BUREAU OF CONSUMER FINANCIAL PROTECTION | NOVEMBER 2018

Consumer Insights on Paying Bills

Research brief

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Executive summary

The Bureau of Consumer Financial Protection (Bureau) has conducted research showing that having control over day-to-day, month-to-month finances is an important element of financial well-being.[1] But many consumers struggle to make ends meet. In our 2015 national survey on financial well-being, 43 percent of people reported that covering expenses and bills in a typical month is somewhat or very difficult.[2]

Financial education cannot directly address certain underlying causes, such as scarcity of financial resources and unpredictable income and expenses. Other challenges, however, stem from factors that can be addressed, at least partially, through financial education to help consumers learn new skills and use new tools. The Bureau looked at a number of these common challenges to find those that financial education could potentially address.

Because some consumers struggle to pay all their bills in a timely manner, the Bureau focused on paying bills as an area for potential solutions. Bureau research[3] found that empowering consumers to do something as simple as changing bill due dates to better line up with income could help some consumers better manage their cash flow. In cases where billers cannot accommodate these requests, consumers can take other steps that begin with understanding their cash flow and bill schedule.

This approach builds on one of the Bureau's five principles for effective financial education.[4] This principle—*Make it easy to make good decisions and follow through*—suggests that tools

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[1] Bureau of Consumer Financial Protection, *Financial well-being: The goal of financial education* (2015), consumerfinance.gov/data-research/research-reports/financial-well-being/.

[2] Bureau of Consumer Financial Protection, *Financial well-being in America* (2017), consumerfinance.gov/data-research/research-reports/financial-well-being-america/.

[3] The study was conducted by Behavioral Labs, Inc. (also known as ideas42) under contract with the Bureau after selection through a competitive solicitation (contract number TPD-CFP-12-C-0020).

[4] Bureau of Consumer Financial Protection, *Effective financial education: Five principles and how to use them* (June 2017), consumerfinance.gov/data-research/research-reports/effective-financial-education-five-principles-and-how-use-them/.

and approaches that make it easier for consumers to pay bills on time can help them move towards financial well-being.

This report offers insights from a review of existing research into consumer challenges with managing cash flow and paying bills. It summarizes results of a consumer survey regarding consumers' experiences in this area. It also summarizes user testing of a bill due date alignment tool to help consumers with this challenge. With greater understanding of the challenges related to cash flow and bill paying, the Bureau hopes to spur efforts to support consumers in making choices that result in the outcomes those individuals want to achieve. The Bureau hopes that the consumer insights in this report will provide actionable ideas to financial educators and industry that can help consumers achieve greater financial well-being.

1. About the study

The goal of this research was to identify financial decision-making challenges faced by consumers and to design and test strategies that can help people address those challenges.

As part of this work, the Bureau worked with a private-sector entity to better understand consumers' experiences with managing cash flow and paying bills and to test solutions to these challenges.[5] A survey of 446 consumers (customers of a bill paying service) reinforced the Bureau's understanding of challenges consumers who struggle to make ends meet may face in paying bills. In particular, the Bureau learned that alignment of income and billing dates is important: 50 percent indicated that "Due before I got paid" was an important reason for falling behind on bills, and 40 percent responded that "The way I get paid does not line up with paying bills."

Through online user testing with 229 consumers, the Bureau developed and refined prototype tools to address this challenge that were functional and had high levels of consumer interest and

[5] The Bureau worked with a private-sector bill payment processor that serves telecom, wireless, cable, and utility network operators in North America. This company had a Memorandum of Understanding (MOU) with the contractor for this project, Behavioral Labs, Inc (see footnote 3) to share its findings from the prototype research. The company's participation was determined through an open process for organizations to express interest in working with the Bureau of Consumer Financial Protection and Behavioral Labs, Inc. on the project. See http://www.consumerfinance.gov/blog/were-looking-for-innovative-partners-for-financial-education-research/ for more details. Working with these companies does not constitute an endorsement of these companies or their products on the part of the Bureau.

demand. The research team prototyped a bill due date scheduling system to support consumers in aligning their bill payments with their income.

