Additional Behavioral Finance Terms

Money Scripts
Money scripts are subconscious beliefs people have regarding money, many of which were developed in childhood. Personal experience and family values can impact money scripts. The four most common money scripts are:

- Money avoidance
- Money worship
- Money vigilance
- Money status

Understanding your personal money script is key to assessing your relationship with money and helping you to make constructive financial decisions in the future.

Framing Effect
Cognitive bias, in which a person makes decision based on whether the various options are presented in a positive or negative way, meaning individuals can tend to overlook factual data. The person is more affected by how the information is worded rather than the actual information. This can manifest itself in investment decisions. For example, two statements are told to an investor regarding a security:

- If you buy security #1, you could make a 50% profit.
- If you buy security #1, you could lose everything if anything goes wrong and also miss out on a 50% profit.

Though we have a situation with a 50% potential capital gain and a 100% downside risk as with any investment, how the investment is "framed" can have a huge impact on the decision to invest.
Another example is choosing a soap that kills 98% of germs rather than the one that allows "only" 2% to survive. They are the same though most people will choose the soap that kills 98% of germs.

Money Illusion
An economic theory positing that people have a tendency to view their wealth in nominal dollar terms rather than real terms which must take inflation into consideration. This can also be called "price illusion". One common example is as follows:

A 2% reduction in pay with 0% inflation is deemed worse than a 2% pay raise with 4% inflation. The two are identical to the worker though the worker views the 2% reduction as far worse.

Income-Driven Repayment Plans

Income-driven repayment plans are available to some federal student loan borrowers depending upon income and family size. Monthly payments are lower than with the standard federal loan repayment plan. Instead of being based on total loan debt, monthly loan payments in these programs are based primarily on income. Generally, a borrower will qualify if their total student loan debt is greater than their annual income.

Currently, per the 2021 American Rescue Plan Act, loan forgiveness in an income-driven repayment plan is tax-free through 2025. Participants in the plans below must recertify their income annually or face penalties including increased payments which could be added to loan principle and/or removal from the loan repayment program.

Income-driven payment plans can be advantageous for some borrowers as they can provide flexibility and result in more affordable loan payments. At the end of the plan term the balance is forgiven, and the borrowers credit score is not adversely affected.

The plans are not available to everyone and in some cases the debt may be taxable. In addition, participants must recertify each year and some plans contain a marriage penalty that can result in higher payments.

There are 4 options for income-driven payment plans:

1. Income-Contingent Repayment Plan (ICR)
2. Income-Based Repayment Plan (IBR)
3. Pay-As-You-Earn Repayment Plan (PAYE)
4. Revised Pay-As-You-Earn Repayment Plan (REPAYE)

Repayment Plan Comparison

	Income-Contingent (ICR)	Income-Based (IBR)	Pay-As-You-Earn (PAYE)	Revised Pay-As-You Earn (REPAYE)
Percent of Discretionary Income	20%	15%	10%	10%
Calculation for Discretionary Income	AGI – 100% of Poverty Level	AGI 150% of Poverty Level	AGI 150% of Poverty Level	AGI 150% of Poverty Level
Repayment Terms	25 years (300 payments)	25 years (300 payments)	20 years (240 payments)	Undergrad - 20 years (240 payments) Graduate – 25 years (300 payments)
Basis for Monthly Payment	• Adjusted Income • Family size • Total Direct Loan Balance (not including parent PLUS loans)	• AGI • Family size • Total student loan debt • 10-15% of discretionary income	• AGI • Family size • Total federal student loan balance • 10% of discretionary income	• AGI • Family Size • Total eligible federal student loan balance • 10% of discretionary income
Eligibility Requirements	Direct Loans Only	FFELP & Direct Loans Must also be assessed to have “partial financial hardship”	Direct Loans Only Must also be assessed to have “partial financial hardship” Must be a new borrower on or after 10/1/2007 and must have one eligible direct loan disbursed on or after 10/1/2011	Only for some Direct Loans