

How financial confidence helps individuals and couples manage their debts

Jenny Olson

Indiana University

Scott Rick

University of Michigan



\$100 balance

10% APR



\$1,000 balance

15% APR



“Come up with a payment plan that puts most of your available budget for debt payments towards the **highest interest cards first**”



\$100 balance

10% APR



\$1,000 balance

15% APR

People who display “debt account aversion” in the lab have lower credit scores, more “potentially negative” items on their credit reports (Li et al. 2015, Olson & Rick, 2018)



\$1,000 balance

15% APR

Why?

- Desire to reduce paperwork, risk of forgetting to pay

- Advice



- Temptation of pursuing goals closest to completion



credit.com

“When faced with a daunting credit card balance, some might be tempted to just make minimum payments or **ignore the debt altogether.**”

Financial confidence as a remedy?

- Feeling “capable and assured with respect to marketplace decisions and behaviors”
(Fernandes, Lynch, & Netemeyer 2014)
- Financial confidence...
 - “...plays a role in reducing hesitation” (Parker et al. 2012)
 - Encourages consumers to “act boldly” (Hadar et al. 2013)

Does boosting financial confidence improve debt management?

All participants initially asked a series of \$ Qs, such as:

Which of the following financial products do you use?
(savings acct, car loan, ...)

How many credit cards do you have in your name?

How many bills do you personally pay each month?

Some randomly assigned to receive a financial confidence boost...

Based on your answers to the financial questions, we have no doubt that you'll do great on the next set of questions...

When you're ready to proceed, click the arrow below. Remember, YOU GOT THIS!

Others randomly assigned to control condition...

When you're ready to proceed to the next set of questions (about debt management), click the arrow below.

Debt	APR	Amount
Debt 1	2.50%	\$3,000
Debt 2	2.00%	\$8,000
Debt 3	3.50%	\$11,000
Debt 4	3.25%	\$13,000
Debt 5	3.75%	\$52,000
Debt 6	4.00%	\$60,000

Your repayment budget: \$5,000

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Debt 2	2.00%	\$8,000
Debt 3	3.50%	\$11,000
Debt 4	3.25%	\$13,000
Debt 5	3.75%	\$52,000
Debt 6	4.00%	\$60,000

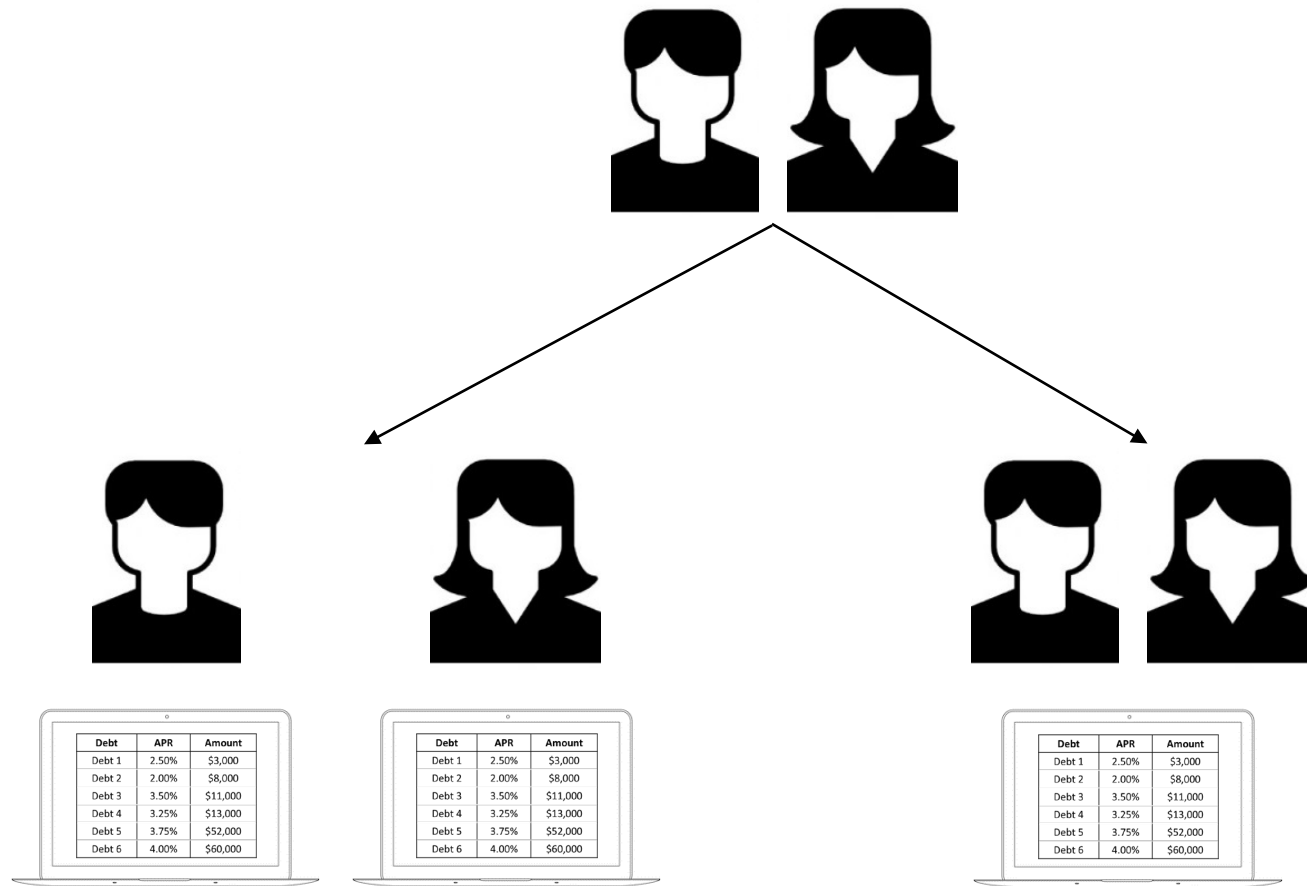
Mean repayment to **Debt 6** in Confidence Boost condition: \$2,561