The consumers who provided feedback were demographically diverse, although not statistically representative of the overall population. Their feedback should be treated as suggestive of some consumers' experience in managing cash flow and paying bills. The results are not intended to provide statistically significant data that can be generalized to all consumers, but they provide insights that can support further efforts to support consumers in managing their money to reach their own goals.

2. Consumer challenges with paying bills and managing cash flow

Managing money to make ends meet is one of the biggest challenges consumers face in their financial lives. In a national survey conducted by the Bureau in 2015, 43 percent of consumers reported that covering expenses and bills in a typical month is somewhat or very difficult. In the same survey, over one third—34 percent—of all consumers surveyed reported experiencing material hardships in the past year, such as running out of food, not being able to afford a place to live, or lacking the money to seek medical treatment.[6] Some consumers may struggle to manage their cash flow and pay their bills in a way that prevents negative consequences such as late fees, higher interest rates, or loss of a valuable asset like a home or vehicle.

To find ways to educate and empower consumers to improve their ability to make ends meet, the Bureau looked into factors that contribute to the challenge. Not all of these factors can be addressed through financial education, but effective financial education starts with learning about the real challenges consumers face. Assessment of these external factors can form the basis for tailoring financial education efforts and setting realistic expectations about how financial education can help.

[6] Bureau of Consumer Financial Protection, *Financial well-being in America* (2017), consumerfinance.gov/data-research/research-reports/financial-well-being-america/.

Existing research points to many factors that contribute to the struggle to manage cash flow and bills, including the following:

Lack of financial slack. Juggling bills can be challenging for consumers whose income just barely covers their expenses. Almost 80 percent of consumers report living paycheck to paycheck.[7] One in four consumers do not pay all of their bills on time.[8] One-fifth of adults expect to leave some regular monthly bills at least partially unpaid.[9]

When consumers fall behind, decision-making may become more complicated and make the stakes higher. As the number of bills and notices grows larger, calls from bill collectors can become more frequent.

Unpredictable income and expenses. Income volatility can also make the challenge of managing bills more acute. More than one in three households experience large changes in income year over year, and those who experience such income volatility have less in savings and report lower financial well-being than those who do not.[10]

Additionally, when managing bill and debt payments, consumers must consider different due dates, variations in bill amount, and unexpected expenses. Utility spikes in winter or summer can cause bill sizes to vary. Other unexpected expenses can include medical emergencies, home repair, or vehicle maintenance.

Such complexity and variability in both income and cash outflows can also cause stress. This stress may even affect consumers' ability to plan and make payments on time.[11]

Facing these challenges, consumers may deplete income when it arrives, leading to shortfalls later.

Prioritizing bills involves complex decisions. On average, U.S. households pay about 13 bills per month.[12] These may include mortgage or rent, car payment, electricity, landline phone

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7 CareerBuilder, Living Paycheck to Paycheck is a Way of Life for Majority of U.S. Workers (2017).

8 National Foundation for Credit Counseling, *The 2018 Consumer Financial Literacy Survey* (2018).

9 Board of Governors of the Federal Reserve System, *2017 Survey of Household Economics and Decisionmaking* (2017).

10 Pew Charitable Trusts, How Income Volatility Interacts With American Families' Financial Security (2017).

11 For research on the intersection of stress and decision-making, see Sendhil Mullainathan & Eldar Shafir, *Scarcity: Why Having Too Little Means So Much*, Time Books (2013).

12 Postal Regulatory Commission, The Household Diary Study: Mail Use & Attitudes in FY 2015 (2016).

and mobile phone, cable TV and internet access, home and car insurance, water and sewer, credit cards, and student loans. In addition, many consumers receive intermittent bills for expenses like medical care, home repair, or vehicle maintenance. When there is not enough money to cover bills in a given month, or a mismatch in timing between bills and income occurs, consumers must prioritize.

