

# Welcome to the Center for Financial Security 2011 Webinar Series

1. Welcome: Introductions
  - Moderator – Karen Murrell
2. Presentation:  
**Who Gets Advice and Counseling on Personal Financial Issues?**
  - Presenter – J. Michael Collins
3. Discussants:
  - Donna Taglianetti
  - Emily Waterbury
4. Question and Answer: Open to All
  - Moderator – Karen Murrell



# Who Gets Advice and Counseling on Personal Financial Issues?

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# Overview

- What are advice models?
- Who are advice providers? For whom?
- What role does advice play?
- What kinds of advice exist?
- Does advice make a difference?
- Who takes up advice?

# Framework

## Financial Capacity Building

### Information Models

- Disclosures
- Print/Web
- Interactive Web
- Workshops
- One:One
- Reminders

### Advice Models

- Technical expert (credentialed)
- Transactional guide (may have sales focus)
- Counseling (acute problem solving)
- Coaching

### Mechanism Models

- Defaults
- Automatic Deposit
- Product constraints

# Technical Experts

- Experts on narrow topic
- Objective advisors – unbiased ‘pure’ advice
- Credentialed
- Costly

# Rationales

The cost of obtaining financial information may be lower for individuals who work with advisors.

Advisors can help individuals avoid making cognitive mistakes.

Advisors' services may simply be a less costly substitute when clients' own time and effort are more valuable than the total costs of using advisor.

# Mixed Evidence...

- Past studies show people who seek investment advice are often among the most financial capable (wealthiest, most educated, etc)
- Tax advice may help people avoid tax mistakes.
- Costs of advisors may be greater than any gains
- Hard to assess because:
  - Who seeks advice matters
  - ‘Advice’ ranges from investment choice, tax, estate and other forms of technical information –
  - Maybe the case that more technical = more valuable

# Transactional Agents

- Focused on a specific transaction
- Many examples
  - Sales, broker, real estate agent, insurance agent, etc..
- Weaker Credentials
- Self-regulation
- Costly?
- Biased...at least potentially

# Conflict of Interest?

- Sales agents are part of a “repeated game”
  - reputation risk matters
- Fiduciary duty role?
- Advisors are compensated in a variety of ways
- ‘Fee-only’ advisors?
  - Rare
  - Billing for advice maybe tricky

# Financial Counselors

- Focus: Acute problem solving
  - Basic financial management
  - Intervention model
- Strong nonprofit role
  - Public subsidies
- Not (generally) compensated by pushing particular financial products

# Counselors

- Counselors assist clients when emotional stress is distorting their financial decision-making
- Seems that counseling helps on credit and foreclosure issues
- Experiments lacking

# Financial Coaching

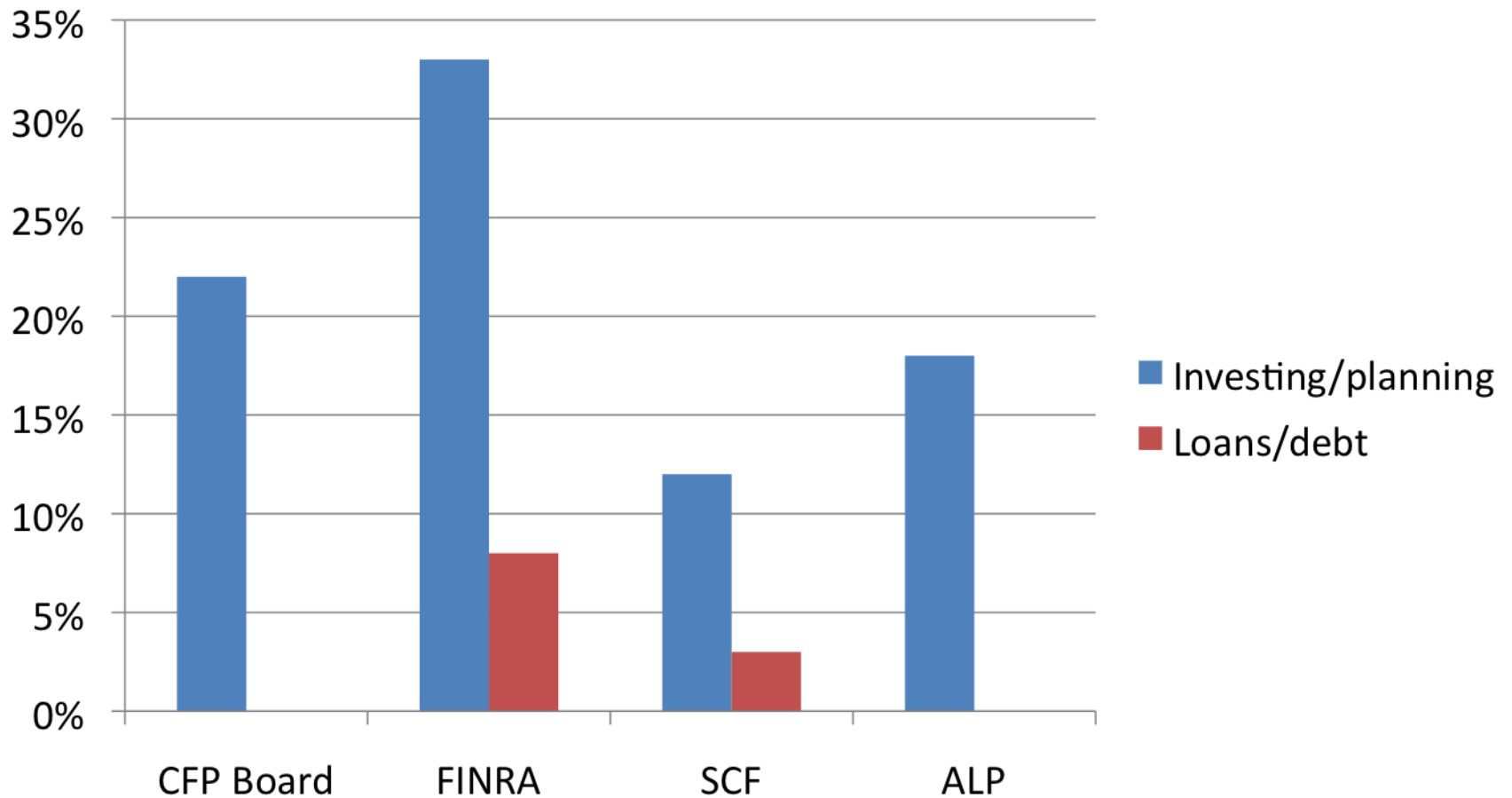
- Performance improvement
  - Goal-based
  - Client directed
- Coach may not be an expert
- Focus on self-control & monitoring
- Self-actualization
  - Implementation / Adherence

