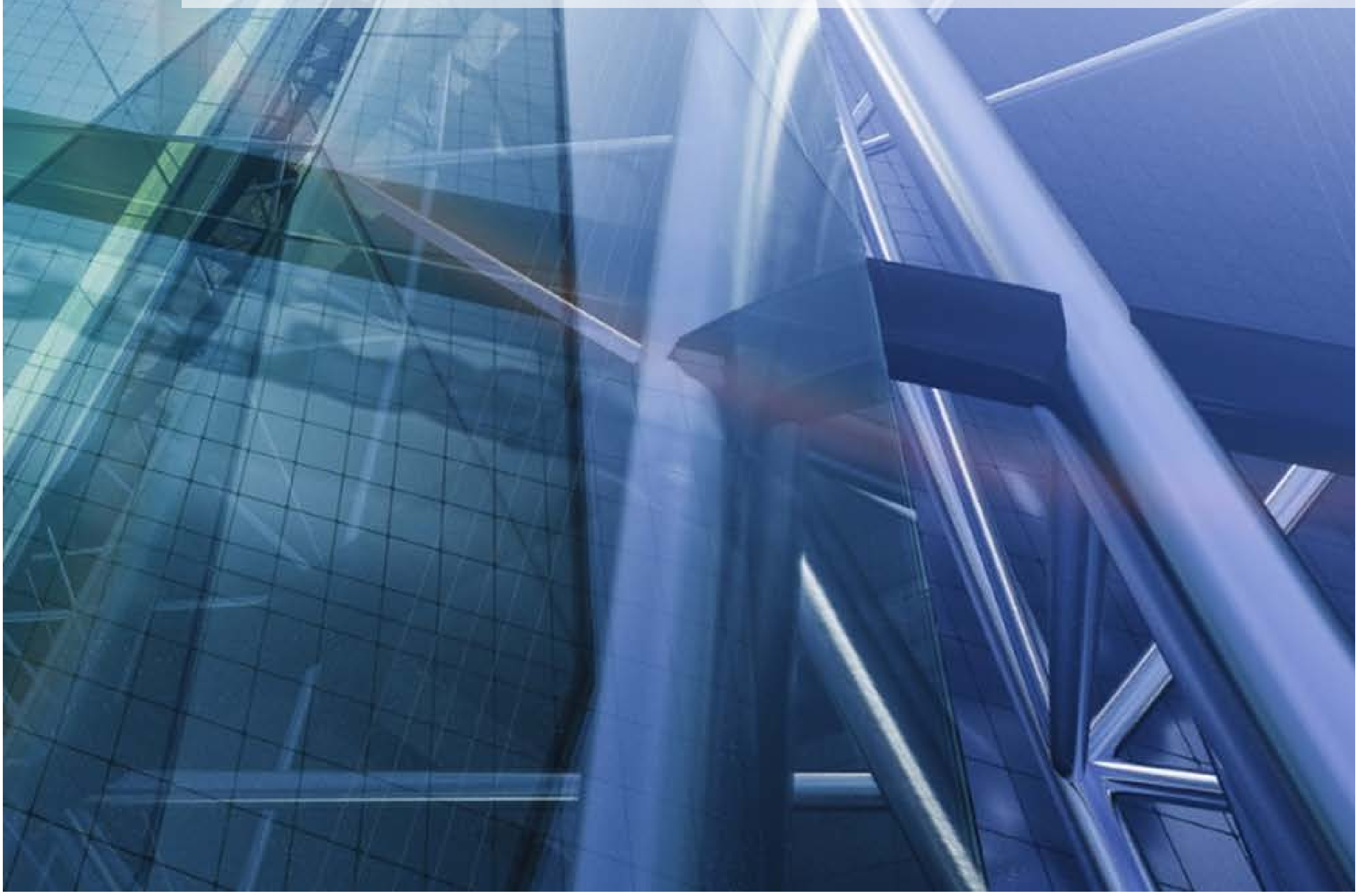
Rules of Thumb and Nudges: Improving the financial well-being of UK consumers

Prepared by the Financial Advice Working Group for HM Treasury and the Financial Conduct Authority

March 2017



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Foreword

The Treasury and FCA, as part of their Financial Advice Market Review, asked us to define some simple rules of thumb and nudges to help people be aware of, and take action on, their financial needs.

Rules of thumb and nudges for managing personal finances are not, of course, new. Our desk research identified many examples used across the world. However, many of these are out of date or not universally applicable. We wanted solutions that would resonate with everyone, and be useful. We took ‘five a day’ as our benchmark. This rule of thumb is instantly recognisable, and people understand that it means they should eat at least five portions of fruit and vegetables a day. Labels on packaged foods often show the contribution to the five, so it is easy for people to take action, and know when they have reached the recommended minimum.

Our consumer testing showed that many people struggle to take control of their finances. They are a long way from feeling able to invest for the future, or even to save for a rainy day. What they need immediately is help with debt, or to make the most of their income. They are open to being nudged, but don’t want to be told what to do. Rules of thumb with numbers or calculations do not work for many financial services consumers: they are too complicated, or not universal. Consumers also gave us a clear message that they do not trust financial services providers.

So our rules of thumb are very simple, and address the needs people have now. Their success in raising financial well-being will depend on ‘nudge agents’ – trusted messengers – developing timely nudges that help people to take action. More than that, we need a strategic approach and strong leadership, so that nudges are rooted in an understanding of what works for people. We have therefore made some recommendations and observations about the wider financial landscape.

There is a lot more work to be done, in refining rules of thumb, and testing whether they can make a lasting difference. Technology – including open banking - will have a big part to play in effective nudges, but there is also a challenge to reach those who are not savvy IT users, or who do not want to share their personal data.

My thanks go to the subgroup members, who gave so generously of their time and considerable experience to work on this project; and to our advisers from McKinsey & Company, and Teresa Roux from Bdifferent. Without them, none of this would have been possible.

Sue Lewis

Chair, Rules of Thumb and Nudges Sub-group

Financial Advice Working Group

Executive summary

Background

This report responds to Recommendation 18 of the 2016 Financial Advice Market Review: "The Financial Advice Working Group (FAWG) should lead a task force to design and test a set of rules of thumb and nudges".[1] A dedicated Rules of Thumb and Nudges sub-group led the project, reporting into the overall FAWG.

This report recommends a set of five new financial rules of thumb, together with principles for designing nudges and illustrative examples. A 'rule of thumb' is a simple, broad principle that most people can use in thinking about their personal finances (e.g., 'don't put all your eggs in one basket'). A 'nudge' is a timely prompt from a trusted source (a 'nudge agent'), designed to help an individual make financial decisions (e.g., a text message telling the recipient their current account is about to be overdrawn). Rules of thumb and nudges can help people who do not have the time or inclination to make sense of financial services markets, or the money or 'know-how' to seek professional advice.

Our research and approach

Our recommendations are informed by an evidence review of existing rules of thumb, expert interviews on best practices for rules of thumb and nudges, and consumer interviews and focus groups. We set out to determine the most common financial needs for people in the middle segments of financial well-being and to understand how they approach financial decisions. Our research highlighted that people need support to manage their money day-to-day and forming a savings habit, before they can think about longer term needs like retirement.

We found that most people were familiar with the concept of rules of thumb and nudges, and supportive of using them to improve their financial well-being. However, many existing financial rules of thumb are irrelevant or outdated when it comes to today's financial challenges, and we found little evidence of rules of thumb being used with complementary nudges in order to keep them top of mind for people. Based on our research into best practice, we developed a set of rules of thumb, which we tested with consumers of all ages across the UK. We also developed a framework for designing effective nudges, informed by interviews with experts from academia, and the public and private sectors.

Our rules of thumb and nudges

Our proposed 'Financial Five' rules of thumb, designed to help people meet their most common financial needs, are:

1. **Clean up your finances regularly**
2. **Manage your borrowing, don't let your borrowing manage you**
3. **Save when you can – even a little helps a lot**
4. **Pile into your pension – it's your future income**
5. **Other people get help to make the most of their money, so can you**

For each rule of thumb, we have identified actions that people can take in order to follow the rule in question, together with an illustrative nudge to prompt them to act (see Section 5).

[1] Financial Conduct Authority and HM Treasury, Financial Advice Market Review, March 2016

The current fifth rule of thumb tested well with consumers, but does not provide guidance on a specific area of personal finances, unlike the other four. We identified 'planning for unexpected life events' as a key area of need.[2] However, we did not find a rule of thumb covering this need that resonated well with participants in our focus groups. We have recommended this should be investigated.

Our recommendations

Rules of thumb and nudges should help lead to sustained improvement in the financial well-being of the population, by increasing engagement and financial capability. As a first step, this requires a high degree of consumer awareness of rules of thumb, and confidence in using them; and the widespread use of nudges to reinforce the rules of thumb. Our recommendations are to:

- Further test, refine and embed the five high-level rules of thumb ('Financial Five'). We recommend that Money Advice Service (MAS) carries out the first two of these activities, potentially replacing the current fifth rule with one covering planning for unexpected life events.
- Implement nudges to prompt people to act on the rules of thumb. In the short term, we recommend the Financial Capability Board (FCB) should have oversight of the organisations that will act as nudge agents, supported by MAS.

Potential initiatives to raise awareness might be the inclusion of rules of thumb and a 'Financial Five' logo in messages to consumers, or high-profile campaigns to raise awareness at suitable points in the year.