In order to effectively prioritize, consumers might need to compare consequences of being late on different bills and debt payments. However, consumers may find it hard to compare different kinds of consequences. Consequences may vary from late fees, interest payments, or credit score reduction, to having a service turned off or foreclosure or repossession. Some consequences, especially nonfinancial ones, can be more difficult to evaluate than others.[13]

These challenges may cause consumers to prioritize bills with immediate late payment consequences, such as wireless phone service disconnection, over bills with greater potential long-term consequences, such as eventual eviction or foreclosure.[14] Similarly, though researchers have found the rule of thumb "pay off small debts first" to be a successful strategy to build confidence and motivation in debt management,[15] focus on short-term accomplishment may lead consumers to overlook longer-term consequences such as foreclosure or repossession.

Multiple communication channels to track. Consumers can receive information about their bills via the mail, by phone, or electronically. Electronic bills can be posted to a website or delivered via email. Then, consumers can pay bills through a variety of channels, including cash, paper check, money orders, or electronic funds transfer (EFT). These advances in billing and payment methods, resulting in multiple means of receiving and paying bills, may also complicate the process of paying bills.

On the surface, these options would seem to make things easier, and more consumers are taking advantage of the convenience of paying bills electronically.[16] However, as consumers add new methods of payment, they often do not discard the old ways, leaving them with more accounts, cards, and channels to track.[17] Most consumers now have at least two bill receipt channels, such

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[13] Christopher Hsee, The Evaluability Hypothesis: An Explanation of Preference Reversals Between Joint and Separate Evaluation of Alternatives, 67 Organizational Behavior and Human Decision Processes (1996).

[14] Kristin S. Seefeldt, Constant Consumption Smoothing, Limited Investments, and Few Repayments: The Role of Debt in the Financial Lives of Economically Vulnerable Families, Social Service Review 89(2) (2015).

[15] Davis Gal & Blakeley B. McShane, *Can Small Victories Help Win the War? Evidence from Consumer Debt Management*, XLIX Journal of Marketing Research 487 (2012).

[16] TSYS Payment Solutions, *2016 U.S. Consumer Payment Study* (2016).

[17] Scott Schuh, Federal Reserve Bank of Boston, *Consumer Payment Choice: A Central Bank Perspective* (2012).

as mail and online, and at least two methods of paying bills such as paying by check or by electronic payment. This means that many bills now have at least four different paths to completion. Also, digitization has done little to simplify bill timing. This complexity around the methods and timing of both billing statements and bill payments may make it even harder for consumers to develop a way to manage their bills and prioritize the payments in lean periods.

Challenges with automatic payment. Only about 32 percent of bills are paid by means of automatic or recurring payment[18] even though these tools can prevent late payments, reduce hassle, and generally simplify bill and debt payment. Many consumers say enrollment hassles, lack of trust, a preference for paper bills, or fear of overdraft keeps them from using automatic payment.[19]

Going it alone. Exacerbating many of these other challenges, many consumers deal with bills on their own and are reluctant to ask for help.[20] Consumers may feel that personal bills are too private a matter to ask friends and family for advice or help. Finances rank low on lists of what topics are discussed with friends and are unlikely to be discussed with strangers or online.[21]

Not using a budget. Despite juggling multiple bills and deadlines, only 19 percent of consumers report they have a comprehensive financial plan.[22] Many consumers manage bills and finances on an ad hoc basis, and roughly half of consumers say they do not use a household budget.[23]

For the many consumers who do not use a household budget, the lack of an efficient system to manage cash flow and organize bills and debt payments might compound the difficulties of mismatched timing and complexity.

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[18] ACI Worldwide, *How Americans Pay Their Bills* (January 2017).

[19] AARP, Consumer Payment Study (2007).

[20] 27 percent of households are one-person households and 67 percent of couples say that only one of the partners manages household finances. U.S. Census Bureau, *America's Families and Living Arrangements* (2010); Rich Morin & D'Vera Cohn, *Women Call the Shots at Home; Public Mixed on Gender Roles in Jobs*, The Pew Charitable Trusts (Sept. 25, 2008).

