



Developing a Financial Rule of Thumb to adjust to an income drop as a result of a negative life event.

Report prepared by 2CV Research for the Money Advice Service
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Headlines

1

Responses to an income drop after any of these life events are shaped by loss and uncertainty about the future, leading to a series of adjustment stages similar to those of grief. People recognise the need to think carefully about their finances but lack the headspace to fully consider the them.

2

Responses in the first month are shaped by the level of confidence and propensity to take positive action: A Rule of Thumb might help people with lower confidence and who are less likely to act to adjust to their income drop.

3

The first (missing/reduced) payslip after the event can be a teachable moment, as they are forced to face their new financial situation, but this will depend on how far they have progressed through the stages of adjustment and on their persona.

4

Budgeting is the best first action to take adjust but it sounds difficult: it must be framed by a Rule of Thumb that is engaging and accessible. This must feel both big enough to help and easy enough to do, or repeat, at any point. It must also trigger action but not poor decisions.

5

The messengers of this Rule of Thumb must be experienced and trusted: healthcare professionals and those who have experienced similar are trusted but have less reach and expertise. Trust in banks and employers depends on the strength of the relationship but have more reach and expertise.

6

The proposed specific action (to be developed into a Rule of Thumb) is to look at their recent bank statement(s) and prioritise what can realistically be saved, by marking what to keep and what to change, immediately and later on, with built in time to focus on what's important right now (e.g. family/health).

7

A checklist of follow-up actions to take after the Rule of Thumb is welcomed, particularly because it provides more opportunity to find a new lifestyle they are comfortable with by reducing outgoings, increasing incomings and celebrating successes.

BACKGROUND

The HM Treasury/ FCA 2016 Financial Advice Market Review led to high level financial Rules of Thumb (RoT) and a recommendation to consider a RoT for life events.



OBJECTIVES

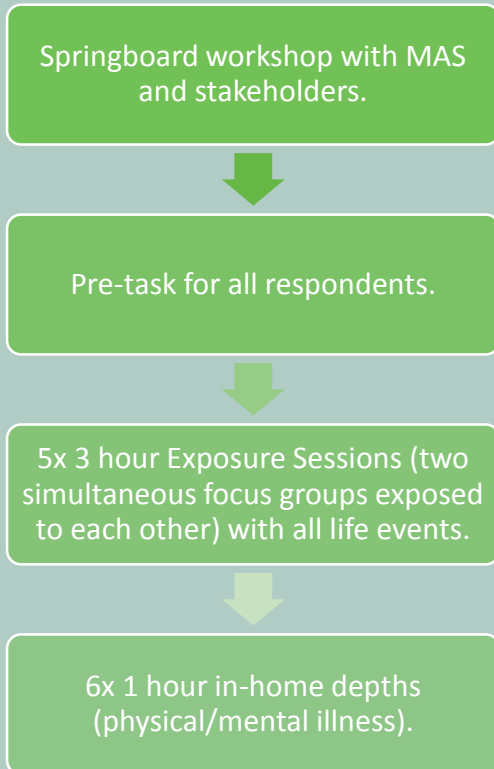
Develop an initial proposed Rule of Thumb (for further communications and user testing) to help (working age Squeezed) adjust to an income drop caused by a negative life event, and if possible a follow-up checklist.



METHODOLOGY

PHASE ONE

UNDERSTANDING INCOME DROPS AFTER A LIFE EVENT, EXPLORING THE ROLE OF RoT AND IDENTIFYING SPECIFIC ACTIONS



PHASE TWO

RULE OF THUMB & CHECK LIST DEVELOPMENT



A full day development workshop with pre-task with MAS insight and policy colleagues and external stakeholders with expertise in supporting those experiencing the live events covered in this research.