Using rules of thumb and nudges to improve the financial well-being of UK consumers requires multi-faceted and enduring initiatives by stakeholders across the public, private and social sectors. In the longer term, ownership of rules of thumb and nudges should ideally go to a body that has responsibility for the improving the financial well-being of UK consumers.

Embedding the rules of thumb will require a concerted effort by nudge agents to develop, test and evaluate nudges that work with their target groups, and leadership and co-ordination by a central body.

Finally, the government might consider changes to the broader ecosystem for UK financial consumers, in order to best use policy and regulation to support rules of thumb and nudges.

Conclusion

Whilst our rules of thumb and nudges will not solve all the financial concerns facing people today, we believe they form a useful starting point for a cross-sector platform to empower them to take a strategic approach to their personal finances. Viewing this effort as a sustained, inter-generational quest, rather than a 'quick win', is critical for success.

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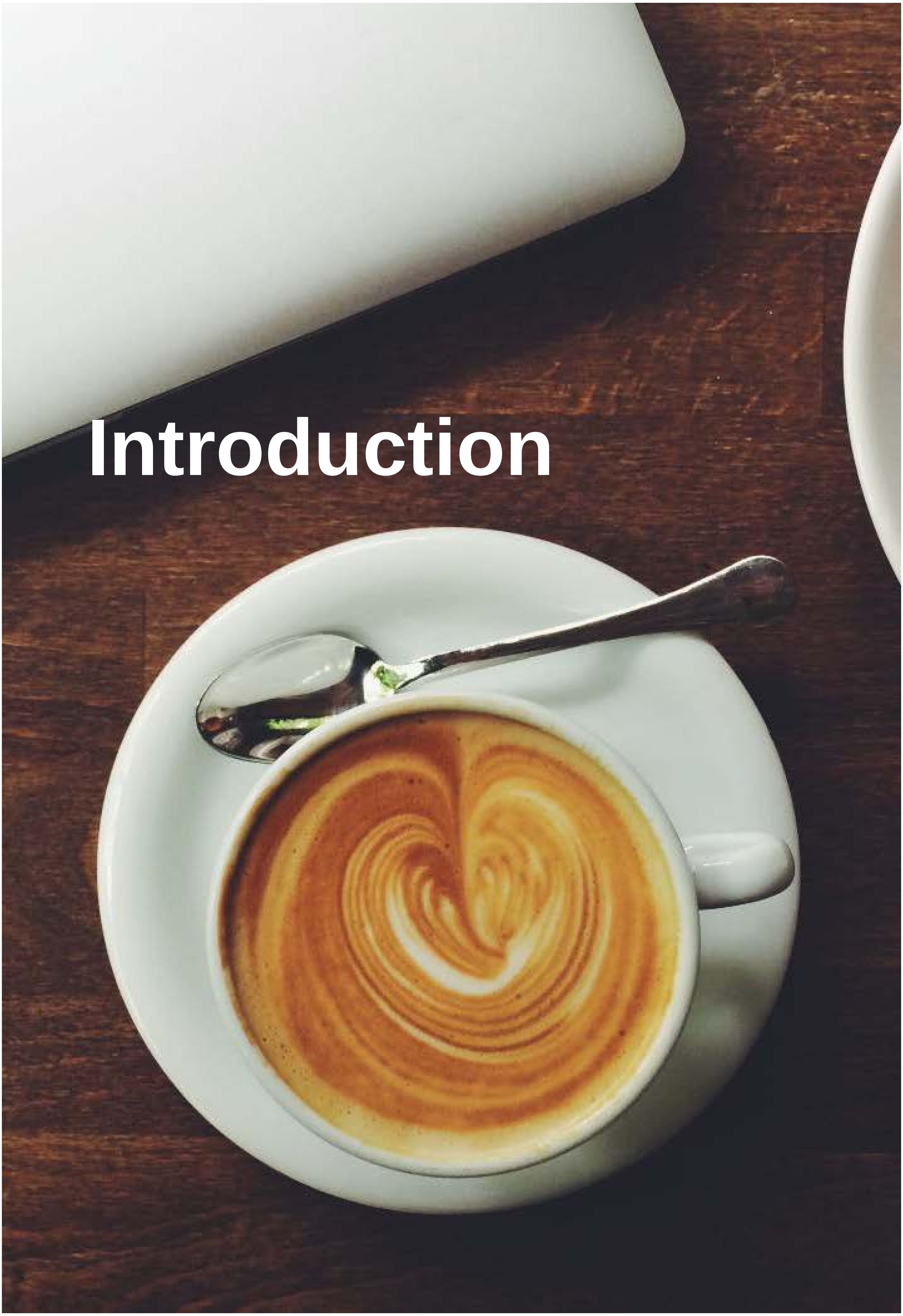
[2] This includes topics such insurance, creating a will, and nominating a pension beneficiary.

Introduction



1 Introduction

In response to Recommendation 18 of the Financial Advice Market Review, a task force within the Financial Advice Working Group set out to develop a set of rules of thumb and nudges. In order to meet this objective, we looked to answer the following questions:

- How do people think about their finances today?
- What are the limitations of existing rules of thumb, and what can be learnt from these when designing new financial rules of thumb?
- How can we design and use nudges to make rules of thumb more effective?

This report contains the conclusions of the research and analysis in response to these questions.

1.1 OUR TARGET CONSUMER SEGMENTS

The group focused on the needs of consumers in the middle segment of financial well-being. This includes the 13 million 'squeezed' consumers in the UK who are tactical, rather than strategic, with money; they are good at everyday money management but fail to think 'bigger picture' and longer-term.[3] These consumers have relatively little provision for coping with unexpected income shocks; 60% have less than one month's income saved.[4] They are the most credit dependent, as compared to those in lower and higher segments of financial well-being.

1.2 RESEARCH METHODOLOGY AND KEY FINDINGS

The group's recommendations have been informed by four research projects: a global evidence review, consumer interviews, expert interviews, and consumer focus groups. Summaries of the scope and findings of these are below, with further detail in the annex.

Evidence review

The Money Advice Service commissioned an evidence review to establish what can be learnt from existing rules of thumb. The review examined over 10,000 sources of evidence on financial advice, guidance and well-being (e.g., published research, websites, blogs, and newspaper articles) from the past 25 years.

The review identified that rules of thumb can be an effective way of tackling cognitive barriers to financial decision-making, including inertia and loss aversion. The simplest financial rules of thumb tend to be the most effective; however, persistence is an issue. This is because the rules of thumb may not be suitable across different life stages and do not flex with changing economic circumstances (see Section 3.3).

Consumer interviews

Nutmeg led 12 separate one-on-one qualitative interviews with consumers to hear first-hand about consumer financial needs and habits.[5] Consumers' anecdotes revealed two themes (see Section 2.2). First, consumers see their personal finances through a needs-based lens

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[3] Money Advice Service, The Squeezed Segment, May 2016

[4] Money Advice Service, Market Segmentation – Segment Infographics, July 2016

[5] Nutmeg Saving and Investment Limited

rather than a product orientated approach. Second, their financial habits tend to be formed in childhood based on observed behaviours of, and advice from, parents and other family members.

Expert interviews

McKinsey & Company interviewed over 30 experts from academia and the private, public and social sectors to further understand best practice for rules of thumb and nudges. Based on these interviews, we developed six guiding principles to consider when designing a rule of thumb (see Section 3.2) and a two-step framework for designing an effective nudge (see Section 4.2).

Consumer focus groups

The Financial Conduct Authority commissioned Bdifferent to test our shortlisted rules of thumb with over 60 consumers in focus groups.[6] These consumers were mainly in our target segment. Our three main findings (see Section 2.1) were:

- Difficulty understanding financial concepts and an over-complex financial marketplace discourage consumer engagement and make financial decision making more difficult.
- Low financial confidence serves as an emotional barrier to acting, especially if the goal is deemed to be too ambitious.
- People do not think about planning for a financially sustainable future early enough; many older consumers regret not taking action earlier.

[6] Bdifferent, an independent, specialist research agency, ran a series of focus groups during January 2017, with over 60 consumers of various ages across the UK.

How people think about their finances today

2 How people think about their finances today

Our research showed that many people do not typically plan for the future, or engage with financial decisions in a strategic manner. Moreover, they have little awareness of the advice and guidance that is available to help them meet their financial needs.

2.1 LACK OF STRATEGIC ENGAGEMENT

Although consumers may, to varying degrees, track their spending, our focus groups highlighted three important reasons why many are unwilling to engage in a structured or strategic way with their finances:

Difficulty with calculations and understanding financial concepts

We found that asking people to calculate the size of their pension pot as a multiple of their current earnings, for example, received negative reactions. Similarly, when presented with how long a credit card can take to pay off if only the minimum repayments are made, many consumers in our focus groups failed to appreciate the magnitude of the extra charges associated with this. This means that people may make financial decisions that do not lead to the best outcomes, and is compounded with the limited availability of financial information that is presented in an intuitive and easy to understand way.

Lack of financial confidence and fear of failure

Confidence in managing money and selecting products is a barrier to effective decision-making. We found that some consumers in our focus groups tended to exhibit ‘head in the sand’ behaviours and struggled to see how they could better manage their finances. Many saw prescriptive rules of thumb (e.g., save three months’ income) as not applicable to their own situation or as too ambitious. This fear of failure means that people may not even try to hit a target they see as too ambitious, highlighting the need for our work to address very basic financial needs.