[21] Meredith Ringel Morris et al., *What do People Ask their Social Networks, and Why? A Survey Study of Status Message Q&A Behavior*, in CHI '10: Proceedings of the SIGCHI Conference on Human Factors in Computing Systems 1739 (2010); Peter Markham, *Gossip with the Girls but Men Only Have Four Subjects*, Daily Mail (London), Dec. 12, 2012; AARP, *Personal Finances: The Final Frontier for Social Media* (2009).

[22] Certified Financial Planner Board of Standards, Inc. and the Consumer Federation of America, *Financial Planning Profiles of American Households: The 2013 Household Financial Planning Survey and Index* (Sept. 2013).

[23] FINRA Investor Education Fund, *Financial Capability in the United States 2016* (July 2016).

3. Potential solutions for consumers

3.1 Survey findings on challenges of paying bills

After reviewing existing research, the Bureau worked with a private-sector bill payment processor to survey its customers to learn more about consumer experiences with paying bills and consumer interest in specific solutions.[24]

The 446 people who responded to the survey are not a statistically representative sample. However, their answers provide insight into common bill-paying challenges among people who struggle to make ends meet. Nearly half of the respondents had income below $25,000 and another 30 percent had income between $25,000 and $49,999; 37 percent were under 35 years of age; and about three-fifths were female.

Overall, only 21 percent of respondents reported that they always pay their bills on time. Thirty-nine percent reported mostly paying bills on time, and 40 percent reported that they sometimes, rarely, or never pay bills on time. Younger respondents and those with income below $75,000 a year were substantially less likely to report paying all their bills on time. Half the respondents reported having to juggle bills always or most of the time.

Many respondents said they fall behind on bills because of a timing mismatch between the arrival of income and billing dates. Many specifically indicated that bills come due before payday, and many others generally report that their income streams do not match bill due dates. When asked to rank the reasons why they did not pay bills on time, alignment of income and billing dates is an important factor. 50 percent indicated that "Due before I got paid" was an important reason, and 40 percent responded that "The way I get paid does not line up with paying bills" was an important reason.

These particular survey results confirmed the income/bill due-date mismatch as a promising area for solutions. The next step was to test a prototype of a bill due date change tool that would empower consumers to identify and request bill due dates that would better align with pay days.

[24] The Bureau worked with a private-sector bill payment processor that serves telecom, wireless, cable, and utility network operators in North America. See footnote 5 for more details.

3.2 Testing a tool to facilitate bill due date changes

Bureau researchers tested a prototype of a bill due date change tool to support consumers in aligning their bill payments with their income. The idea was to set up a way that consumers could view their billing information in one place with a simple monthly visual planning aid showing pay days and bill due dates. Then, consumers could line up payment dates and income inflows to see which regular bills are likely to be mistimed and cause potential shortfalls. The bill due date change tool could help consumers reach out to billers to negotiate timing of billing and payments. For example, a feature could generate letters to billers to request a change of due date, a payment plan, or other changes to reduce the risk of shortfalls.

The researchers tested the prototype bill due date alignment tool with a group of 229 consumers through online user testing. These consumers filled out a form with information about the bill they wanted to change (e.g., the biller, current due date, and preferred due date). Additionally, consumers listed how they would like to request the change (e.g., contacting the biller directly or having a third party contact the biller). These consumers were then asked a series of questions aimed at gauging demand for the tool.[25]

The research found that there was significant consumer interest in changing bill due dates to align bills with income. 80 percent of the consumers who tried out the prototype indicated an interest in following through on changing the due date for their bills.

Here's how the consumers who participated in the user testing used the bill due date alignment tool:

Knowledge. Most consumers testing the bill due date change tool reported that they had never tried to change billing dates because they simply did not know they could.

Bills. Most consumers were easily able to identify at least one bill with a due date they wanted to change. The most common selections were utility bills and phone bills.