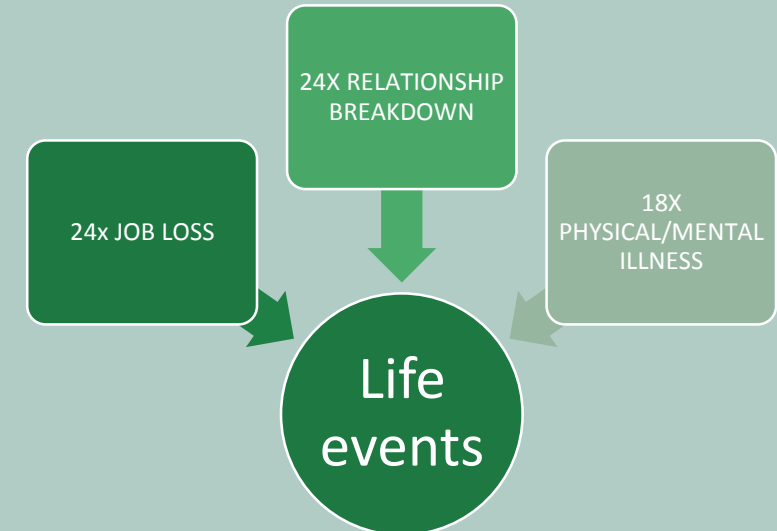
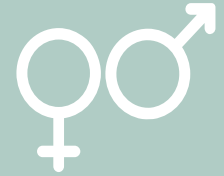
PHASE ONE FIELDWORK SAMPLE*

66 respondents in Urban, Suburban and Rural locations across:

LONDON | GLASGOW | CARDIFF | MANCHESTER

☐ Equal split of gender

☐ Age range: 25yrs – 54yrs



*Detailed sample in the appendix of full report

All experience loss, both emotionally and financially; as a result there are a series of steps* to adjustment

- People's responses to the life event ultimately impact their thoughts and actions with their finances - they are intertwined – but they lack the headspace to fully consider the financial aspects
- 'Bad money management' can often be a symptom as people pass through these stages, which exacerbates the impact of the income drop
- Fear can either freeze people in the denial stage or propel them towards acceptance.

DENIAL

Continue living life like before - making no changes to outgoings.

"I was in denial about my breakup, I thought it was temporary. It wasn't until I knew it was definitely over that I changed my spending habits. Until then I just carried on as I was." Relationship breakdown.

ANGER

- Rebel (e.g. overspending/splurges).
- Retreat.
- Being stubborn (unwilling to change spending).

"Frustration and anger consumed me, I just thought why me? I've worked hard my whole life only to be taken out by depression. I'm still bitter and at first I refused to change my lifestyle." Mental illness.

BARGAINING

- Making mental deals, trade offs and short term actions e.g. justifying treats, but cutting out something else.
- Reviewing own identity and struggling.

"I'm juggling everything and trying to find a new normal. I treat myself when I feel low and deal with it later, so say I get my hair done this week, next week I won't socialise or eat three meals a day." Job loss.

DEPRESSION

- Negative thought patterns leading to inaction and avoidance.

"After a month of being unemployed I was at my lowest. You just feel useless and unworthy. I want to know what others have done to make themselves feel worthy again. I'm stuck in the mud." Job loss.

