. She holds a PhD in Economics from the University of New South Wales and an honours degree in Economics and Statistics from the University of Queensland. Hazel has research and teaching interests in the areas of public and private provision for retirement. Her research interests include understanding retirement saving engagement and decision making over the lifecycle, the role of retirement income knowledge and financial literacy on retirement saving decisions, retirement benefit design and adequacy, and the regulation and taxation of superannuation and pension funds. Hazel

has over 60 research publications in the area of the economics and finance of retirement incomes and has co-authored the books 'Forced Saving: Mandating Private Retirement Incomes' and 'Retirement Provision in Scary Markets'. Hazel has consulted on retirement income issues to a number of national and international organizations, including the World Bank, the OECD, APEC, the Korean Institute for Health and Social Affairs (KIHASA), and most recently the China-Australia Governance Program on a project to extend pensions coverage to migrant workers. Prior to joining the University of New South Wales, Hazel worked as an economist in the Australian Treasury.

Susan Thorp is a Professor of Finance and Superannuation in the Faculty of Business, University of Technology, Sydney. Susan's research focuses on retirement savings and long-horizon wealth management, with particular interest in consumer decision making in retirement savings. She is a member of the Centre for the Study of Choice and the Quantitative Finance Research Centre at UTS, and an associate of the Centre for Applied Macroeconomic Analysis, ANU, and the National Centre for Econometric Research. Susan is a Chief Investigator on two current Australian Research Council projects studying retirement savings choice. Her publications in leading international journals have included studies of retirement savings portfolio management, annuitization, retirement income streams, and the value and insurance features of the public pensions. Professor Thorp gained her BEc (Hons) from the University of Sydney, and her PhD from the University of New South Wales. She previously worked in the Economic Group at the Reserve Bank of Australia.

Christine Kaufmann is PhD Student and Research Assistant at the University of Mannheim. She earned her Bachelor (2006) and Master (2007) degree in Banking and Finance at the Frankfurt School of Finance & Management and the University of Vina del Mar, Chile. Her research is in the area of household finance and behavioural finance. Recent work has examined issues including the influence of risk communication on investment decisions, risk comprehension and risk taking behaviour of private households as well as the influence of financial literacy and cognitive abilities on financial decision making. Prior to joining academia, she gained extensive work experience in the business development and consumer finance unit of Deutsche Bank in Frankfurt and Warsaw.

3:15 – 3:30 PM **Beverage/Snack Break** in Ballroom Lobby area

3:30 – 4:45 PM **Session 10: Expectations and Stock Market Investing**

Discussant: **Michael Jay Stutzer** – University of Colorado, Finance

"Do Investors Put Their Money Where Their Mouth Is? Stock Market Expectations and Trading Behavior"

Christoph Merkle- University of Mannheim, Banking
Martin Weber- University of Mannheim, Banking

Abstract: People acting on their beliefs is a primitive to economic theory that has seldom been challenged. Portfolio theory assumes that investors form expectations about return and risk of securities and trade accordingly. We test this theory using a panel survey of self-directed online investors. The survey asks for return and risk expectation of these investors in three-month intervals between 2008 and 2010. We combine the survey data with investors' actual trading data and portfolio holdings. We find that investor beliefs have little predictive power for immediate trading behavior. However, portfolio risk levels and changes are systematically related to return and risk expectations. In line with financial theory, risk taking increases with return expectations and decreases with risk expectations.

"Once Burned, Twice Shy and You've been Good to Me So Far: How Naïve Learning, Counterfactuals, and Regret Affect the Repurchase of Stocks Previously Owned"

Michal Strahilevitz- Golden Gate University, Marketing
Terrance Odean- University of California, Berkeley, Finance
Brad Barber- University of California, Davis, Finance

Abstract: Investors' previous experiences with a stock affect their willingness to repurchase the stock. Using detailed trades data for two brokers, we document that investors are reluctant (1) to repurchase stocks previously sold for a loss and (2) to repurchase stocks that have risen in price subsequent to a prior sale. We propose that this behavior is driven by investors' emotional reactions to trading and their attempts to distance themselves from negative emotions (e.g., disappointment and regret). Investors are disappointed when they sell a stock for a loss and regret having ever purchased the stock; these negative emotions deter investors from later repurchasing stocks sold for a loss. Having sold a stock, investors are disappointed if the stock continues to rise and regret having sold the stock in the first place; these negative emotions deter investors from repurchasing stocks that go up after being sold. Thus investors engage in reinforcement learning, by repurchasing stocks whose previous purchase resulted in positive emotions and avoiding stocks whose previous purchase resulted in negative emotions.

Biographies:
Michael Stutzer is Professor of Finance at the University of Colorado in Boulder, and Director of its Burridge Center for Securities Analysis and Valuation. He is co-editor of the portfolio choice section in the Encyclopedia of Quantitative Finance (Wiley). His theoretical work has focused on the application of mathematical information theory, and its frequentist interpretation from the statistical theory of large deviations, to well-known problems in parameter estimation, derivative security pricing, and portfolio choice. He received two awards from the Chartered Financial Analyst Institute for work published in the Financial Analysts Journal.

