Study shows default choices matter, especially for poorer, less educated individuals

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Between 2000 and 2007, the telemarketing firm Suntasia charged hundreds of thousands of customers an average of $239 each for essentially worthless subscriptions. Researchers at Carnegie Mellon University, Indiana University and U.S. government agencies took advantage of a resulting federal lawsuit against the company to test default choice architecture when the optimal choice was clear: End the subscriptions.

During the litigation, the court required Suntasia to allow subscribers to choose between continuing their subscriptions—and being charged—and canceling. Some consumers were canceled by default unless they contacted the company to extend their subscriptions, while others had to cancel by phone or mail in a form.

Published in the *Economic Journal*, the study showed that 99.8 percent of consumers ended their subscriptions when it was the default, but only 36.4 percent of consumers ended their subscriptions when they had to take action to do so. The results also demonstrated that consumers residing in poorer, less educated areas were less likely to actively cancel.

"People are not the hyper-rational beings policymakers sometimes believe them to be," said Ania Jaroszewicz, who is pursuing her Ph.D. in behavioral decision research in CMU's Dietrich College of Humanities and Social Sciences. "Bad default options can be harmful, and in this case, we show they're particularly harmful for people in lower socioeconomic groups."

The court order stipulated that consumers enrolled prior to Feb. 1, 2007 were sent a complex, five-paragraph letter that outlined that their subscriptions would continue by default and could only be canceled by mailing in a form or making a phone call. Consumers enrolled after Feb. 1, 2007 were sent a nearly identical letter but were told that their subscriptions were being canceled by default and that they only had to take action if they wished to continue them.

Canceling the fraudulent subscriptions by default increased cancellations to 99.8 percent, 63.4 percentage points more than requiring active cancelation.

Additionally, sending complicated letters and requiring consumers to cancel actively was less effective at protecting people from poorer, less educated neighborhoods. The researchers estimated that consumers in lower socioeconomic neighborhoods were 23 percent less likely to cancel actively than consumers in more affluent areas—despite the fact that low socioeconomic consumers were actually 30 percent more likely to cancel the subscription prior to the lawsuit.

"Knowing how to design psychologically informed policies can help us better protect everyone from exploitation, but especially those people who are least equipped to protect themselves," Jaroszewicz said.

In addition to Jaroszewicz, the Government Accountability Office's Robert Letzler, the Consumer Financial Protection Bureau's Ryan Sandler, the Federal Trade Commission's Luke M. Olson and Indiana University's Isaac Knowles participated in this research.

This research is one example of Carnegie Mellon's approach to behavioral economics that uses a distinct fusion of economics and psychology to tackle some of the most complicated and costly problems.

More information: Robert Letzler et al, Knowing When to Quit: Default Choices, Demographics and Fraud, *The Economic Journal* (2016). DOI: 10.1111/ecoj.12377

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