Managing cash flow and bill payments

When money is tight, consumers often pay bills in a way that makes the problem worse, with late fees, penalties, and higher interest rates.

Consumers typically receive about seven to 10 bills a month for regular expenses. They arrive on different days, in amounts that change from month to month. Then, more bills can come up for doctor's visits, home or car repairs, and more. Bills and reminders arrive by mail, e-mail, and telephone.

Consumers pay bills in many ways: cash, check, money order, telephone, online, at ATMs, by cell phone, and automatically. The new ways aren't replacing the old ways, so choices and complexity are growing. Consumers may find it hard to keep track of managing all of these financial tasks.

Exploring the causes

Research shows that consumers have many reasons for their actions. To gain insight into why it's so hard for consumers to organize and manage their financial lives, consider these factors.

1. Planning and persistence

When paychecks and bills arrive on different schedules, it's harder to keep track of everything and pay bills on time. Consumers may get distracted or delayed by small hassles.

2. Shortcuts don't always help

Juggling bills is difficult, so consumers tend to use simple shortcuts. They might pay the smallest bills first, even if they're not the most important. Or they might make partial payments on all bills, even though a partial mortgage payment counts as a missed payment.

Inspired to help?

Think about ways you can make it easier for consumers to carry out their best intentions–or make it harder to slip up. The ideas below can help guide your brainstorming.

- Adjust bill payment dates to align better with paydays
- Create a way for consumers to opt in to positive, encouraging reminders when bills are due
- Create a simple way to separate the funds necessary to pay incoming bills, so the money doesn't get spent on other things
- Help people use windfalls (such as tax refunds or overtime pay) to prepay a portion of upcoming bills
- Offer automated bill payment options in ways that give people more control over the payment
- Help consumers understand or visualize the effect of missing a payment

3. Need for control

Automatic payments (for example, debits from a bank account or charges to a credit card) can be an efficient way to manage bills in the long run. But for consumers who are sometimes short on cash, the loss of control outweighs the benefit.

4. Urgency gets attention

Consumers can pay bills to solve short-term problems, even if it puts them in a worse position for the long term. Missing a mortgage or insurance payment might not feel as urgent as having mobile or cable service disconnected.

Inspired to do more research?

The factors described above are starting points. You may want to dig deeper—for example, to find out which influences are strongest on different groups of consumers. You might ask questions like:

- How often are consumers late with car or home payments, compared to other types of bills?
- If a consumer is late with a car or home payment, are they more or less likely to be late with other bills or payments too?
- How promptly do consumers respond to bills and reminders received electronically, in the mail, by phone, and in other ways?
- How do consumers treat a bill received near payday, or far away from it?
- Which bills do consumers intend to pay, and which do they actually pay? How often do consumers change their minds about what bills to pay first?

Making a difference

Many consumers are financially fragile, and more than a quarter of consumers admit they pay bills late. Help in this area could mean some consumers avoid large problems (car repossessions, evictions, foreclosures) and many more consumers avoid smaller expenses that can add up (late fees, higher interest rates).

ABOUT THESE IDEAS

The Consumer Financial Protection Bureau hired a group of analysts and researchers to investigate challenges that consumers face when they make financial decisions. The group reviewed published studies, talked to academics and financial experts, surveyed financial products, and looked at what actions consumers took—and why.

To pinpoint the most important challenges, the group set up a few categories: income, expenses, saving, borrowing, payments and transactions, and risk management. Then, the group looked into the causes of problems in these categories. Are there too few products and services that are safe, affordable, and high quality? Are there too many products and services that set consumers up to make mistakes? What else adds to the problems?

Finally, the group selected challenges that are based on consumer behaviors or decisions, widespread, possible to change, and possible to measure.

Sources: Hamm, T. "Seven Monthly Bills Most People Have, and Seven Ways to Reduce Each Bill." The Simple Dollar, January 24, 2011. Schuh, S. "Consumer Payment Choice: A Central Bank Perspective." Federal Reserve Bank of Boston. (2012).