Reminder Messaging and Peer Support for Debt Reduction in the United States

Researchers:

Dean Karlan

Jonathan Zinman

Sector(s): Finance

Fieldwork: Innovations for Poverty Action (IPA)

Location: United States of America

Sample: 1,000 Clarifi clients

Target group: Adults

Outcome of interest: Earnings and income

Intervention type: Coaching and mentoring Digital and mobile Nudges and reminders Social networks Tracking

Partner organization(s): Center for Financial Services Innovation (CFSI), Clarifi

There are growing concerns that American households tend to borrow too much and save too little, making it hard to meet basic needs, build assets, prepare for retirement, and pay for emergency expenses. Large debt burdens may compromise individuals and families' ability to create a safety net or make investments for the future. In an ongoing study, researchers are evaluating the effect of peer support and text message reminders on financial outcomes of individuals enrolled in a debt management program in the United States.

Policy issue

There are growing concerns that American households tend to borrow too much and save too little. This imbalance can have strong implications for households' ability to meet basic needs, build assets, prepare for retirement, and weather negative shocks such as emergency expenses or unexpected unemployment. Families with large debt burdens may continue to borrow and thus compromise their ability to create a safety net or make investments in the future. Many see Debt Management Plans (DMPs) as a promising tool for debt reduction, yet creating a DMP and sticking to the program requires ongoing work and effort. Descriptive evidence suggests that limited attention, apprehension about giving up credit cards, a perceived lack of support, and the five-year time period of plans may hinder clients from completing them. To promote DMP use and completion, text message reminders and peer support programs may help individuals follow through on DMP commitments. However, little evidence exists on the effectiveness of such programs and whether they help people reduce their debt.

Context of the evaluation

Low-income individuals in the United States often rely heavily on expensive financial services such as payday loans, auto title loans, pawn shop loans, and bank overdrafts. Credit scoring systems, which originated out of the dual credit market that resulted from discriminatory housing segregation in the United States, continue to limited access to affordable credit among low-income households, and in particular, black households.[1] Households frequently turn to expensive debt obligations because their lower credit scores disqualify them from lower-priced alternatives.

Clarifi is a non-profit organization that provides low-cost access to various financial products, services, and resources. Debt Management Plans (DMPs) are one of Clarifi's financial planning tools that aim to help clients manage and repay their debt with the help of experienced credit counselors. The retention rate of clients who join Clarifi's DMP programs is 80 percent, meaning that 20 percent of DMP enrollees leave the program within the first year.

Details of the intervention

Working with Clarifi and its Debt Management Plan clients, researchers are evaluating the effect of various messaging and peer support programs on the financial outcomes of participants. The evaluation involves 1,000 of Clarifi's clients in southeastern Pennsylvania, southern New Jersey, New York state.

As part of Clarifi's general program, all clients in the study participated in educational workshops and outreach, as well as debt repayment counseling prior to enrollment in a DMP. At the time of enrollment into DMPs, researchers randomly selected individuals to receive peer support, reminder messages, or both. Those in the peer support group were able to select up to five peer supporters (friends of family) to monitor their progress on a DMP. Peer supporters received information on the client's progress, including notification when the client missed a scheduled debt payment.

To test the impact of regular text message reminders, individuals from each group (peer support or no peer support) were then randomly divided into a comparison group (no messaging) or one of three message reminder types: tasks, plans, or goals. These messages are designed to counter specific types of limited attention.

Results and policy lessons

Project ongoing, results forthcoming.

---

1. https://cpb-us-e1.wpmucdn.com/sites.suffolk.edu/dist/3/1172/files/2014/01/Rice-Swesnik_Lead.pdf