

# Managing spending: Ideas for financial educators

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## The challenge of managing spending

Having control over day-to-day, month-to-month finances is one of the four elements of financial well-being. Many financial education programs teach consumers to create and follow budgets, and getting spending under control can be the first step on a path to accomplishing longer-term financial goals.

However, as financial educators know, making day-to-day decisions on spending money is one of the biggest challenges consumers face in keeping their financial lives in order. Many people find it difficult to manage their household finances on a daily basis, let alone over the long term.

Nine out of ten shoppers report that they buy items not on their shopping lists. People consistently underestimate the amount they spend on unbudgeted items. Thus, consumers may find themselves spending more than intended. Adding to this challenge is the fact that about one-third of all consumers live paycheck-to-paycheck. In some cases, they may find themselves short on cash and resort to dipping into savings; taking short-term, high-interest loans; or using credit cards.

## Exploring the causes

Research shows that there are many reasons why some consumers struggle to manage their spending. To gain insight into why it's so hard for consumers to do this, consider these issues:

### 1. The hassle of organizing finances

Making and adhering to a budget involves paperwork, math, trade-offs, and understanding constraints. In short, it is a hassle. Avoiding the pain of budgeting can lead to inaction or less optimal choices in the absence of meaningful, timely feedback.

### 2. Difficulty keeping track of spending

With little to no meaningful, current, and easily accessible information about their cash balances when making small discretionary purchases, consumers may lose track of how much they have spent over time. This may lead to unintended spending.

### 3. Exceptions and special occasions

Consumers may see a special occasion or having achieved some milestone or goal as a reason to spend "off-budget." Without a good understanding of where they stand financially, consumers may find that such discretionary spending can negate efforts to stay within a budget.

### 4. Putting out fires

Scarcity of money can lead to financial decisions that don't help consumers reach their own financial goals. This is especially true with consumers in financial distress, who may focus on solving immediate financial challenges while not recognizing the impact on their long-term goals and aspirations.

## Inspired to help?

Think about ways you can make it easier for consumers to carry out their best intentions around spending—or make it harder to slip up. The ideas below can help guide your work with consumers.

### Make budgeting easier

- Consumers may have difficulty organizing and managing their finances, including developing and using a budget. Helping people break large budgeting tasks into smaller ones can make it easier for them to control their financial lives.

### Get feedback on spending

- People spend in different ways at different times. This is one reason why many financial management tools begin with tracking consumption. In order to increase awareness of spending, encourage people to track spending over the course of a month, or other period of time.
- Once consumers understand how much discretionary funds they have available, you can brainstorm ways of developing financial goals, creating a budget, and tracking progress against the budget.
- Encourage consumers to check account balances periodically by doing things such as calling their bank, visiting an ATM, signing up for text alerts, viewing accounts online, or using mobile applications before making discretionary purchases. (Note that some of these services may incur fees).

### Plan for special occasions

- Help consumers budget for special occasions. Suggest that consumers pick an amount to spend for special occasions every month and write it on an envelope. Encourage them to place all their special occasion receipts in the envelope and, at the end of the month, total up how much has been spent. If they are over budget, encourage them to deduct the difference from their next month's special occasion budget.

### Prevent fires

- Consumers under financial strain may struggle to pay their bills in a way that avoids snowballing into larger future consequences (e.g. taking out an expensive loan). Educate consumers on alternative ways to tackle paying bills or build an emergency fund to avoid larger economic consequences later.
- Help consumers see how small, daily decisions can help in achieving larger financial goals.

The CFPB has developed resources to help financial educators and consumers with issues of managing spending. See, for example, the Consumer Tips on Managing Spending ([files.consumerfinance.gov/f/documents/201702\\_cfpb\\_Consumer-Tips-on-Managing-Spending.pdf](https://files.consumerfinance.gov/f/documents/201702_cfpb_Consumer-Tips-on-Managing-Spending.pdf)) worksheet. My New Money Goal budgeting worksheet ([pueblo.gpo.gov/CFPBpubs/CFPBpubs.php?PubID=13057](https://pueblo.gpo.gov/CFPBpubs/CFPBpubs.php?PubID=13057)), My Money Rules to Live By worksheets on savings, spending, use of credit cards, and checking credit reports ([consumerfinance.gov/data-research/research-reports/consumer-voices-financial-rules-live/](https://consumerfinance.gov/data-research/research-reports/consumer-voices-financial-rules-live/)), and the Behind on Bills? Start with one step toolkit ([pueblo.gpo.gov/CFPBpubs/CFPBpubs.php?PubID=13263](https://pueblo.gpo.gov/CFPBpubs/CFPBpubs.php?PubID=13263)). To read more about the research findings about managing spending, go to Consumer Insights on Managing Spending ([files.consumerfinance.gov/f/documents/201702\\_cfpb\\_Consumer-Insights-on-Managing-Spending.pdf](https://files.consumerfinance.gov/f/documents/201702_cfpb_Consumer-Insights-on-Managing-Spending.pdf)). To see all of the CFPB's resources for consumers and financial educators, go to [consumerfinance.gov](https://consumerfinance.gov).

### About these ideas

The Consumer Financial Protection Bureau worked with a contractor to conduct research on consumer decision-making challenges and potential solutions to those challenges. The information we have gathered through this research is intended to inform the work of the CFPB and others in the financial education field.