



Institute of consumer  
money management

# 2020 ANNUAL REPORT



# Message from the Executive Director



2020 will be marked as an unprecedented year in human history. The Covid-19 Pandemic, the unparalleled economic crisis, and high unemployment numbers in the US amplified the urgency of fulfilling ICMM's mission of helping individuals build a sustainable financial future.

In ICMM's brief history, 2020 has been a productive year. Following landscaping the needs and gaps in the field of consumer financial education, we made strategic decisions on:

- Selecting the targeted populations that have significant needs in building financial health: Low & Moderate Income Older Americans and the US Teenage population
- Choosing the partners with proven experience and recognized as thought leaders
- funding the projects that apply innovative technologies and diverse research methodologies

The initial results of the projects funded with the ICMM grants are very encouraging and demonstrate great potential. As we are entering into the year 2021, we are confident that our grant projects will further shed light on improving Americans' financial lives and we remain committed to our mission and services.

We want to express our appreciation to our partners and the grantees for their excellent work and cooperation.

Dr. Diane Chen  
Executive Director



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## Current Projects





## LMI Retirement and Saving Decisions

A major policy concern in the United States is the economic well-being of older low and moderate-income (LMI) households. Increases in life expectancy and changes in pensions and government programs mean that individuals must now plan for their retirement and become better managers of their assets and debts. For this reason, it is important to have a better understanding of how the transition from work to retirement affects the well-being of LMI households, and how the management of retirement resources can shape the ability of LMI individuals to maintain their standards of living for 30 or more years. Important determinants of planning for retirement are peoples' financial literacy levels and the ability to use financial knowledge in making important decisions throughout retirement.

Using a grant funded by the Institute of Consumer Money Management, researchers from North Carolina State University, George Washington University, and the University of Pennsylvania are conducting eight research projects to investigate the relationship between financial literacy and financial well-being in retirement for low- and moderate-income retirees. The projects have overlapping timelines and will take place over four years.

The first survey has been completed and the resulting research paper, Financial Fragility during the COVID-19 Pandemic, has been published as an NBER Working Paper. For the past several weeks it has been one of the top ten most downloaded papers on the SSRN website!

The paper will be completed in spring 2021. The second survey will be conducted in the second quarter of 2021.

Reviewing papers and HRS data in order to examine distributions from retirement plans. Interacting with consulting firms and industry leaders to understand new distribution options.

Working on the analysis of differences in income changes between African American and White households. Anticipating a paper on this topic later in 2021.

**Principal Researchers: Dr. Robert Clark (North Carolina State University), Dr. Annamaria Lusardi (George Washington University), Dr. Olivia Mitchell (University of Pennsylvania)**



## Financial Decision-Making Digital Game for US Teens

With a grant from the Institute of Consumer Management, the NOVA Lab of PBS and the Center for Advanced Hindsight (CAH) of Duke University are developing a free, financial decision-making digital game for the popular NOVA Labs platform for teens informed by the latest behavioral insights in the domain of financial decision-making. This game at the heart of the NOVA Financial Literacy Lab will feature cutting-edge behavioral change interventions and enjoy wide public distribution, with outreach focused on high-need communities.

Through this project, NOVA will help to position teens for better money management behaviors in their futures. With cognitive biases and social factors in mind, the safe environment of the game will allow teens to gain financial knowledge and sound habits for managing their money.

It will also serve as a testbed for research, providing insights for the education, behavioral science, and finance communities into how to cultivate healthy financial behavior in the real world—valuable lessons that should reverberate well beyond this initiative.

This project is divided into three stages over 18 months:

- Stage 1: Behavioral Science Foundational Work
- Stage 2.1: Game Production
- Stage 2.2: Tweaks and Evaluation During Game Production
- Stage 3: Game Launch and Post-Development Evaluation

**Principal Researchers: Dr. Dan Ariely, Dr. Jonathan Corbin, Dr. Rebecca R. Kelley (CAH), and David Condon (NOVA Lab)**

With the goal of holistically supporting older LMI pre-retirement adults with digital financial coaching tools, we funded a much-needed qualitative study. Using our grant, the Financial Health Network (FHN) proposed designing a research engagement that will answer the following questions and developing a prototype for a digital financial coaching tool:

- With which aspects of their financial lives do pre-retirees struggle the most?
- How, and how well, are pre-retirees making decisions about their retirement?
- What can we learn about the way that pre-retirees' day-to-day financial health challenges impact their ability to make decisions and/or take action that result in future positive financial health outcomes?