> “ You should be pointing people towards a more realistic target of what to save because everybody’s target amount might be different, but three months is a lot.
>
> *(26–35 year old consumer)*

Difficulty with thinking about tomorrow

People do not look to secure a financially sustainable future early enough. We found that younger people focused on the here and now, with a tendency to over-estimate their future ability to save and under-estimate how much they would need to retire comfortably. This optimism was a stark contrast to the reality of life on a reduced income faced by older consumers. None of the consumers we spoke to past their mid-50s were sure of when they would be able to retire; with hindsight, they wished they had acted earlier.

> “ [Saving for retirement] is beyond my reach, it’s not even worth thinking about until I’m older.
>
> *(26–35 year old consumer)*

> I took out some of my pension when I was much younger, I had a bit of a party but now I wish I hadn't, I could really do with that now, I wasted it then.
>
> *(50–60 year old consumer)*

2.2 INADEQUATE SUPPORT

Using consumer interviews and wider research[7], we found people's needs are to:

- Take control of their daily finances: cut spending and manage borrowing
- Ensure they receive what they are entitled to: claim any entitlements/benefits and pay the right amount of tax
- Prepare for unexpected events and costs
- Secure their future: set enough aside to fund their retirement
- Seek help to manage their personal finances better

Our focus group research highlighted that people have limited trust in financial services providers, whom they viewed as pushing products rather than offering impartial guidance in response to their needs. In the absence of suitable sources of financial information or guidance we heard anecdotal evidence that people rely on approaches that were learned in childhood from observation and occasional 'advice for life' from family members – which is not always optimal.

> My father told me that investing in the markets was too risky so I have always stayed away from them. I have now got over £30,000 in Cash ISA's...it's my pot for the long-term and I do think the interest is awful. I am considering Premium Bonds as it's the only other way of saving that my Dad was okay with.
>
> *(36–50 year old consumer)*

[7] Money Advice Service, Financial Capability in the UK 2015, November 2015

Best practice:
Rules of thumb

3 Best practice: Rules of thumb

3.1 WHAT IS A RULE OF THUMB?

The world is full of ‘noise’ – an excess of information, complex data, and conflicting advice. A rule of thumb is a way to cut through this to help people make ‘good enough’ decisions, by focusing on their behaviours and turn intentions into straightforward actions. The experts we spoke to advocated the use of simple but effective rules of thumb to help people make complex financial decisions.[8]

There are numerous financial rules of thumb circulating today. Many of these have persisted across several generations – e.g.: *“Save for a rainy day”; “If promised returns seem too good to be true, they probably are”;* and *“Don’t put all your eggs in one basket”.* Through our primary research, we found that people were aware of financial rules of thumb; and most could name one or two financial rules of thumb that they saw as sensible, such as “*Live within your means*”.

3.2 WHAT MAKES A GOOD RULE OF THUMB?

Based on our expert interviews and consumer research, we identified six principles for a ‘good’ rule of thumb:

1
- Is the rule evidence based?
- Does it meet a fundamental consumer need or is it product orientated?

2
- Does it apply to most people?
- Will it transcend generations and economic periods?

3
- Does it lead the consumer to a specific action or decision?
- Is it relevant, believable and achievable?

4
- Is it based on a widely accepted principle?
- Does it make sense to most people, without requiring complex calculations or concepts?

5
- Is it articulated in a way that is easy to understand?
- Does it spark an interest when first heard?

6
- Does it use positive language that motivates action, rather than appearing condescending?

[8] Antoinette Schoar, MIT Sloan School of Management, Saugato Datta, ideas42, *The Power of Heuristics*, January 2014

3.3 THE TROUBLE WITH EXISTING FINANCIAL RULES OF THUMB

Our evidence review identified six broad groups of rules of thumb: saving for a short-term buffer; long-term (pension) saving; managing investments; budgeting; the use of credit; and making large purchases (car and home). Examples include:

- **Budgeting**: "50/30/20 rule – spend 50% on needs; 30% on wants; and 20% towards savings and debt repayments".
- **Savings for a short-term buffer**: "Save at least three months' salary".
- **Long-term (pension) saving**: "Property is a risk-free investment".

However, existing rules of thumb do not always meet today's consumer needs. Despite the strong potential for impact, they are not successfully influencing how people think about their finances. Our research suggests several reasons for this. They:

- May not be actionable
- Do not adapt over time to a changing economic context (e.g., "spend a maximum of three times your income on a house"), or to new products and technologies
- Are only relevant to specific life stages or circumstances
- Appear to further the interests of industry rather than the consumer, for example, by pushing unsuitable products
- Contradict another rule, or confuse people

To understand why existing rules of thumb may be ineffective, we compared some of them to the best practice principles:

Existing Rule of Thumb	Principles not being followed	Explanation
Property is a risk-free investment	Factual and objective (1)	Price volatility is a risk, and property is highly illiquid. Unpredictable changes to taxation can have a big impact, as seen recently, for example, in the 'buy to let' market.
Save at least three months' income	Universal, Actionable (2,3)	The amount needed could be higher or lower, depending on circumstances. For some people, three months would not be an achievable target.
50/30/20 rule[9]	Simple and memorable, Actionable	Difficult to remember and hard to put in practice. Ignores high availability of credit.

Given the limitations of existing rules of thumb, we developed and tested new rules of thumb which met the six best practice principles. Of these, we selected five rules of thumb that address the unmet needs consumers have today (see Section 5).

[9] Spend 50% of income on necessities, 30% on wants and 20% on savings/paying off debt

Best practice: Nudges

4 Best practice: Nudges

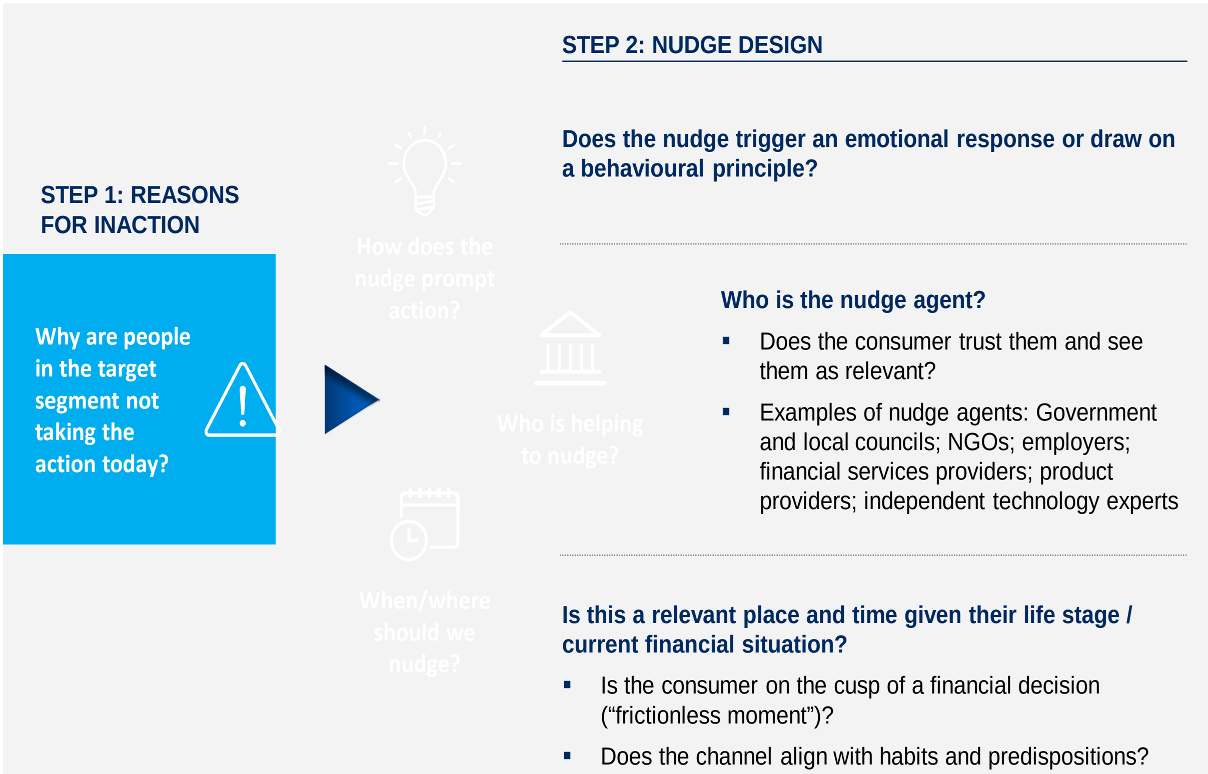
4.1 WHAT IS A NUDGE?

A ‘nudge’ is a timely prompt from a trusted source, designed to help a consumer make better decisions. Nudges draw on insights from behavioural psychology, leveraging circumstantial or environmental factors to encourage people to behave in a particular way. Crucially, this is possible without restricting any particular option(s) or significantly changing economic incentives. Nudging has been applied across various areas of domestic policy, including health, energy and education. With regards to the financial sector, nudging to date has focused on a diverse set of topics, including employer-led nudges, reducing poverty in the UK, and framing pension annuities.[10]

Nudges and rules of thumb should be mutually reinforcing. Several experts noted that whilst rules of thumb help people make financial decisions in a simpler, more intuitive way, they are at their most powerful when their underlying message is delivered through a nudge. Our research suggests this would be a useful approach; whilst most people were aware of financial rules of thumb, they did not always remember to act on them. We also found no evidence of nudges being used in a structured way to reinforce rules of thumb.