Preferred due date. Consumers then identified a due date other than the current due date that they felt would better match their income. The bill due date change tool suggested either the

[25] As this test was intended to determine consumer demand, the prototype bill due date change tool did not actually send bill rescheduling requests to billers, but instead simulated the steps the consumer would take to follow-through. After presenting consumers with the tool, participating consumers were asked a series of questions aimed a gauging demand for this service.

first or seventeenth day of the month, since those dates are likely to immediately follow a bimonthly payday. Most consumers selected the seventeenth day of the month, many selected the first day of the month, and others selected dates near the end of the month.

Change request method. Finally, the bill due date change tool gave consumers choices for notifying the biller of the due date change request. More than half of consumers wanted a third party to contact the biller to request the change. Other consumers preferred more personal control over the process and requested a form from the third party that the consumers could complete and send to the biller.

Prior experience with changing bill due dates. Some participating consumers (38 percent) said they had previously requested to change a bill due date on their own.

Of those that reported trying to change a bill due date, most (61 percent) called the biller directly, 14 percent used an online form on the biller's web page, and another 14 percent went to the biller's office directly.

Most of these efforts were unsuccessful, either because of billers' policies or because of issues related to customer service and communication. Of those who tried to change their due date previously, only one-third (36 percent) succeeded in changing their due dates. Many consumers who had tried unsuccessfully to change their due dates expressed frustration at billers' policies, customer service, and communications.

Among those who had succeeded in changing a bill due date, half said they picked a day after they were paid. Another 19 percent said they picked a date when other bills were due so they could make payments at the same time. One out of seven (14 percent) said they picked a date that was easy to remember (for example, the 1st or 15th).

4. Implications for financial education

In summary, the Bureau heard from consumers that they value the ability to manage their day-to-day, month-to-month finances. This is a foundation of financial well-being. The goal of this research and development effort is to help address conditions that lead to late bill payment and the negative consequences that flow from paying bills late. The prototype tool is one example of how to do this by helping consumers to better align their due dates with their income.

This research has implications for multiple audiences:

Consumers. Consumers can think through their monthly income inflows and outflows to assess whether changing bill due dates would be appropriate to their situation. If desired, consumers can then reach out to their billers to request such a change. See the consumer worksheet that is a companion to this brief, Request a change in your bill due date. When a biller cannot accommodate a due date change request, consumers can use other Bureau tools such as those in the box below to better manage their cash flow.

Financial education professionals. Financial educators can use these findings to help consumers with challenges related to managing cash flow and paying bills. Financial educators can help consumers create budgets, track income and bills, and request changes to bill due dates if appropriate. (See Bureau tools and resources on this topic in box below.)

Billers and other private sector entities. The concepts underlying the prototype tested could be adopted by a variety of entities that bill consumers. By making it easier for consumers to set bill due dates, billers who are able to be flexible could meet consumer demand for this service while also potentially improving timely payment of customer bills. Financial institutions, fintech companies, and other service providers could create bill due date change tools to help their customers manage cash flow and stay on top of bills.

In conclusion, developing mechanisms or approaches to help consumers change bill due dates to better line up with income could help some consumers better manage their cash flow and potentially achieve a range of financial goals.

The Bureau has developed resources to help financial educators and consumers with issues of paying bills and managing money.

- **Request a change in your bill due date.** A worksheet to help consumers determine whether and how to request a change of bill due dates. https://files.consumerfinance.gov/f/documents/bcfp_request-change-bill-due-date_worksheet.pdf

- **Behind on Bills? Start with one step.** Behind on Bills is an action toolkit that financial educators can use to help the people they serve, or that people can use on their own, with a range of budgeting and bill-payment challenges. https://pueblo.gpo.gov/CFPBPubs/CFPBPubs.php?PubID=13263

- **My New Money Goal.** Having a plan is the easiest way to reach money goals, navigate changes in income, or switch priorities in our lives. You would not start a road trip without mapping it out first, and the same is true with your finances. This guide will help you gain a clear view of where your money goes now so you can more easily decide where you want it to go in the future. https://pueblo.gpo.gov/CFPBPubs/CFPBPubs.php?PubID=13057

- **Consumer tips on managing spending.** Worksheet with ideas on how consumers can track their spending, create a budget, decide how much to spend, and get feedback on their spending.

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