Mean repayment to **Debt 6** in Control condition: \$1,809

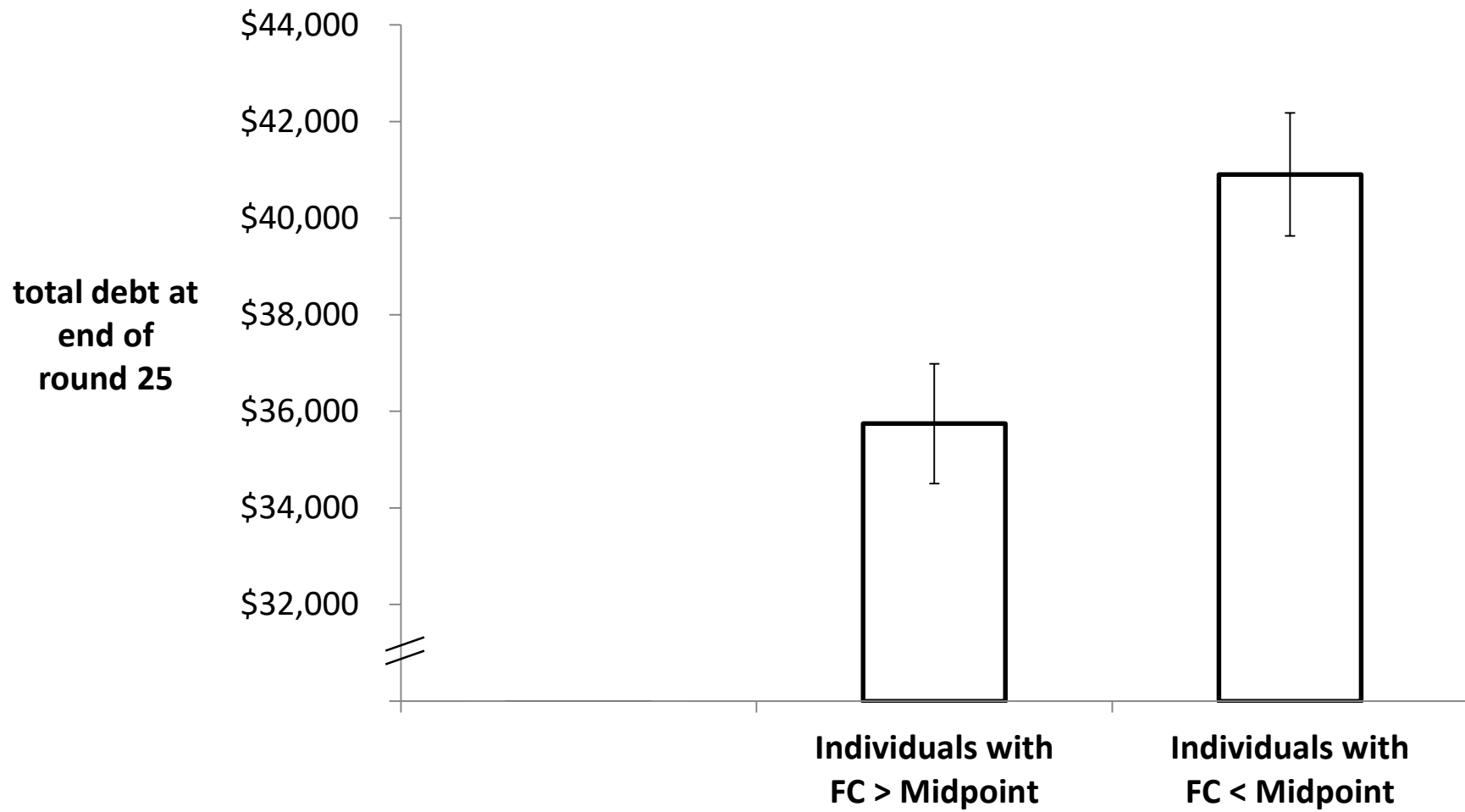
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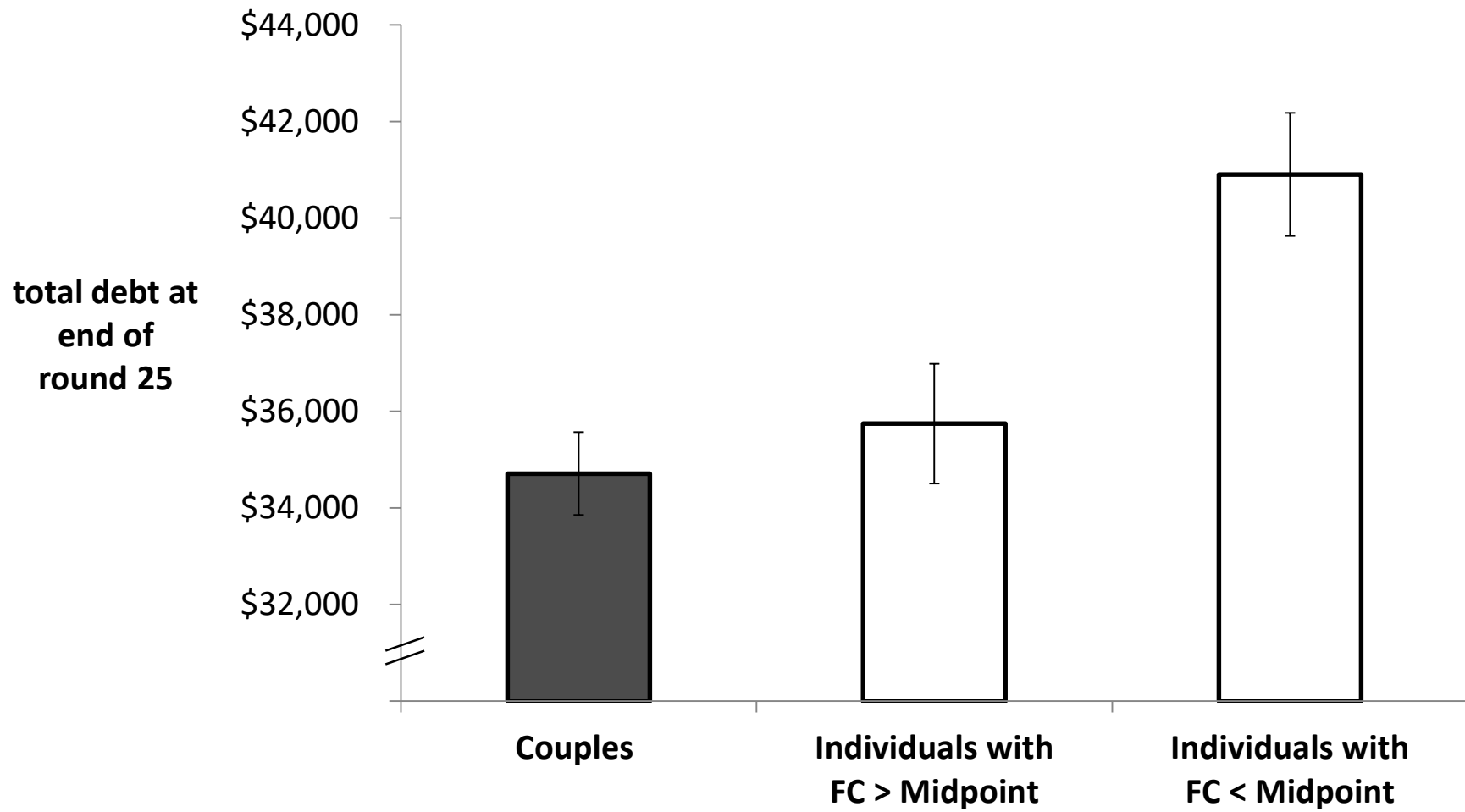
How does financial confidence influence joint debt management decisions?

- Most large debts are jointly held
- In collaborative tasks, confidence is generally a better predictor of influence than competence
- Couples should benefit from following lead of more confident partner



- Paid based on total debt at end of 25 “years” (rounds)
- Measured each participant’s financial confidence
 - e.g., “I am confident in my ability to recognize a good financial investment.”





Summary

- FC improves debt management decisions at individual level
- When faced with debt management decisions, couples follow the lead of the partner with higher FC
- Consumer education programs should aim to enhance both financial literacy and confidence



Thanks!