4.2 HOW TO DESIGN AN EFFECTIVE NUDGE

Based on expert interviews, we identified a two-step framework to designing an effective nudge:



10 CIPD, Employee Financial well-being: Behavioural Insights, 2017; The Behavioural Insights Team, Poverty and Decision Making, October 2016; Financial Conduct Authority, Full disclosure: a round-up of FCA experimental research into giving information, Occasional Paper 23, November 2016

1. **Determine the underlying reason(s) why people in the target group are not taking action.** For example, why do people not save for their pensions? One reason could be that they value their present consumption more than their future consumption. Another could be a fear of even getting started, driven by low financial confidence. Or, for many, pension saving simply appears unaffordable.

2. **Design the nudge to address the cause of inaction.** The 'design' component includes thinking through the following elements: how to nudge, who should nudge, and when and where to nudge. For example: a retailer could ask the consumer, at the point of purchase, "do you really want to make this purchase on credit when it will cost you £x more than cash?"

4.3 ELEMENTS OF THE NUDGE DESIGN

How does the nudge prompt action?

The nudge should provide a clear reason for action by triggering an emotional reaction (e.g., nudging new parents to save a portion of their salary for their children's future) or drawing on behavioural principles (e.g., digitally ageing photos of people to encourage them to identify with their future selves and save towards their retirement).

Who should nudge?

Nudges are more likely to be effective if they come from agents who are:

- **Trusted:** Nudge agents should be seen as having interests aligned with those of the consumer. The nudge agent should have the consumer's permission to contact or 'nudge' them.
- **Relevant:** Nudges should come from different agents, depending on who is best positioned to deliver the nudge. For example, an employer could be best positioned to nudge on pensions, whilst a bank might be best positioned to nudge on savings.

Our research highlighted that people would welcome nudges from all types of organisations; however, those nudges must be timed appropriately and deliver a relevant message to the consumer, or else they are seen as 'noise'. For example, people appreciate reminders from government-based sources to complete a tax return or renew car tax.

When and how to nudge?

Timing: The most effective time for a nudge is at a 'frictionless moment', a time when a consumer is on the cusp of making a financial decision. At these times, people are generally much more receptive to, and likely to act on, financial guidance. Frictionless moments may be finance based (e.g., the end of a fixed term loan; the purchase of a large item), or specific points in people's life (e.g., moving out of a family home, having a child, death of a parent or partner).

Channel: Nudges need to be shared through a channel that is a natural point of contact for the consumer in their everyday life. This could be a well-placed leaflet or poster in a public space; an internet homepage; or a direct email or SMS.

A CASE STUDY IN NUDGING:
Using digital channels to create a savings habit

Nudging is at the heart of digital innovations to encourage micro-saving and micro-investing. Banks and wealth managers are using apps to nudge consumers, especially millennials, to make a habit of saving or investing small amounts regularly – making saving easier for young people on low incomes or with few assets.

Rounding up

Apps like MoneyBox and HSBC's SmartSave allow people to round up their purchase and invest or save the excess.

Resisting temptations

Nationwide's Impulse Saver encourages customers to replace spontaneous purchases with instant savings by tapping an icon on their smartphone.

Automatic savings

Chip sweeps small amounts of surplus funds into an instant access savings account, using machine learning to understand users' spending habits in order to have a negligible effect on spending ability.

Our rules of thumb and nudges

5 Our rules of thumb and nudges

Below are some example actions and nudges to show how our recommended rules of thumb could be implemented, and what might be needed to make them work.

Rule of thumb	Example action	Example nudge	Source of Nudge	What would make the Nudge work well?
1. Clean up your finances regularly	Check your bank statements and credit card bills regularly	Send tailored spend analysis via text message, with items of interest to the consumer highlighted	Financial services provider for current account or credit card	Consolidated analysis of an individual's spending, e.g., through an 'all accounts' dashboard
2. Manage your borrowing, don't let your borrowing manage you	Always know the real cost of the money you owe (e.g., credit cards not paid off in full every month)	Display cost of credit clearly in pounds and pence when taking out credit, as well as regular reminders on credit card statements	Credit card provider	Clearer presentation of costs, and standards for disclosure
3. Save when you can - even a little helps a lot	Save a small amount of your disposable income/bank balance regularly	Enrol consumers in a product that regularly transfers a small pre-agreed proportion of their bank balance into an instant access savings account as a 'rainy day fund'	Provider for current account or savings app	Mechanism for auto-savings, and a 'sweep' service to transfer money from the savings account if necessary to prevent overdraft
4. Pile into your pension – it's your future income	'Save more tomorrow': put your future income towards your pension	Employees asked to put a percentage of future earnings towards pension	Employer (directly, via pension provider or third party)	Systems set up

Underlying these is a 5th rule of thumb:

5. Other people get help to make the most of their money, so can you – *consider replacing with a rule of thumb around 'planning for unexpected life events'*

Rules of Thumb: the 'Financial Five' and corresponding consumer actions

While our recommended 'Financial Five' at first glance appear to be simple, we believe they form a powerful starting point to encourage, engage and empower people. These rules of thumb:

- Meet our six principles of a good rule of thumb

- Cover a range of common consumer needs: taking control of day-to-day finances, receiving what they are entitled to, preparing for the unexpected, securing their future, and finding the right help
- Scored highly on consumer ratings during testing
- Are packaged into an instantly recognisable financial equivalent to ‘five a day’

Example nudges

We have suggested illustrative nudges corresponding to the first four rules of thumb. These provide ‘worked examples’ of how to design a nudge using our two-step framework. These nudges are conceptual, and require behavioural testing to:

- Diagnose exactly why target consumers do not take action today
- Assess the effectiveness of the nudges in influencing consumer behaviour

Our suggested nudges aim to build on the direction in which providers of financial services are already moving – by leveraging technology to help people manage their finances better. We would like to go even further; for example, through the introduction of an aggregate dashboard which provides people with a consolidated view and analysis of their finances. However, nudge agents should bear in mind the needs of the digitally excluded, or people who do not want to share their personal data.

Our nudges can also benefit financial services providers, as using nudges to prompt people towards choosing actions, rather than offering product-oriented solutions, could serve to build consumer trust.

Rule #1: Clean up your finances regularly

Recommended actions

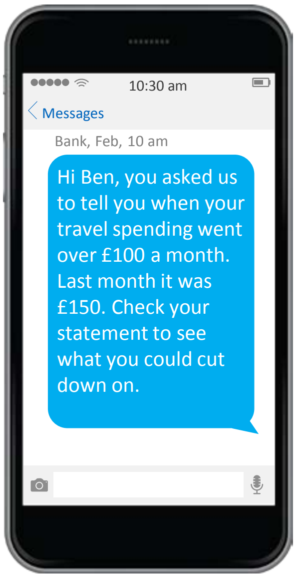
Check your bank statements and credit card bills regularly

- Cancel unused subscriptions
- Switch utility providers and shop around for better deals on financial products
- Set monthly budgets
- Check you are getting the benefits you're entitled to (e.g., tax credits, help with childcare costs)
- Check that you are on the correct tax code

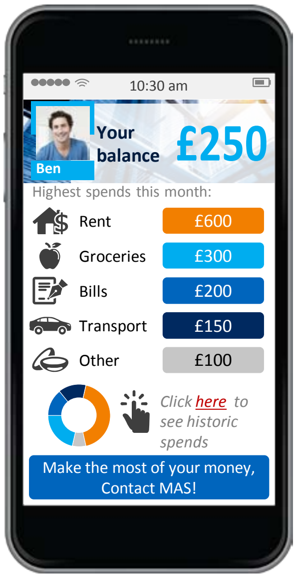
This actionable rule of thumb covers day to day management of finances, and helps people to ensure they are not missing out on entitlements, or spending money unnecessarily. When tested, consumers were aware of the principle and could think of Direct Debits they were paying for products and services they are not using.

Illustrative nudge and design process

Tailored insights



Clear statements



Why people don't act[1]

- Checking statements is seen as boring and arduous
- Bank statements are long and confusing
- Consumers are scared of what they'll find

How the nudge prompts action

- **Personalisation:** Consumers select areas of insight around their spending to receive texts about
- **Simplification:** Information is relevant and easily understandable on statements
- **Reassurance:** Links to advice websites prompt action at key moment

Nudge agent

- Financial services provider or third party

When/how

- Monthly (online or paper statement), text via mobile phone

Future vision

- Aggregate dashboard to pull in information from all financial accounts (current account, insurance, loans, mortgage, etc.)

1 More than one-third of account-holders don't check their statements (This is Money, 2012). 16% are unable to identify the balance on their bank statement, (MAS, 2013) and 18% of account-holders are too afraid to even look (MAS, 2015).