Christoph Merkle is a PhD Candidate in Finance at the University of Mannheim, Germany, and a research and teaching assistant at the Chair of Business Administration and Finance. He is also a member of the University's Behavioral Finance Group. Merkle graduated in economics from the University of Cologne, Germany, in 2007. He then joined the Graduate School of Economic and Social Sciences in Mannheim, which was that year established by the University of Mannheim as the first of its kind in Germany. He developed a research interest in behavioral finance, household finance, and decision theory, and found his supervisor in Prof. Martin Weber. Merkle is a fellow of the European Finance Association (EFA), the German Finance Association (DGF), and the Royal Economic Society. His papers explore topics at the interface of finance and psychology, for instance the role of beliefs, attitudes, expectations, and emotions in investment behavior. He expects to complete his PhD in 2011.

Michal (Ann) Strahilevitz is a chaired associate professor of marketing at Golden Gate University in San Francisco. Professor Strahilevitz's research focuses on the role of emotions in consumer decision-making. This includes how consumers choose between different products to purchase, how they choose between different charities to donate to and how they choose between different stock and mutual fund options to invest in. Michal prefers to do research with real world implications that could actually improve people's lives. Her research has been published in the Journal of Consumer Research, Marketing Letters, the Journal of Business Research, the Journal of Consumer Psychology, the Journal of the American College of Radiology and the, Journal of Nonprofit & Public Sector Marketing. The research she will present at this conference focuses on how emotions affect investor behavior. The paper that goes along with this presentation was coauthored by Terry Odean and Brand Barber, and has been recently accepted for the special issue of the Journal of Marketing Research that focuses on financial decision making. Michal is regularly quoted in the media about a wide range of topics. Recently, she was interviewed by the Wall Street Journal on how the emotions that result from very large losses affect investor behavior:
http://online.wsj.com/article/SB10001424052748704692904576166290382532296.html

4:45 – 5:00 PM **Closing Remarks**

Victor Fleisher – University of Colorado Law School

Victor Fleischer is an Associate Professor of Law at the University of Colorado Law School. Professor Fleischer has taught a range of tax and transactional courses, including Deals, Federal Income Tax, Corporate Tax, Partnership Tax, Tax Policy, Venture Capital & Private Equity, and various seminars. Professor Fleischer joined the faculty of the University of Colorado in 2006. He has also taught at UCLA, Georgetown, Illinois, Columbia, and NYU. Professor Fleischer's research focuses on tax policy. In 2007, a draft version of Professor Fleischer's paper on carried interest helped prompt Congress to propose Section 710 of the tax code, which would tax a portion of carried interest as ordinary income rather than capital gain. The paper, *Two and Twenty: Taxing Partnership Profits in Private Equity Funds*, was later published in the NYU Law Review.

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Conference Co-Chairs

Donald R. Lichtenstein is Provost Professor and Chair of the Division of Marketing. He received his undergraduate degree at the University of Alabama (1978) and his Ph.D. at the University of South Carolina (1984). His research interests lie primarily in the areas of consumer processing of price and sales promotion information. Much of his research has focused on consumer processing of reference price advertisements, consumer price-quality perceptions, influences on consumer price acceptability, and consumer perceptions and response to alternative sale promotion techniques. More recently, he has done research regarding corporate social responsibility, consumer-company identification, and consumer processing of nutritional information. Prior to the University of Colorado in 1988, he was an assistant professor at Louisiana State University (1984-1988). In addition to his current administrative position as marketing division chair, he has also served as Associate Dean of Faculty and Academic Programs (1998-2001). He is the recipient of the 2004 Fordham Life-Time Achievement Award in Behavioral Pricing Research. His work has appeared in journals such as the *Journal of Consumer Research*, the *Journal of Marketing Research, The Journal of Marketing*, and *Marketing Science*. Professor Lichtenstein currently serves on the editorial review board of the *Journal of Consumer Research* and the *Journal of Marketing*.

John G. Lynch, Jr. is the Ted Anderson Professor at the Leeds School of Business, University of Colorado-Boulder and the Director of the Center for Research on Consumers' Financial Decision Making. Lynch received his BA in economics, his MA in psychology, and his PhD in psychology, all from the University of Illinois at Urbana-Champaign. He was a member of the faculty at University of Florida from 1979-1996, where he was Graduate Research Professor. From 1996-2009 he was the Roy J. Bostock Professor of Marketing at the Fuqua School of Business at Duke University. Lynch is a Fellow of the Association for Consumer Research, a Fellow of the American Psychological Association, and a Fellow of the Society for Consumer Psychology, and past president of the Association for Consumer Research. He studies the cognitive psychology of consumer decision-making. His more recent research has focused on intertemporal choice and planning, including Zauberman and Lynch's (2005 *Journal of Experimental Psychology: General*) resource slack theory of discounting, a general theory that explains why different resources are discounted at different rates and Lynch, Netemeyer, Spiller, and Zammit's (2010 *Journal of Consumer Research*) generalizable scale of "propensity to plan" predicts credit scores, controlling for various demographics. Current projects include effects of consumer financial literacy on downstream financial behaviors, "giving up" as a response to very complex financial products such as mortgages and annuities, and the development of a mortgage recommender system.

Center for Research on Consumer Financial Decision Making

The mission of the Center is to support interdisciplinary scholarship that informs theory, practice, and public policy pertaining to consumer financial decision making. The Center conducts basic research and more applied work to inform public policy. It engages in educational outreach aimed at improving consumer welfare by fostering conversations among consumer groups, public policy officials, business people serving financial markets, and researchers with common interests in these topics across a wide variety of social science disciplines.

Contact:
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