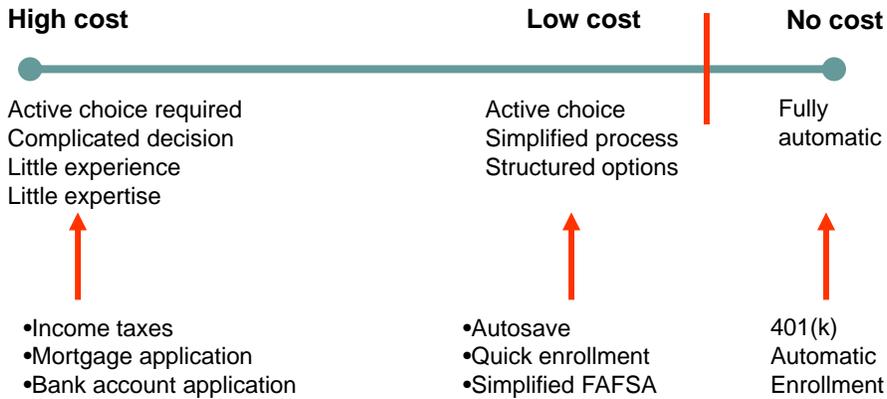


That was Easy: Why Simple Matters

Brigitte Madrian
Harvard University
April 30, 2010



Action Cost Continuum



Why Does Simple Matter?

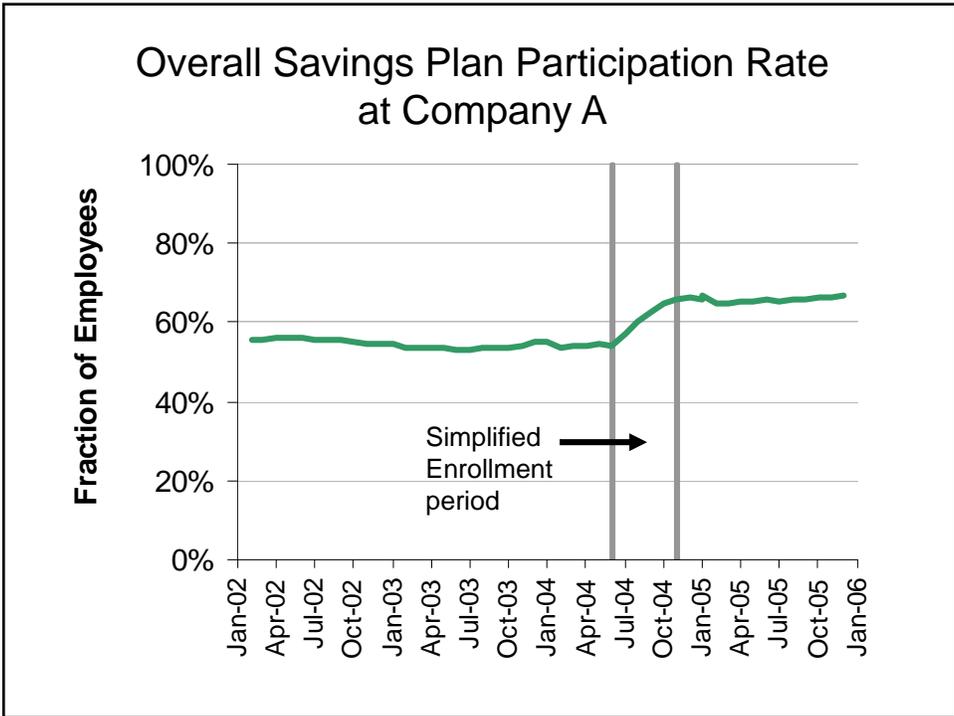
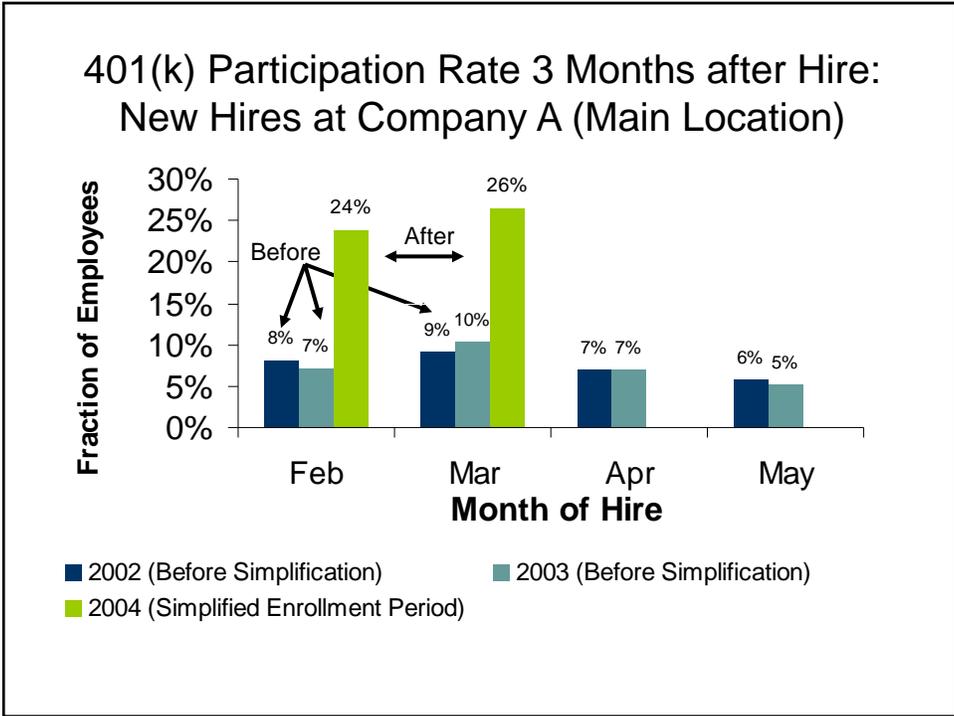