ACCEPTANCE

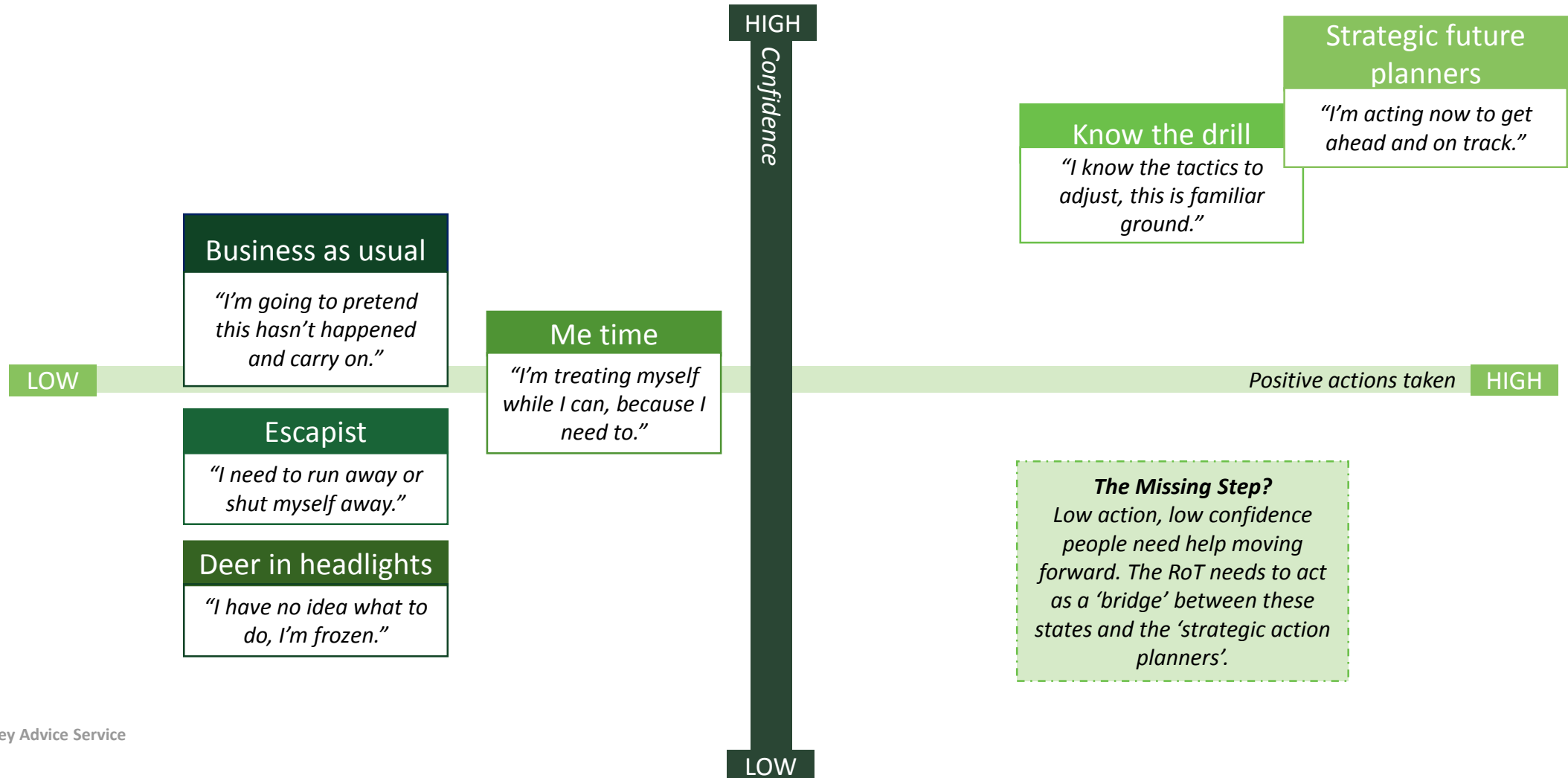
- Making changes to lifestyle.
- A sense of moving forward.
- Feeling that you are a better person after what you've been through.

*"My wife shook me and said you can't keep on like this. She gave me the kick up the a**e I needed to accept that I don't have the money. I made some changes and when I saw money left in my bank at the end of the month I felt ready for this new way of living." Physical illness.*

* These steps are in line with the Kübler-Ross grief cycle.

There are six personas describing how people respond within the first month

Self efficacy is a catalyst for taking positive actions to adjust to an income drop. 'Strategic future planners' and 'Know the drill' are quickest to adjust, while the other four have longer, journeys to adjustment.



The first pay slip (or lack of) post event can be a teachable moment



This is the point when...