Rule #2: Manage your borrowing, don't let your borrowing manage you

Recommended actions

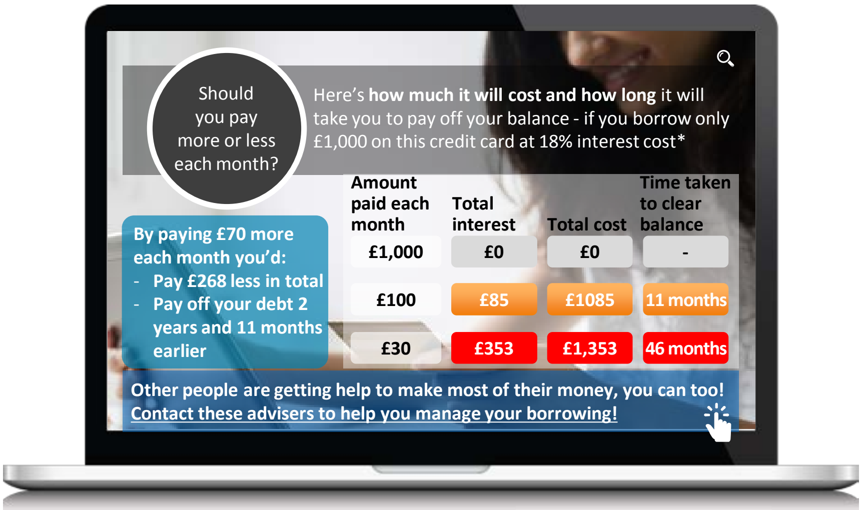
Always know the real cost of the money you owe ((e.g., credit cards not paid off in full every month)

- Work out which of your debts or borrowing to pay off first
- Avoid using your credit card to take out cash

We selected this rule of thumb as the underlying actions (e.g., avoid using your credit card to take out cash, and paying off debts most cost efficiently) were among most acute problems for consumers. It is memorable and attention grabbing, with an empowering tone - essential as borrowing and debt issues tend to have a stigma attached to them

Illustrative nudge and design process

Trade-off for different payment approaches in monetary terms



Why people don't act[1]

- Difficulty in understanding percentages / financial terminology
- Unclear presentation of information: e.g., APRs as %
- Scarcity mindset: focus on short-term costs, not overall price of credit

How the nudge prompts action

- **Simplifying information:** engages consumers by showing them most relevant information in a easy to understand way (e.g., cost of credit in pounds and pence)
- **Loss aversion:** Interest payments framed as incremental sums of money loss as a result of making minimum repayments
- **Reassurance:** Links to advice websites prompt action at key moment

Nudge agent

- Credit card provider

When/how

- At time of borrowing, and monthly statement (paper or online)

Future vision

- Debt dashboard which pulls in data from different sources of credit and suggests cheapest way to pay off

1 A third of consumers are unable to correctly calculate the interest rate on savings (MAS, UK Financial Capability Survey, 2015)

Rule #3: Save when you can - even a little helps a lot

Recommended actions

Save a small amount of income/bank balance regularly

- Save for the things you want to be able to do
- Save some of your pay rise/bonus rather than spending all of
- Save on your pay day rather than at the end of the month

Many consumers did not have a savings mind-set, with the prospect of building a savings buffer seen as daunting by many. However, they saw saving 'even a little' as empowering even if they were unsure whether they could save enough to make a difference. Some were motivated by specific goals, some were not.

Illustrative nudge and design process

Enrolment and auto-transfer into instant access savings account

Why people don't act

- Consumers prioritise the present rather than saving for uncertain events in the future
- See it as too difficult to save, hence unlikely to even start

How the nudge prompts action

- **Auto-transfer:** consumers are less likely to opt-out of saving
- **Using defaults:** Labelling as a rainy day fund may discourage withdrawals for frivolous expenditures
- **Rewards/gamification:** set sequential targets and give positive re-enforcement as these are reached
- **Loss aversion:** when money drawn to cover unexpected costs, notify consumer of extra charges they would have incurred by using credit instead, to highlight benefit of saving

Nudge agent

- Financial services provider, third party or employer

When/how

- Prompt for rainy day fund when current account set up, or employer to sign up employees when starting a new job

Future vision

- Suggest increase in contributions when consumer receives a pay rise

Rule #4: Pile into your pension – it's your future income

Recommended actions

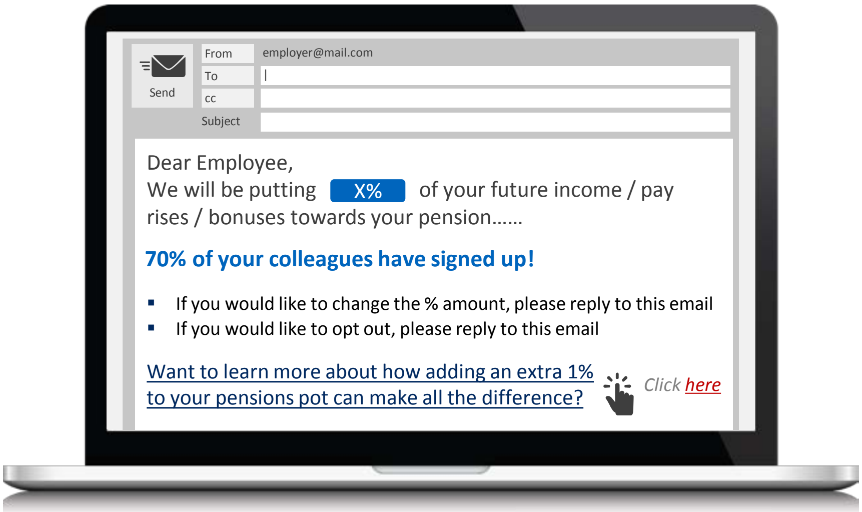
Put your future income towards your pension

- Sign up to a pension scheme, and remain in it
- Understand how much you will need to retire comfortably
- If your employer offers contribution matching, make sure you pay in the maximum amount

Most consumers aged 18-35 did not see pension planning as a priority, and tended to value the present over the future. Framing pensions as 'your future income' encourages consumers identify with their future selves and serve as a reminder the salary one may take for granted now will stop being paid in the future

Illustrative nudge and design process

Put a default proportion of future income towards pensions (Save more tomorrow)[1]



Why people don't act[1]

- Disconnect between present and future self - consumers tend to allocate income towards events that are pressing

How the nudge prompts action

- **Disconnect with future self:** easier to accept self-control restrictions that take place in the future
- **Inertia:** consumers unlikely to change these commitments closer to the time
- Set suggested amount as an 'anchor' and leverage social norms via reference to 'people like you'

Nudge agent

- Employer or third party app for self-employed

When/how

- Ask 6 or 12 months beforehand, and for salaried employees – ask when they start a new job (as part of other admin tasks)
- If you synchronise pay rises and savings increases, participants never see their take-home pay reduce

Future vision

- Agreed long term vision / target for pension contributions under auto-enrolment

1 Thaler and Benartzi, 2004

Rule #5: Other people get help to make the most of their money, so can you

Recommended actions

- Reach out to relevant bodies (e.g., MAS) for free and impartial guidance to make most of your money; your financial services provider may offer this, too, but check it is 'sales free'
- Contact impartial debt advice services for free and non-judgmental guidance if you have any concerns about how much money you owe
- Contact the Pensions Advisory Service, or Pension Wise if you are over 50, for free and impartial guidance on pensions
- Seek independent financial advice

This rule of thumb was selected as it is empowering and phrased without attaching stigma to reaching out for help. The notion of comparing to peers resonated well with consumers, and draws on the behavioural principle of 'people like you'.

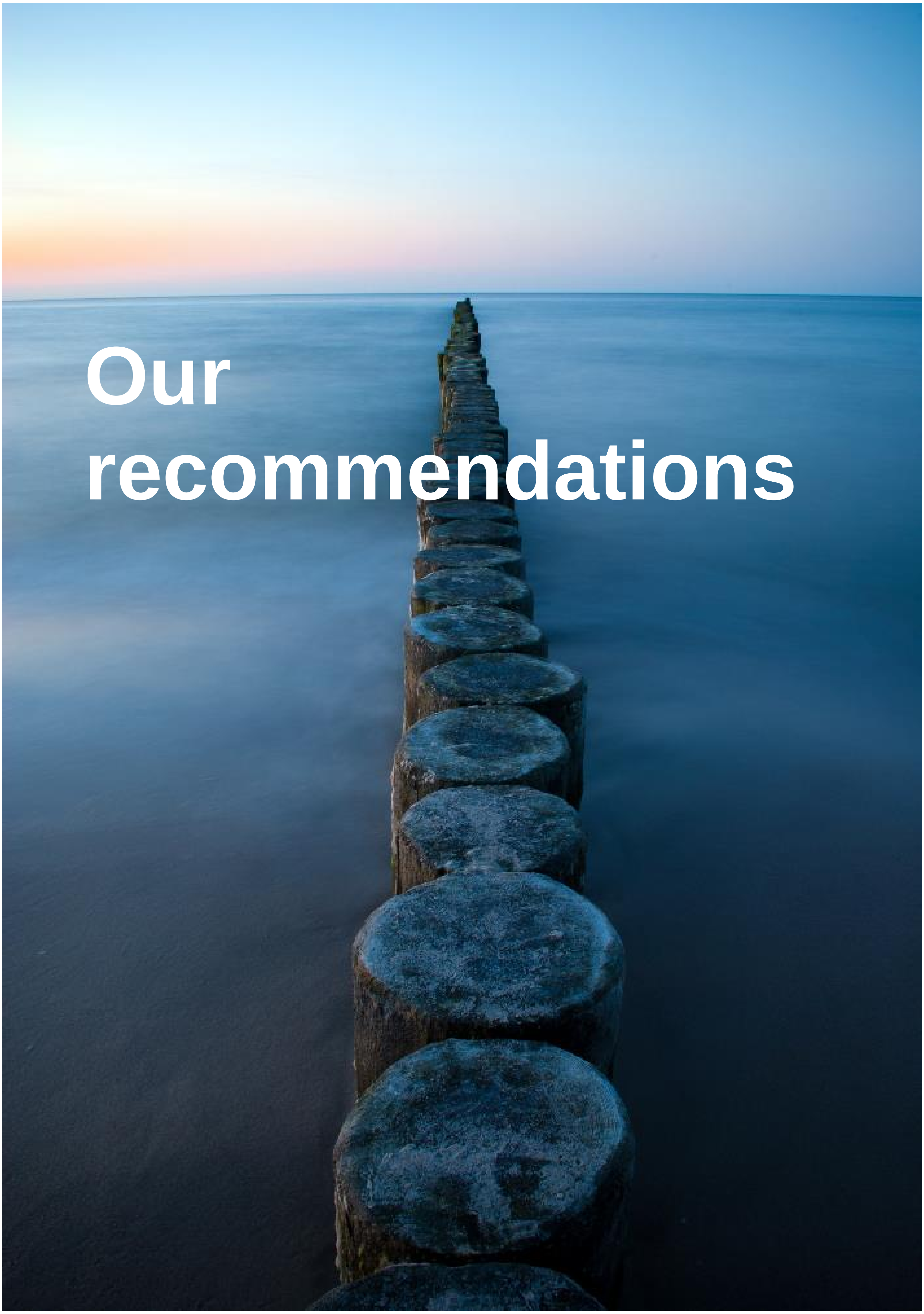
This rule of thumb seeks to meet an important goal – providing people with access to external sources of support. At the same time, we recognise that this rule underlies the other four rules of thumb, rather than covering a distinct consumer financial need. Hence, we have recommended that MAS develops and tests an alternative fifth rule of thumb to help people prepare for unexpected life events; this was been identified as an important need for consumers. The current rule of thumb can then be viewed as an underlying principle for the new 'Financial Five'.

