Helpful shortcuts for credit card use: 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. Rules of thumb are a promising strategy that financial educators can use to help consumers make financial decisions.

To test out the impact of rules of thumb in helping consumers decrease their credit card debt, we commissioned a rigorous study of two financial rules of thumb on consumers with revolving credit card debt. We created two new guidelines aimed at aiding consumers to decrease their revolving credit card debt:

- Don't swipe the small stuff: Use cash when it's under $20
- Credit keeps charging: It adds approximately 20% to the total

We found that, on average, consumers who were exposed to one of the financial guidelines showed lower credit card balances. Consumers who received the "under $20" guideline (through emails, web banners, and physical objects such as refrigerator magnets) showed, on average, a lower balance than those who did not receive the guideline.

Though the average reduction in credit card balances resulting from exposure to the rule(s) was modest, the findings suggest that rules of thumb are quite promising as a low-cost, scalable method of financial education. These low-touch messages were provided for relatively little cost–well under $1 per recipient.

Such a rule may work by calling attention to one's credit card usage generally. While consumers did not actually reduce their use of credit cards for purchases under $20, for example, the regular communication may have served as a reminder about the cost of credit. This may have encouraged consumers to take actions related to reducing credit card use and revolving balances.

Specific rules of thumb, or other ways to remind consumers about important financial topics, could be promising strategies to help consumers manage their credit card use.

Inspired to help?

The findings from the study suggest some implications for financial educators and others working with consumers on financial decisions. These ideas can be combined with your other financial education offerings to help the learnings stick and lead to lasting change.

Using the two credit card rules of thumb

Reducing credit card debt can be an important part of a consumer's goal to achieve financial well-being. Rules of thumb can be one approach to helping those consumers who carry a credit card balance from month to month.

- Sharing easy to recall credit card rules of thumb or messages (such as "Don't swipe the small stuff" and "Credit keeps charging") with your clients may help them successfully reduce their revolving credit card balances.
- Explore different methods of reaching consumers (such as emails, web banners, and physical objects) with messages about rules of thumb. Such messages can be conveyed repeatedly and affordably, at scale.
- Our research showed that the rules of thumb worked particularly well for consumers age 40 and under. This may be a particularly promising segment to target with rules of thumb about credit.

Attention and reminders

As noted above, the rules of thumb we tested may have been effective in part by focusing consumer attention on the issue of credit card balances, including the cost of carrying balances. Most consumers have many competing demands for their attention, and messages that remind consumers of key financial issues appear to have an impact on behavior related to those issues.

- Harness the power of attention and reminders to help consumers better manage their spending and credit decisions. Explore ways for your clients to be reminded about the cost of credit and keeping to their own budget. This can be through automated messages, or it could include such things as notes posted in visible places, reminders on calendars, signing up for apps, or online tools that make budgeting easier.
- Encourage your clients to seek feedback on their spending to help them manage their funds and their credit card use. For example, consumers may be able to sign up for alerts from their financial institutions on credit card spending, credit card balances, and checking/savings accounts balances.

Personalizing rules of thumb

In other research we have done, we found that many consumers knew about common financial rules of thumb—but many were frustrated by what they see as unrealistic goals stated in common rules. Helping consumers customize financial rules of thumb to fit their particular circumstances may be a promising financial education strategy.

- 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.
- To help the people you serve develop their own personalized "money rule to live by," check out My Credit Spending Rule to Live By. This is part of the My Money Rules to Live By series. See all the research and resources at consumerfinance.gov/adult-financial-education.

About these ideas

The Consumer Financial Protection Bureau worked with contractors[1] to conduct research on rules of thumb generally, as well as rules of thumb specifically on credit card spending. The information we have gathered through this research is intended to inform the work of the CFPB and of others in the financial education field.

To read more about the research findings, and to see all of CFPB's tools and resources, visit the Resources for Financial Educators webpage: consumerfinance.gov/adult-financial-education.

1 This research was funded by the CFPB under competitive awards to Abt Associates (contract number TPDCFPBPA130014 CALL0001) and the Urban Institute, and their subcontractor the Doorways to Dreams Fund (contract number CFP12Z00006, Task Order 0002).