The research team conducted one-on-one and small group interviews with 40 people, with the following aims:

1. Understand LMI pre-retirees' financial lives, including their behaviors, strategies, needs, desires, and challenges around earning, spending, saving, investing, borrowing, and planning.
2. Understand how pre-retirees define and conceptualize their 'retirement', how they are preparing for it, and the retirement topics for which they want advice.
3. Understand barriers and drivers for LMI pre-retiree technology adoption and use, specifically with regard to digital financial advice.
4. Understand LMI pre-retirees' current access to financial advice, perspectives on its quality/usefulness, and the financial health topics on which they want advising.
5. Identify opportunity areas for delivery of digital financial coaching, including channels, format, and features.
6. Gain prospective user responses to preliminary versions of an online digital financial coaching tool.

Research Insights: Understanding the Financial Advising Needs of Low-to-Moderate Income Older Adults

- Retirement is dynamic.
- Support is needed for both short- and long-term planning horizons.
- Financial advice is perceived as a limited or out of reach resource.
- Design Recommendations: Designing a Digital Financial Advising Tool for LMI Older Adults
- Provide social and emotional support.
- Help LMI older adults overcome concerns that financial advising isn't for them.
- Holistically address evolving and diverse financial needs

Prototype development for this project is completed, and the final research paper will be released in February 2021.

**Principal Researchers: Heidi Johnson, Farah Manjiyani, Dr. Stephens Arves (FHN)**



# Income Security and Financial Well-Being of Older Workers Transitioning into Retirement



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Income security in retirement is a growing concern for American workers. With longer life expectancy and an increasing shift in pension plans from direct benefit (DB) to defined contribution (DC), wealth accumulated while working is increasingly important for post-retirement income. Public retirees are often covered by DB pension plans, but even so, a non-trivial proportion of public retirees experience financial distress in terms of credit card debt and lack of access to emergency funds.

This research centers around four key questions:

1. Defining income changes - Do public retirees experience large income declines in retirement?
2. Measuring income replacement - How do their DB pension benefits replace their income?
3. Analysis of income changes - What are factors associated with income declines?
4. Consequence of income changes - Are income declines linked with financial distress?

To answer these questions, a research team at North Carolina State University with the funding from ICMC compared the data on newly-retired NC public sector employees to public sector workers from the Health and Retirement Study. Income changes are measured by looking at changes in overall household income as well as the "pension income replacement ratio," or the proportion of pre-retirement income provided by the pension. Financial distress is measured through credit card debt and access to emergency funds. These comparisons make it possible to evaluate how different policies and pension plans affect well-being in retirement.

The project was completed in 2019 and the paper was presented at the 2019 annual conference of the Council of Retirement Pension

**Principal Researchers: Dr. Siyan Liu, Dr. Robert L. Clark, and Dr. Melinda Morrill (North Carolina State University)**



## Improving Debt Management Plan Outcomes Through Behavioral Interventions

With the grant from ICMM, the research team at the University of Southern California is conducting a two-year behavioral intervention project, partnering with a group of nonprofit credit counseling agencies for improving the completion rate of Debt Management Plan (DMP).

Credit counseling and DMP can help consumers effectively reduce their debt burdens and improve financial stability. Unfortunately, many DMP clients drop out of the program well before getting out of debt, while many others who would benefit from these services fail to enroll. Successfully completing a DMP is a difficult task, in part because the process of getting out of debt conflicts with a host of cognitive and behavioral biases.

The USC project includes a survey measuring the prevalence of five behavioral factors that are likely to influence DMP outcomes among new DMP participants across three large Credit Counseling Agencies. Building on the survey results and insights from the behavioral economics literature, the five behavioral interventions designed to improve repayment behavior and increase DMP retention are experimented with the five credit counseling agencies in US:

1. Milestone reframing and encouragement messaging
2. Advanced planning prompts
3. Peer reference points and financial capability nudges
4. Early reminders of upcoming payments
5. DMP bank accounts

The first of the interventions was launched in March 2019. Early results suggest that reframing has little effect on DMP client outcomes, but encouragement has led to statistically-significant, sizeable increases in retention and on-time repayment. Data collection is ongoing, with final analysis expected in 2021.

**Principal Researcher: Dr. Jeremy Burke (University of Southern California)**



## Improving Client Outcomes in Debt Management Programs

The objective of this project is to help credit counseling agencies improve client retention and success rates through the leveraging of client data. We have worked with six different credit counseling agencies to create predictive models, test interventions, and monitor client outcomes. The first major model we developed was a machine learning survival model designed to produce the following outputs:

- Predicted client duration
- Probability client will remain for 3/6/12/24 months
- Client risk score
- Key risk factors
- Predicted intervention impact