Proposed alternative: Rule of Thumb about preparing for unexpected life events.

Corresponding actions could include:

- Take out life insurance for the main earner for a family
- Take out income protection insurance
- Take out insurance for valuable items
- Create a will
- Nominate a pension beneficiary

Our recommendations



6 Our recommendations

6.1 VISION FOR SUCCESS

Rules of thumb and nudges should help lead to a sustained improvement in the financial well-being of the population, by increasing engagement and financial capability. To start with, a successful outcome would be:

- A high degree of consumer awareness of rules of thumb, and confidence in using them.
- The widespread use of nudges by public, private and third sectors, to reinforce the rules of thumb.

Over the next five years, we might expect to see real impact in terms of a reduction in levels of debt, and an increase in precautionary savings and pension contributions. People should also feel more confident in managing their finances, and in seeking help when they need it.

Our recommendations:

1. Further test, refine and embed within daily lives a set of high-level rules of thumb ('Financial Five')
2. Design and implement nudges to prompt people to act on the rules of thumb

6.2 ROADMAP

The success of our recommendations depends on multi-faceted and enduring initiatives driven by bodies across the public, private and third sectors. We have outlined some of the changes we believe are needed in the broader financial ecosystem as well as setting out the next steps to build on our work on rules of thumb and nudges.

I. Immediate next steps

To maintain momentum, we recommend that:

- The Money Advice Service (MAS) should further test and refine a set of rules of thumb and corresponding consumer actions, We suggest MAS:
  - Carries out behavioural testing with consumers of different ages, and different socio-economic backgrounds.
  - Considers how an additional rule of thumb could help people mitigate unexpected life events.
  - Aligns the 'Make the most of your money' guide for employees with the final rules of thumb[11]
- The Financial Capability Board (FCB) should oversee the work on nudges, as part of the Financial Capability Strategy for the UK.[12] The FCB has the right stakeholders, who can influence widely and act as 'champions' within their own organisations. We suggest that MAS supports the FCB by:

[11] FAWG Employer best practice work stream has developed a guide for employees with useful tips on money management.

[12] The Financial Capability Strategy for the UK, October 2015, www.fincap.org.uk

- Identifying, and co-ordinating with, stakeholders (nudge agents) who are able to test and implement nudges to support the rules of thumb.
- Monitoring the use of nudges, working with nudge agents to evaluate their success and consolidating wider lessons on best practices for nudges.

II. A longer term model for leadership and co-ordination

In the medium term, MAS is being merged with Pension Wise and the Pensions Advisory Service, to create a new publicly funded single financial guidance body (SFGB). While we appreciate that the government has not yet proposed objectives for the SFGB, we would observe that it would greatly help the roll-out of rules of thumb and nudges if the SFGB had their promotion as part of its remit.

More broadly is it not yet clear what will be the relationship between the SFGB and the Financial Capability Board. That said notwithstanding the uncertainty about who will do them, here are some of the tasks that need to be done:

- Monitoring the UK’s financial well-being/capability (among other things, using the Financial Capability Survey).
- Co-ordinating key stakeholders (including government authorities, industry players, and charities) to promote rules of thumb and nudges. This includes reviewing the work on rules of thumb and nudges, setting quantitative success measures, and acting as a centre of expertise on ‘what works’.
- Developing a long-term strategy as UK consumers’ needs and situations change over time, to improve financial well-being on a sustainable, long term basis.
- Collaborating with key stakeholders (e.g., trade unions) to deliver financial education for adults (e.g., pre-retirement training).

III. Stakeholder engagement

There is also a central role in encouraging stakeholders to raise awareness of the financial rules of thumb**,** ultimately embedding them in the daily lives of people. Stakeholders need to:

- Develop, test and evaluate nudges that work with their target groups.
- Include the ‘Financial Five’ in existing financial messages, for example: ‘clean up your finances – see if you can get cheaper energy’; ‘use a budget planner – this counts as one of your Financial Five.’ These would ideally be linked to tools that enabled the consumer to take instant action.
    - This approach could be enhanced with a ‘Financial Five’ logo that provides consumers with a visual reminder of the rules of thumb
- Promote the ‘Financial Five’, and deliver nudges, at key points in the year, e.g. encouraging people to “clean up your finances” in the new year, and to “save when you can – even a little helps a lot” in March, building on existing ISA-related communications.
- Make full use of the opportunities afforded by ‘open banking’ , to give people easy to understand and meaningful data based on their transaction history
- Address the needs of vulnerable consumers, or those who do not want to deal with their personal finances online.

IV. Broader financial ecosystem

- The work on rules of thumb and nudges would be greatly enhanced by government support and changes to the broader ecosystem, for example, to:
  - Use the review of auto-enrolment to embed nudges that will encourage people to engage with, and contribute more to, their pensions.
  - Increase investment in high quality financial education in schools, so that young people understand financial concepts by the time they enter work or further education By embedding knowledge of the key principles that allow for good financial wellbeing at an early age, the rules of thumb and nudges will resonate more deeply with larger sectors of the community.
- Equally, the Financial Conduct Authority should consider how its policy and regulation can support rules of thumb and nudges, for example, through its 'Smarter Consumer Communications' initiative, specific sector-based nudges (e.g., credit cards) and work on innovation. The regulator should not hesitate to mandate clearer communication in the interests of better consumer outcomes.

6.3 CONCLUSION

Our hope is that with careful planning, continued support and further testing by a collaborative group of key organisations across government, industry and the social sector – the full potential of rules of thumb and nudges can be realised and contribute to improving the financial well-being of people across the country. It will by no means completely solve the complex financial challenges people face, but it offers a strong starting point and a foundation to build on. This is one of many initiatives that must be rolled out if we are to fulfil our mission of helping people take better control of their finances and take a strategic, longer-term approach to planning for the future.

Annex

A. Rules of thumb and Nudges Sub-Group members

Name	Position(s)	Organisation
Sue Lewis **(Chair)**	Chair	Financial Services Consumer Panel
Jake Eliot	Senior Policy Manager	Money Advice Service
Nick Hungerford	Founder and Director	Nutmeg Saving and Investment Limited
Dr Robin Keyte	Director; Member	KEYTE Chartered Financial Planners; The Smaller Business Practitioner Panel
Katherine Morgan	Director, Wealth & Investments	Barclays Bank plc.
Chris Rhodes	Group Retail Director	Nationwide Building Society
Sarah Duguid	Strategic Review, Insurance	Lloyds Banking Group

The Sub-group were supported by Brian Ledbetter (Senior Partner, McKinsey & Company) and his team: Tara Lajumoke and Sakshi Rathi; and by Teresa Roux (Founding Partner and Director, Bdifferent)

B. Non-confidential expert interviewees

Name	Position(s)	Organisation
Clinton Askew	Owner, Director & Financial Adviser	Citywide Financial Partners
Toby Bateman	Principal Policy Adviser	Confederation of British Industry
John Beshears	Assistant Professor	Harvard Business School
Matthew Blakstad	Head of Insights Unit	National Employment Savings Trust
Ian Borkett	Unionlearn Service Manager	Trade Union Congress
Peter Brooks	Head of Behavioural Finance	Barclays Wealth & Investment Management
Phil Brown	Head of Policy	LV=
Michelle Cracknell	Chief Executive	Pensions Advice Service
Kevin Dunne	Head of Business Development	Scottish Widows
Daniel Egan	Director of Behavioural Finance and Investments	Betterment
Rick Eling	Head of Proposition	Old Mutual Wealth Private Client Advisers
Simon Farrant	Head of Adviser Proposition	Fidelity Investments
Rebecca Fearnley	Chief Adviser	Which? Money Helpline
Greg Fischer	Assistant Professor	London School of Economics
Nick Frankland	Chief Operating Officer and Transformation Director	Legal & General

Rupert Gill	Head of Behavioural Insight, Behavioural and Customer Insight Team	HM Revenue & Customs
Joe Gladstone	Assistant Professor	UCL School of Management
Emily Haisley	Director of Behavioural Finance, Risk and Quantitative Analytics	BlackRock
Joseph Harley	Senior Policy Adviser, Conduct Regulation	Association of British Insurers
Zack Hocking	Director, Investments & Pensions	Virgin Money UK
Nick Hungerford	Founder and Director	Nutmeg
Stefan Hunt	Head of Behavioural Economics and Data Science	Financial Conduct Authority
Robin Keyte	Director	KEYTE Chartered Financial Planners
Sarah Luheshi	Deputy Director	Pensions Policy Institute
Sumantra Prasad	Head of Strategic Policy and Engagement, Group Customer Products & Marketing	Lloyds Banking Group
Jackie Spencer	Proposition Manager	Money Advice Service
Clare Talbot	Deputy Director, Private Pensions Projects and Guidance Division	Department of Work and Pensions
Roy Vickery	Senior Manager, Retirement Propositions	Lloyds Banking Group
Julian Webb	Head of Workplace Investing	Fidelity
Steve Webb	Director of Policy	Royal London
We also interviewed experts from HM Treasury, The Pensions Regulator and the Smaller Business Practitioners Panel.		

