

# Delinquent Debt Repayment

## *Simplified letters promote greater use of online payments for delinquent debts*

**Agency Objective.** Increase the rate of debt recovery by simplifying notification letters.

**Background.** The Department of the Treasury's Debt Management Services (DMS) collects delinquent debts from individuals who have incurred and fallen behind on non-tax debts to Federal agencies.<sup>65</sup> Agencies are required to refer debts to DMS at 180 days delinquent.<sup>66</sup> DMS collection letters are typically sent within 4 days of receiving the debt from a referring Federal agency. In 2013, DMS, in collaboration with the Office of Evaluation Sciences (OES), modified its collection letter using behavioral insights to increase the rate of debt recovery.

**Methods.** The new letter was simplified (e.g., multiple mailing addresses linked to the Department of Treasury were removed from the letter and replaced with a single address; the web address for online payment was shortened substantially), personalized (individuals were addressed by name rather than by debt ID number), and the total debt owed was emphasized in the letter's opening line. In addition, based on recent research from the United Kingdom showing that social comparisons can increase tax collections, the new letter highlighted the fact that 91 percent of Americans pay their debt on time.<sup>67</sup>

To determine the effectiveness of the changes, the new letter was compared to the status quo delinquency letter during a trial conducted between October 2013 and

March 2014. Individuals ( $n = 21,305$ ) with debts from six creditor agencies were randomly assigned to be sent either the status quo or new letter. Three outcomes were measured at 30 and 60 days from sending: (i) receipt of payment on debts; (ii) debtor contact via inbound calls to DMS; and, (iii) debtor-initiated payments to pay.gov.

**Results.** No differences were found in overall payment rates or inbound calls across the letter types. Individuals were significantly more likely to make a payment via pay.gov (rather than by mail) if they were sent the new letter (2.16 versus 1.49 percent,  $p < 0.05$ , 95% CI [0.30, 1.04]). Some collection was made within 30 days on 5.89 percent of all debts included in the sample. There were significant differences across agencies in the proportion of all debts on which payment was received (ranging from 1.79 to 12.78 percent). Debt size was also a significant predictor of payment (smaller debts were more likely to receive payment).

**Conclusions.** The evidence from the trial suggests that the new letter did not affect overall payment rates on delinquent, non-tax debt. It did affect the method of payment, however, by increasing utilization of online payments.

<sup>65</sup>For more information, see: [fiscal.treasury.gov/fsservices/gov/debtColl/dms/xservg/debt\\_crossserv.htm](http://fiscal.treasury.gov/fsservices/gov/debtColl/dms/xservg/debt_crossserv.htm)

<sup>66</sup>In practice, agencies have varying policies to determine referral, so age of debt (and other factors) at first receipt by DMS is not uniform across agencies.

<sup>67</sup>Michael Hallsworth, John A. List, Robert D. Metcalfe, and Ivo Vlaev, "The Behavioralist as Tax Collector: Using Natural Field Experiments to Enhance Tax Compliance," (NBER Working Paper No. 20007, 2014).

"91 percent of Americans..." calculated based on data available here: [newyorkfed.org/householdcredit/2013-Q1/data/xls/HHD\\_C\\_Report\\_2013Q1.xlsx](http://newyorkfed.org/householdcredit/2013-Q1/data/xls/HHD_C_Report_2013Q1.xlsx)