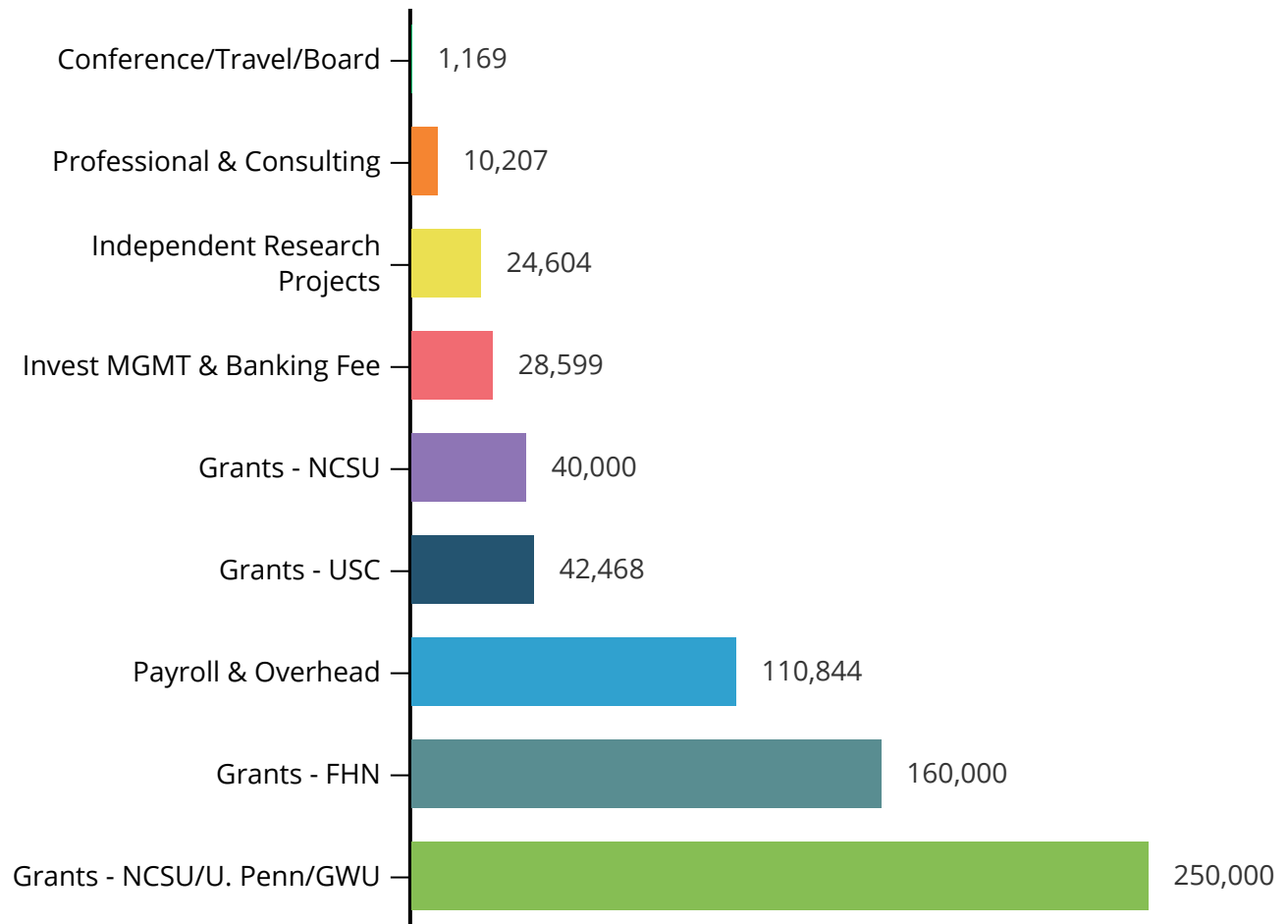
As the last of these outputs suggests, the goal of this machine learning model was to help credit counseling agencies design interventions to help prevent clients from dropping out of their program. Many of the interventions are planned as part of the behavioral survey designed by Dr. Jeremy Burke, with the machine learning model used to gather data and report on the outcomes of the interventions. Some credit counseling agencies have implemented or plan to implement additional interventions that will also be tested. As part of the pilot program, we will provide participating agencies with monthly reports on their client base and intervention results. As data becomes available, the interventions can be more precisely targeted and refined to increase their effectiveness.

In 2020, a new model has been developed, using artificial neural networks (ANN). Neural networks are a more powerful analytical tool than standard machine learning, offering more flexible and accurate predictions. The new model is currently being rolled out at a credit counseling agency, and it promises to empower agencies to help every client have the best possible chance of success.

**Principal Researcher: Patrick Royal (Institute of Consumer Money Management)**



## Budget July 2019 - June 2020



Total Grants Given	\$492,000
Total Administration Spending	\$150,819
Total Expenditure	\$667,423
Total Investment Income	\$237,327
Net Income	\$-430,096



# Institute of consumer money management

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## Our Mission:

- Our mission is to create a sustainable financial future for consumers.
- We conduct and provide funding for research and studies that promote positive spending behaviors and consumer asset building.
- We are committed to promoting financial literacy in our community and across the United States.

## Our Vision:

Our vision is to become a leading evidence-based organization that caters to the financial literacy and financial capability concerns in our local community, and eventually nationwide.

**The Institute of Consumer Money Management**

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