C. Findings from consumer focus groups (Bdifferent)

Research findings among consumers across the UK for the Rules of Thumb and Nudges (January 2017)

1. Managing finances across the different life stages

1.1 When considering how to encourage individuals to manage their finances it is important to understand where they are in terms of their own starting point. This research highlighted that across different life stages there were differing views. And it reinforces a general principle that with experience comes wisdom.

1.2 Young adults (aged 18–25 in the coasting and balancing segments). This age group live for today, they give little thought to the longer term. There are some that might plan ahead for holidays, but little else. They are aware of the need to save but in reality don't. At their current life stage, they have little engagement with pensions. Those with student loans ignore them as they are currently not earning enough to pay them back, they don't see this money as debt. Most enjoy the financial freedom a salary brings them and are easily persuaded by the banks and credit card companies to sign up.

1.3 Young adults (aged 26–35; coasting, balancing and some slipping). This group were split between trying to save a little for their future and living for the moment. Some have young families where spare cash is scarce. Thinking about retirement seems like years away. Just a few are conscious of the need to save something for a time when they will finally give up work. Pensions have a negative connotation. They try to live within their means but don't hold back using credit cards or taking out loans if they need or want to.

1.4 Family building (aged 36–50; coasting and balancing). This age group enjoys building up their careers, improving their lifestyles, spending their 'hard earned cash' and using credit cards. But this segment realises that in 15 years or so they may want to start planning for their retirement and they become a little more engaged with pensions. Some start to focus a little more on saving too. Those that have gone through divorce, particularly women, face a worrying financial future.

1.5 Empty nesters (aged 51–60; coasting and balancing). This group is quite pragmatic about living within their means and trying to save a little as and when they can. Life experiences have allowed them to identify the 'phases' during which money has been scarce, such as moving out of the family home, buying a property, having a family. Similarly, they are aware of the periods when they have had a little more disposable income, such as when dependents move out, or careers have developed. Several now see retirement as one step away. Some wish they had started thinking about retirement earlier and some women wish they had maintained financial independence during their family forming years. Most in this segment are quite good at managing their day-to-day finances but worry about how to do more than basic savings and paying into their work pension scheme.

1.6 At retirement (aged 60; coasting and balancing). The reality of retirement is here, this group find it intimidating to make sense of financial matters. Some try to listen to financial programmes or read articles in the press but struggle to deal with how they will manage financially in their retirement years. A high proportion can't see a time when they will stop work completely; some are still supporting their adult children living at home. This generation has tried to live within their means and has avoided the over use of credit cards. Many feel they will not have enough to live on during their retirement years.

2. Interest among the UK adult population in Rules of Thumb

2.1 Rules of Thumb were a familiar concept across all segments of the market. Most in the research could think of a couple of financial Rules of Thumb spontaneously. Those mentioned across the groups included "*save for a rainy day*" or "*live within your means*" but all agreed that it is easy for them to slip to the back of your mind and to forget to follow them. Some Rules of Thumb mentioned in the groups spontaneously were misguided, such as "*pensions are not worth doing*" or "*you can't take it with you when you die*" (with implication that you might as well spend and not save).

2.2 When discussing the principles of Rules of Thumb most agreed that using Rules of Thumb to encourage adults to get their finances in order could be a positive step.

2.3 This research tested 17 potential Rules of Thumb and a further 27 variations. Each was rotated and given an equal chance of being selected. The Rules of Thumb were scored individually and discussed within a research group. The two that came out as most relevant across all segments were "*Save more as you earn more*" and "*Start investing as early as you can*". These were followed by *"Spring clean your finances", "Never take cash out on a credit card"* and *"Pay off your most expensive debt first".*

2.4 The research highlighted that any Rules of Thumb that were numerical were much less likely to be understood or to have appeal. Some people struggled to perform the calculations required and agreed that they would not be recalled or kept at the top of the mind.

3. Practical issues in encouraging use of Rules of Thumb

3.1 To ensure any Rules of Thumb are clear and easy to understand, what they are trying to say needs to be relevant, believable and achievable. To ensure easy recall, they need to be short and sharp and steer away from calculations and confusing industry-related terminology.

3.2 To encourage action, the tone of voice needs to be reassuring and firm without being dictatorial (Martin Lewis is thought to have the right tone of voice – on the customers' side).

3.3 To persuade people to follow the Rule of Thumb, it needs to sound as though it is in their interest – not in the interest of a product provider.

3.4 The idea of packaging the core Rules of Thumb into a set of five seems to work well – any more than that won't be remembered. The themes could be product-based, life stage or event based, or short, medium, or longer term. Rules of Thumb can be used to target specific segments and prompted at specific stages in their life.

3.5 To keep the Rules of Thumb top of mind, prompts or nudges from organisations such as banks, pension companies, retailers and employers are welcomed, but they must be targeted rather than random. Reminders from government sources were also welcomed at key points, such as completing tax returns or getting new tax codes.

4 Consumer reactions to the Rules of Thumb

4.1 With potential, relevant

The Rule of Thumb	Variation on the Rule of Thumb	Reactions
Most relevant		
Save more as you earn more	PIS (Pension, ISA, Savings) away your pay rise	RofT universally liked, good principle, easily understood; top rated RofT; the variations met with mixed reception, PIS grabbed attention but trivial; the other concept sensible, tone not liked by younger
	Pay rise? Save it, don't spend it	
Start investing as early as you can	A stitch in time saves nine	The principle was sound but younger groups weren't thinking about investing, and didn't understand the variation; the older groups wished they had started earlier
	Investing early means a better retirement	
Spring clean your finances	Want to save a tidy sum? Try switching providers or stopping payments for services you no longer use	Seen as very sensible, and one that should be followed, but people need to be reminded of it. Younger group not familiar with 'spring cleaning'! Variation 1 bit twee but variation 2 to the point
	Stop paying for services you no longer need	
Never take cash out on credit cards	Pay off your credit or pay more	Very good advice but very diverse reactions: the younger were not aware, older groups had learnt from bitter experience; variation 2 counterproductive – so why bother then?
	Making only the minimum repayment can take up to 300 years to pay off a credit card	
Pay off your most expensive debt first	Save for emergency 1st; pay off high interest debt 2nd, then invest	Good rule BUT some confusion over whether the most expensive debt was the largest debt and was this correct if applied to say the mortgage; variation thought confusing and not snappy
Have potential		
Don't put all your eggs in one basket	Live in your house; live off your pension	Very familiar but some of the younger groups did not relate it to finance at all; the variation wasn't clear as some thought they would downsize; or take out equity release
Max out your employer's matching contributions	For your employer's pension scheme: max then more-than-match	Mixed reactions, the younger didn't see it as immediately relevant, the mid-life groups liked it, the self-employed said not relevant; some confusion over what it meant too
	Paid a pension? Max, match and more	
Keep 3 months of income as a safety net	Saving something (no matter how much) is better than doing nothing	The principle was sound but unachievable for most – 1 month's income might be possible; tone was a little 'nagging' for some. The variation resonated and would encourage those who couldn't save much
When your income changes, check you are on the right tax code so you don't pay more than needed	You could save hundreds of pounds by checking you're on the right tax code	Good, self-explanatory – all could relate to it; but some asked how would you check? Variation 2 not so clear – 'loads' felt like slang; pay cheque not familiar for younger
	The wrong tax code can cost you loads. Check your next pay cheque	