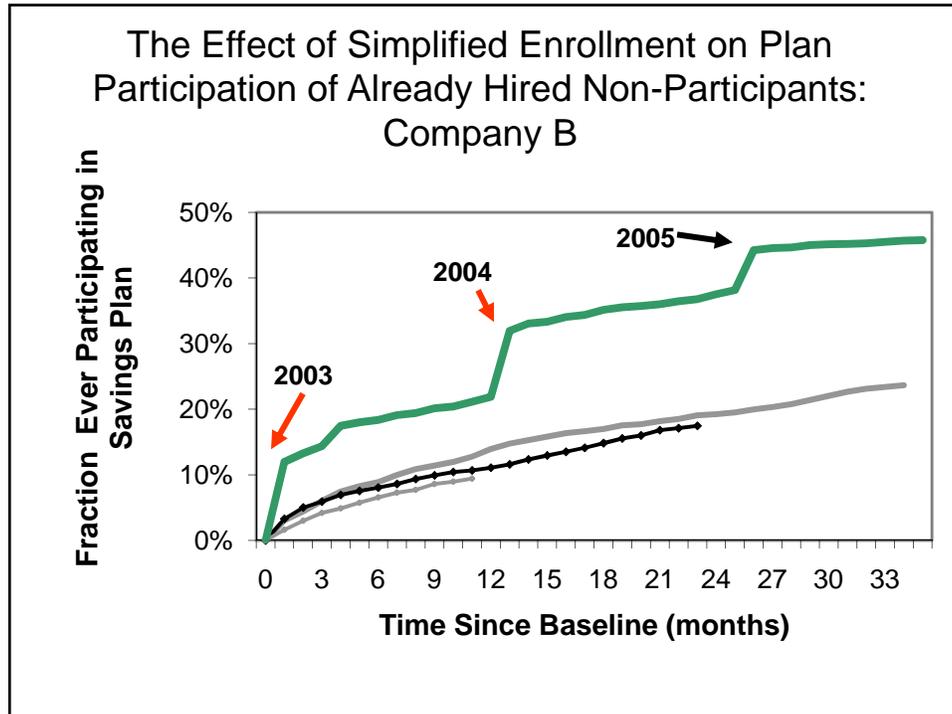
- Complexity leads to
 - Delay/procrastination
 - Mistakes
 - Due to confusion
 - Due to misapplied heuristics that are designed to simplify complex choices
 - Due to delay

