

Financial rules to live by: Ideas for financial educators

Consumers can simplify financial choices by using shortcuts or “rules of thumb.” These are guidelines a person can use to make complicated day-to-day financial decisions easier.

Examples of common rules of thumb include “save ten percent of your income” and “pay down the loan with the highest interest rate first.”

In our research, we found that many consumers know about common financial rules of thumb, but few act on those rules. There is a gap between the rules of thumb and actual behavior, suggesting the popular rules of thumb may function more as aspirations than guidelines for action. Finances are complicated and individualized, and the “right”

decision can vary by person and circumstance, making one-size-fits-all rules difficult to identify.

To help consumers find financial rules that they can live by, we explore some of the barriers to using common rules of thumb, and suggest ways that financial educators can help consumers create their own financial rules to live by.

Challenges to applying financial rules of thumb

To gain insight into why it may be difficult for consumers to apply common rules of thumb, we listened to consumers talk about their perceptions about financial rules of thumb. Here’s what we heard:

- Many consumers know about common financial rules of thumb.

ABOUT THESE IDEAS

The Consumer Financial Protection Bureau worked with a contractor to conduct focus groups with consumers to understand the common opinions, beliefs, and values that they hold. In summer 2014, we held 32 focus groups with 308 consumers in four cities—Boston, St. Louis, Atlanta, and Seattle. Focus groups are not intended to give us statistically significant data that can be generalized to all consumers. However, they can give us valuable qualitative information about what consumers think and feel in general. The information we have

gathered through these focus groups is intended to inform the work of the CFPB and of others in the financial education field.

To read more about the focus group findings, go to [Consumer Voices on Financial Rules to Live By](#). To see consumer worksheets on financial rules to live by, go to [My savings rules to live by](#), [My credit rule to live by](#), and [My spending rule to live by](#). These and all of CFPB’s tools and resources can be found on the Resources for Financial Educators webpage at www.consumerfinance.gov/adult-financial-education.

- Many are frustrated by what they see as unrealistic goals stated in common rules, as they struggle with competing priorities across many different dimensions of their financial lives.
- There is a sense that financial rules cannot be applied equally to all people in all circumstances. But many commonly held rules are too broad or ill-defined to offer clear guidance to anyone.
- Consumers are most likely to change their financial behaviors when they are confronted with major changes in their lives or financial trigger events.
- When they consciously apply rules, many consumers rely on them to guide savings and other planning-related financial decisions more than for day-to-day financial tasks.
- People learn rules of thumb from families and other trusted relationships, personal experience, and the financial media.

Inspired to help?

Rules of thumb can focus consumers' attention on areas of their financial lives that are important, e.g., "take advantage of your employer's full retirement match" or "have three months of salary in a rainy-day fund." As a financial educator, you can help consumers understand the basic principles behind common rules of thumb, and modify the rules to fit their own resources, circumstances, and aspirations. Helping people develop their own rules that they can live by can get consumers started on meeting their own financial goals.

Below are some ways you can help consumers figure out rules of thumb that work for them.

- Review what rules of thumb consumers know and how they're using them. Share common rules of thumb with the people you serve. Help them identify the underlying principles in these rules.
- Reassure consumers that these traditional rules of thumb are just starting points in financial goal-setting. You can let them know they are not the only ones who have had trouble sticking to common rules of thumb; they need to set their own realistic targets to match their aspirations.
- Explain that it's more important to establish realistic goals than to try to adhere to generalized rules of thumb that may not work for everyone.
- Have consumers modify common rules of thumb based on their financial goals and situation. Work with them to select just one or two rules that encourage positive financial habits in areas of their lives that are most meaningful to them. Focusing on future-oriented goals (like retirement or education) may be a good starting point.
- Brainstorm with consumers about how to make their personal financial rules concrete, visible, and handy (i.e., posted on their refrigerator or near their computer, written on their credit or debit card sleeve, etc.).
- If consumers have had major life changes such as unemployment, unexpected medical bills, or emergency home repairs, encourage consumers to use these events to adopt new financial rules to live by.
- Encourage consumers to periodically review their progress and adjust their rules of thumb.