4.2 Less potential, less relevant

Less potential		
You don't have to do it alone	Don't lose sleep, help is at hand	Although the concept was seen as a good rule, most did not immediately associate it with finance; when they did they were concerned about who you could trust to support you; thought to be only aimed at those in debt
	Other people are getting support for their finances; so can you	
Get your free money twice (or thrice)	Tax credits are free money; child tax credits alone can be up to £2,780 per child	The young and middle aged liked the concept of 'free' money but struggled to find a link as to how it applied – the older group said no such thing; no clear link between the word enrolled and pensions, particularly for self employed
	Stay enrolled or lose out on free money towards your pension	
Get the benefits you deserve	Check Gov.UK to find out more about benefits you may not be claiming	Seen as too specific, most think people would only check if in need. Word 'deserve' bit inflammatory across the groups
Take a PISS (pension, ISA, savings, stock markets)	PISS (pension, ISA, savings) before you spend a penny	Grabbed attention but felt like trying 'too hard' to be trendy; confused about what it was saying to do first and didn't think it achievable anyway
	SIP (savings, ISA, pension) first, spend later	
Not seen as relevant		
If it costs you more than 3 months' income, think how you can protect it	Every family is hit by unexpected costs. Check your savings or insurance covers your biggest risk	Some struggled to think of items they would spend more than 3 months income on; the variation was thought to be only for families or to cover home items easy to buy on credit
You can retire at 90 minus the percentage of your salary you put in your pension	To calculate when you will be able to retire, take the percentage of your annual earnings which go into your pension away from 90	Both the RofT and the variation seen as too complicated, too far away, too difficult so would ignore it – for many, there were also too many variables or questions to this. The variation with no number preferred, easy to recall, inspiring
	Saving more and sooner, means retiring sooner	
You'll need 25 x your current income when you retire		Immediate reaction for many was this is meaningless; any figures put quite a few people off; some middle aged quite liked the concept but were confused about what the '25' was
Cashing in your pension could cost you more tax than you think	The earlier you take money out of your pot, the higher the risk your remaining pension pot will not grow enough to last you into old age	Only had resonance with some in the older groups. There was confusion over what could be done and what couldn't with a pension. The younger groups had no idea what it was trying to say. They need encouragement to join their pension scheme in the first place
	Divide your pension pot by 25, that's the most you should take out per year	

D. Findings from consumer interviews (Nutmeg)

1. Formation of attitudes and behaviours relating to personal finance

The interviews conducted highlighted childhood experience and inherited wisdom as the two main factors that contribute to how people develop their attitude and behaviour towards personal finance.

<u>Childhood experiences</u>

Financial attitudes are formed in childhood from observation and occasional 'advice for life'. Whether by replication or reaction, the next generation recognise this link but tend not to alter their behaviours once an adult

- The majority of respondents were able to pin point the specific behaviours and experiences of their parents and how it influenced their own attitude towards personal finance – either in the form of replication or reaction
- Many respondents expressed the importance of their observation of how finances were managed by their parents as there were hardly any open, progressive, structured talks about finances

"My parents never talked about money, but I do believe I learned my financial habits from them"

-Sophie, 34, Balancing

<u>Inherited wisdom</u>

It is common for parents, relatives or mentors to pass down specific pieces of advice on finance that often stick with the receiver as generic rules of thumb or concrete life experiences to learn from.

- The inherited wisdom that people receive often persists over their lifetime, informing their decisions throughout
- Outside the family, there seems to be a void in youth financial education, which could be addressed

"My father was a bank manager so I always trusted him for advice. He told me that investing in the markets was too risky so I have always stayed away from them."

-Andrea, 46, Coasting

2. Current sources of knowledge and support

The interviews identified peer support, the workplace, and online resources as the three primary sources for financial knowledge and support.

<u>Peer support</u>

Peer groups are usually a safe space for people to discuss their financial needs, questions and concerns. These discussion are normally led by any member of the group that works within finance. The peer groups were found to have a good social conversation around the subject but did not appear to provide solid advice or build people's knowledge base

- Saving for a house was a goal expressed across all age segments for those that weren't already homeowners
- For millennials in particular, money was a subject that was often openly discussed within peer groups. The most common financial concern that formed an anchor around many financial discussion was student debt

Workplace

Many respondents highlighted the workplace as a source of financial discussion amongst colleagues

- Junior professionals were able to have more detailed discussion with senior colleagues to get solid advice
- None of the respondents indicated that they received advice directly from their employer

"So I had a project leader who was an HR manager and she helped me lots. She went through all my loans and debts and found me a deal for them all that was better, and even filled out a PPI form for me!"

-Nisha, 26, Balancing

Online

Although many respondents described the internet as a tool for advice on finances, there are more complex barriers for some when using the internet, around data security and confidence in sources of advice

- Many respondents saw the internet as a source of information, but also realised that search results were often very targeted
- Commercially influenced online information was seen as gateway to easy credit that could have an overall negative effect on their financial well-being

3. Current behaviours

There were a number of financial needs that were prevalent across the majority of respondents

Managing income day to day

There were two relatively distinct groups with regard to managing income day to day. The head in the sand group hope for the best, and the meticulous group devote time to reconciling every receipt in a spreadsheet. Interestingly, even though these approaches are very different, it was not uncommon for both types to be found within the same household

Protecting against rainy days

A significant portion of interviewees describe themselves as balancing, with little protection in the form of a savings buffer

Funding large purchases

For funding large purchases, two main strategies were described: low-rate credit card spending, and friends and family, with the latter predominately used for non-frivolous purchases such as education, illness or housing.

Investing and securing the future

For younger interviewees, securing the future was often entangled with buying a house and providing for children in the present. However, even for those actively contributing something to a pension, there was not much thought around the future implications of what they were saving

Getting out of trouble and where to find help

Friends and family were for the most part the go-to sources for financial help in difficult or troubling situations.

Notes on Methodology

- 12 one-to-one interviews were conducted in person during November 2016
- Interviews took place in London, East & West Sussex, Hertfordshire, Essex, and Greater Manchester

E. Findings from rules of thumb evidence review (Money Advice Service)

1. Introduction and scope

To provide a strong evidence base for developing and testing rules of thumb, the Money Advice Service (MAS) commissioned an evidence review of existing sources of information on rules of thumb and how these have been used (in the UK and internationally), to establish:

- What rules of thumb exist and what evidence exists for their rationale and utility?
- What learning can be gathered from previous attempts to design and deploy rules of thumb?
- What gaps and risks in using Rules of Thumb should be explored or tested?

MAS appointed a collaborative team from Centre for Applied Behavioural Economics at Manchester Metropolitan University and the Behavioural Research in Finance Group at Newcastle University to undertake the review. The FAWG Sub-Group on Rules of Thumb and Nudges provided input and steer to the evidence review and emerging findings.

2. Method

To ensure a robust and consistent evaluation, the project undertook a Rapid Evidence Review, in line with the government's Rapid Evidence Assessment Toolkit (2015). This included:

- Keyword analysis to filter and categorise different rules of thumb
- Prioritising robust evaluations with a clear method
- 'Grey' literature included in scope, i.e. non-academic publications from government, industry and financial capability organisations as well as websites, blogs and articles usually excluded from more academic literature reviews.
- Gauging the impact of sources of evidence from citation analysis and reach.

3. Rules of Thumb

Financial rules of thumb work as heuristics: cognitive processes by which individuals ignores part of the information necessary to make a decision (Gigerenzer and Gaissmaier, 2011). This can be achieved through: examining fewer cues, reducing the effort of retrieving cue values, simplifying the weighting of cues, integrating less information or examining fewer alternatives

Heuristics can be efficient as they significantly reduce the amount of cognitive effort needed for obtaining a solution to a problem, independently of whether the problem concerns consumption, investment, or financial choices. In particular, rules of thumb can be effective in helping individuals overcome loss aversion and the distorting effects of time on decision-making where individuals tend to value immediate costs/benefits over future costs/benefits.

4. A typology of Rules of Thumb

The Evidence Review established several categories of existing rules of thumb for personal finance: saving for a short-term buffer; long term savings (pensions); managing investments; budgeting; using credit; and making large purchases (car and home).

5. Evidence of effectiveness

There is evidence that rules of thumb assist consumers in short-cutting information overload to prompt action. It is important to recognise that rules of thumb are general guidelines, meant to help make quick evaluations, and as such lack precision.

Generally a financial rule of thumb achieves a positive outcome via one of three mechanisms: countering a specific behavioural bias, simplifying complex decisions or triggering engagement and action. The Evidence Review analyses existing rules of thumb through a framework developed by Hoy & Tarter (2010)[13] which sets key elements of an effective heuristic:

- Satisficing– a rule of thumb should enable an effective solution for many not aim for the optimum
- Framing – a positive approach to harness behavioural biases.
- Defaults - harnessing the path of least resistance.
- Simplicity - avoiding complex instructions.
- Uncertainty – control for uncertain events
- Transparency – including commitment mechanisms

6. Designing and communicating rules of thumb: Issues to consider

Financial rules of thumb have varied success; the simpler ones tend to be more robust, both in terms of their value as a decision-making aid and in their longevity. Many financial rules of thumb tend to focus on the specific, whereas the more general financial well-being rules of thumb are more widely used.

Financial rules of thumb tend not to adapt to new economic and social environments. Care should be taken in their design to ensure that they are flexible to future, demographic and economic changes. Evidence suggests some of the most persistent rules of thumb are communicated between family and friends in a social context, across generations. This creates the challenge that rules of thumb do not adapt to: changing economic contexts; life-cycle issues; and cohort effects and associated issues (e.g. student debt).

The evidence for the design and communication of financial rules of thumb is limited, however there is evidence for the value of a behaviourally-informed design and focusing on established behavioural effects such as commitment mechanisms can lead to better outcomes. When designing or publicising a rule of thumb, the behavioural bias or other problem which it is intended to resolve should be a key consideration. It would be appropriate to design a different type of rule-of-thumb if the problem was an excess of information to navigate, compared to a problem of inertia, even if both present in form of a lack of consumer engagement with the decisions involved.

[13] Swift and smart decision making: Heuristics that work

Communication of financial rules of thumb suggest that trust strongly influences adoption and use. Trusted communicators and an understanding of the dynamics of consumer trust should be central to communication of rules of thumb.