- They are forced to face the facts
- Abstract thoughts about money become concrete
- They realise they must make some decisions

Ultimately, where they are on their path to acceptance will impact how they respond to this reality

- **Some will feel frozen by it, while others can become more open to making changes to adjust – this is a key opportunity to inspire people to follow the Rule of Thumb.**

This often ties into their intuitive awareness of their financial situation:

- Even those who describe themselves as not particularly financially savvy tend to know the rough status of their finances
- Most could describe approximately how long they could survive on what they have, even if they are unclear precisely how much they have
- This may explain why people are so swift to turn to focus on regrets around prioritisation and budgeting: they know it's important, even if they don't know how to / can't face doing it
- Those who are most aware of their proximity to 'rock bottom' can be the fastest to act, out of necessity

"The penny dropped when I saw my pennies literally drop so it was then that I first thought that things have to change"

Physical illness – 'Know the drill'

"It really is that first pay slip where you think – OH [intake of breath]. So that big aha moment comes very quickly that you don't have as much money to play with anymore."

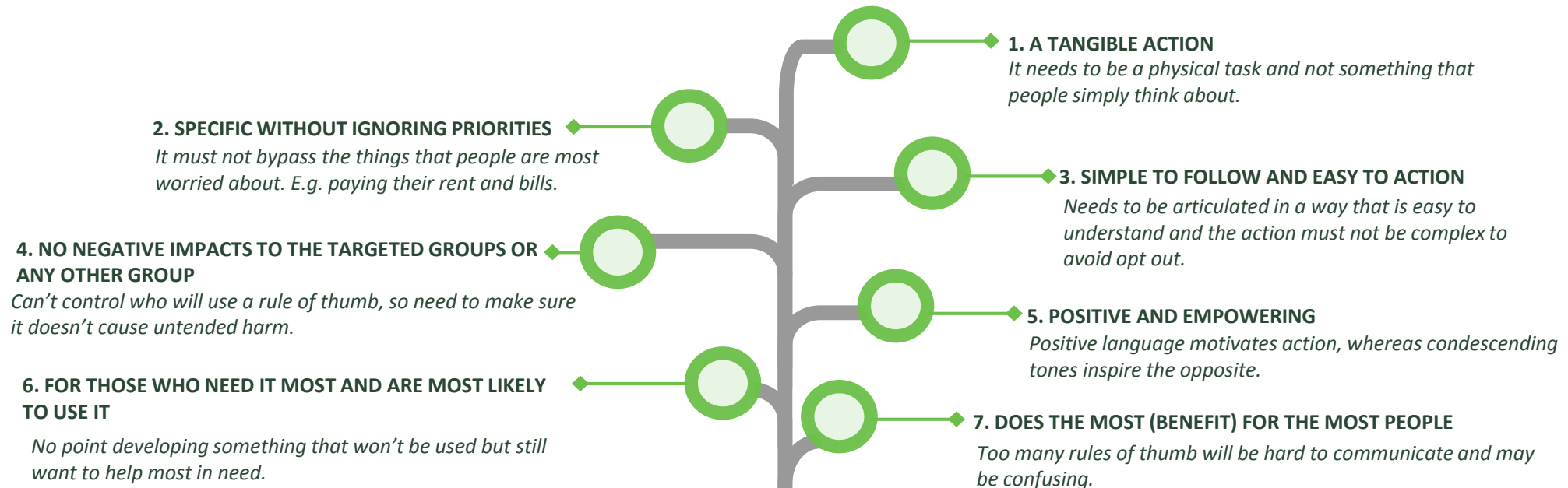
Job loss – 'Me time'

"I knew I had to do something as soon as I heard the news: I've never been able to save, so I had nothing."

Job loss – 'Strategic future planner'

Developing a rule of thumb

Participants agreed that budgeting is the first most important action to take. But the idea of drawing up a budget may feel off putting. The challenge is to create a budgeting RoT that feels achievable, but not at the expense of substance - nor can it insult people's intelligence. It needs to tackle main priorities and not avoid the 'elephant in the room' such as rent or mortgage payments. The following development principles have been considered when developing the RoT:



An initial proposed Rule of Thumb, for further testing, if your income drops after a negative life event...