Results from a Simplification Initiative in Savings



- Beshears, Choi, Laibson and Madrian (2006)
- Here is a quick and easy way to enroll in the 401(k) plan:
 - Option 1: do not enroll in 401(k)
 - Option 2: enroll in 401(k)
 - Pre-selected contribution rate (e.g. 6%)
 - Pre-selected allocation (e.g., 50% of your contribution goes to money market, 50% into balanced fund)
- Not only quick and easy for participants, relatively cost-effective for plan sponsors





Results from a Simplification Initiative in College Financial Aid



- Bettinger, Long, Oreopoulous and Sanbonmatsu (2009)
- Background: complexity of the financial aid process deters students from apply for aid/attending college
- FAFSA form
 - 8 pages, 100+ questions
 - 4 time longer than IRS 1040 EZ
 - 850,000 eligible students don't apply
 - Cannot submit until January of the year of college entry → college application decisions made without information on likely eligibility for aid

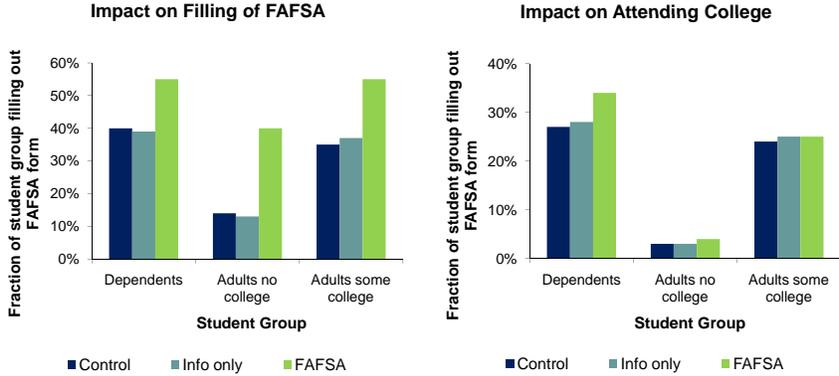
Results from a Simplification Initiative in College Financial Aid



- Experiment with H&R Block
 - Target population
 - Families with AGI < \$45K
 - Family member age 15-30 without college degree
 - Random assignment to three groups

	Group 1	Group 2	Group 3
General informational brochure	✓	✓	✓
Cost of attending local colleges and assessment of aid eligibility		✓	✓
Help completing the FAFSA			✓

Results from a Simplification Initiative in College Financial Aid



Simplification → substantial increase in likelihood of filling out the FAFSA **Simplification → increase in college attendance for dependents**

Simplification and Enrollment in Home Delivery of Prescription Drugs



- Home delivery of prescription drugs for long-term maintenance medications
 - Lower cost than using bricks and mortar store
 - Lower error rate than bricks and mortar store
 - Automatic refills—minimizes gaps between when a prescription runs out and is refilled
- Work with Express Scripts and Lowe's
- Dramatic increase in take-up
- Working now to evaluate health impacts

Applications—Household finance



- Household Finance
 - Mortgage applications
 - Taxes
 - Saving
 - Annuitization
 - Insurance

Applications—Health and health care



- Health and health care
 - Insurance plan choice
 - Medication adherence
 - Vaccinations
 - Diet/eating
 - Exercise

Applications—Energy use



- Environment
 - Appliance purchases
 - Car purchases
 - Energy consumption

Applications—Public Programs



- Public programs
 - Unemployment insurance
 - Welfare programs
 - Home affordable modification program
 - Students loans/financial aid

Issues in Simplification



- Heterogeneity
 - Who do we target?
 - Targeting multiple groups
 - Customization
- Endorsement effects
 - What if the nature of the simplification adversely affects some people's choices?
 - How much to save
 - Which college to attend
- When do you WANT complexity?