*“Look at your bank statements and mark what to **Keep** or **Change**. **Plan** what to do now and later, then take a moment to **Breathe**..”*

RoT core elements & considerations:



LOOK

- A low commitment first step that triggers the following actions.
- ! Some may need to be encouraged to ‘connect’ and ask someone they trust to help.

KEEP

- Encourages people to first look at what they want/need to keep.
- ! This step must look at the essentials for daily living (e.g. rent/mortgage payments) and self-care (e.g. therapy).

CHANGE

- Helps people identify what they could do to reduce.
- ! Need to get people to consider what they could swap/shop around for and what they could completely cut out.

PLAN

- A prioritisation task to help people decide when they could act.
- ! To avoid feeling overwhelmed, it will be important to get them to think about what feels achievable today vs. in a month/six months.

BREATHE

- A rewarding time to focus on what is most important in life and think about big decisions before taking action.
- ! An essential step to give people a chance to get back to other priorities (e.g. children), but they also need to be encouraged to take this time to reflect and ‘sleep on’ big decisions (e.g. moving home) they may have identified so they do not take any rash decisions.



Considerations for communicating this Rule of Thumb

We need to communicate the following ingredients of the Rule of Thumb:

- Simple, concrete and achievable first step action → look at bank statements
- Simplicity of the steps that can be repeated
- A positive outcome = breathing space and time to focus on priorities.

Potential core elements to use as a ‘shorthand’ for this Rule of Thumb:

LOOK AT YOUR BANK STATEMENT(S), PLAN YOUR CHANGES AND BREATHE

LOOK | CHANGE | BREATHE

LOOK SO YOU CAN PLAN, SO YOU CAN BREATHE

LOOK – KEEP – SWAP

People would also benefit from a follow up checklist to complete when they are ready

Respondents are reassured by the idea of a checklist as it provides them with other opportunities to adjust to their situation, they believe the checklist should:

- Be there for people after they have completed the Rule of Thumb. They can start working through it whenever they are ready, it doesn't have to be done in order, and they can return to it if they need to take a break.
- Put people in touch and in control of their finances
- Include more complex, but effective tasks
- Buy people time
- Be available to do at any time and easy to return to if 'life gets in the way' (e.g. emotional relapses)
- Provide a sense of achievement and help them on a path to being more transparent and honest with themselves about their money

There are three core areas the check list should focus on:

Reducing outgoings

- These should be specific actions for people to complete.
- Offer specific ideas to start them off.
- It is also an opportunity to remind them to look at what they could do today vs in the future.

Increasing support and incomings

- These should encourage people to see what they are entitled to and claim. Whether that's benefits, insurance, support, advice etc.
- There should also be suggestions for other effective ways to increase income.

Reward and celebration

- To remind people that the steps they have taken are positive and *worth it*.
- Providing a sense of achievement and incentive to repeat the cycle again in the future.

"I think a checklist will be an extra thing that I can work through and keep going back to when I'm ready. I see it as a guidance to taking action on the things I need to change." **Mental illness – 'Deer in Headlights'**

"The checklist is like a back up guide if you need it. Maybe I could do these things straight after looking at what I can keep and cut, but I need the opportunity to come back to it at any time." **Job loss – 'Escapist'**

Socialising the RoT through experienced and trusted messengers will be crucial for its success

Respondents feel the RoT should come from a range of people they trust that have also been through an income drop as a result of a life event. This will help to ensure a deeper level of trust in the RoT through increased credibility. Respondents are able to see where a messenger could have given them advice on a first step to take with their money: midwives, doctors/GPs, job centre - all would have a role in socialising the Rule of Thumb.

- The most trusted have been through something similar and come out the other side.
- Banks and employers, as in the diagram below, occupy an ambiguous middle ground – banks are trusted enough to look after one’s money, but often assumed to be aligned with creditors rather than the public, and employers can be the cause of an income drop. People’s own relationship with their bank and employer ultimately affect trust.