# Past Studies...

- Technical expert role
  - But few exist in market
  - What value is in practice? babysitter?
- Many advisors are transactional
  - Problem or not?
- Counseling
  - Crisis focused; subsidized
- Coaching
  - Self- control and executive attention

# Lot we don't know

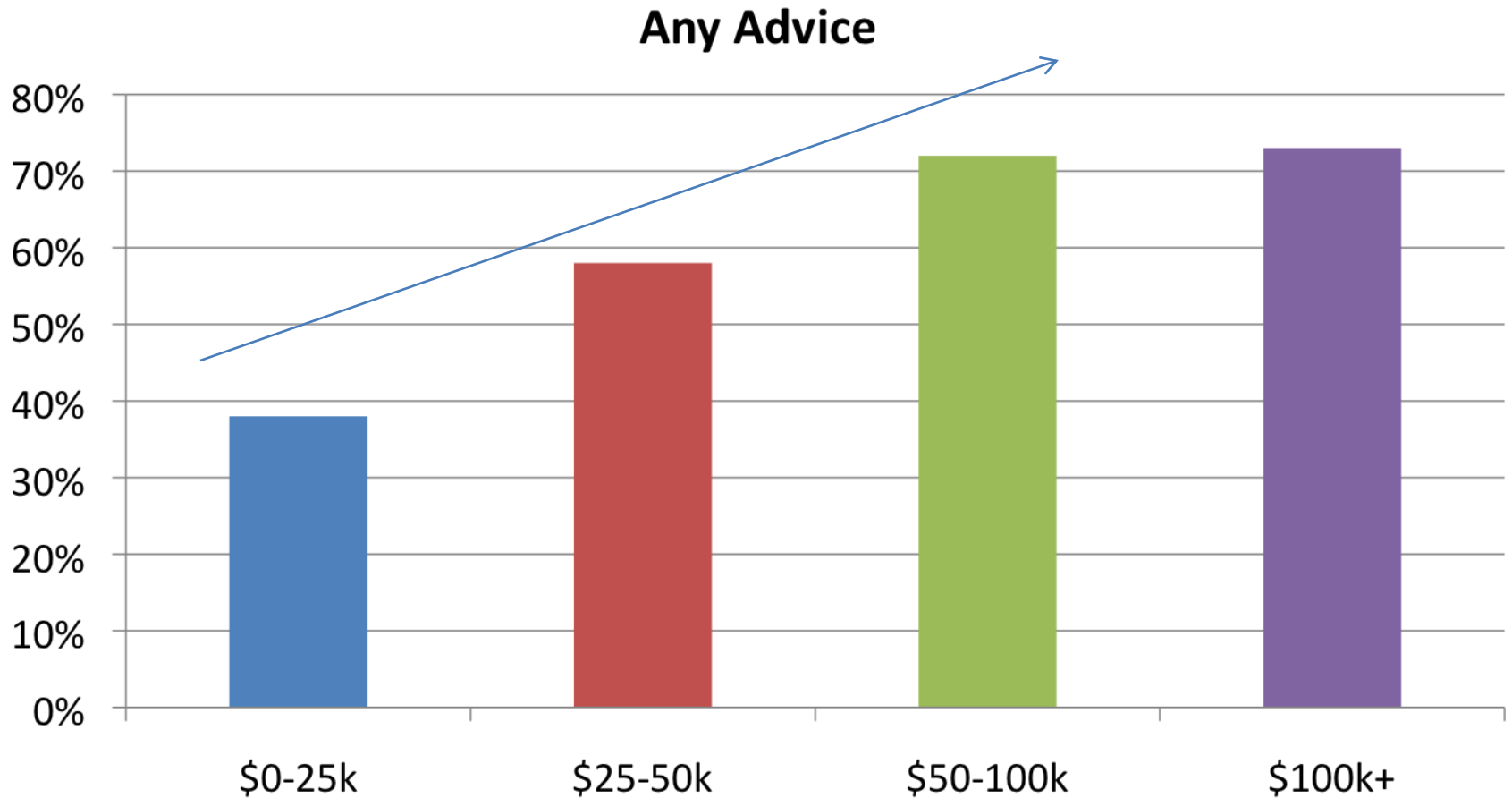
## Ex: Take Up of Advice



# Current Study

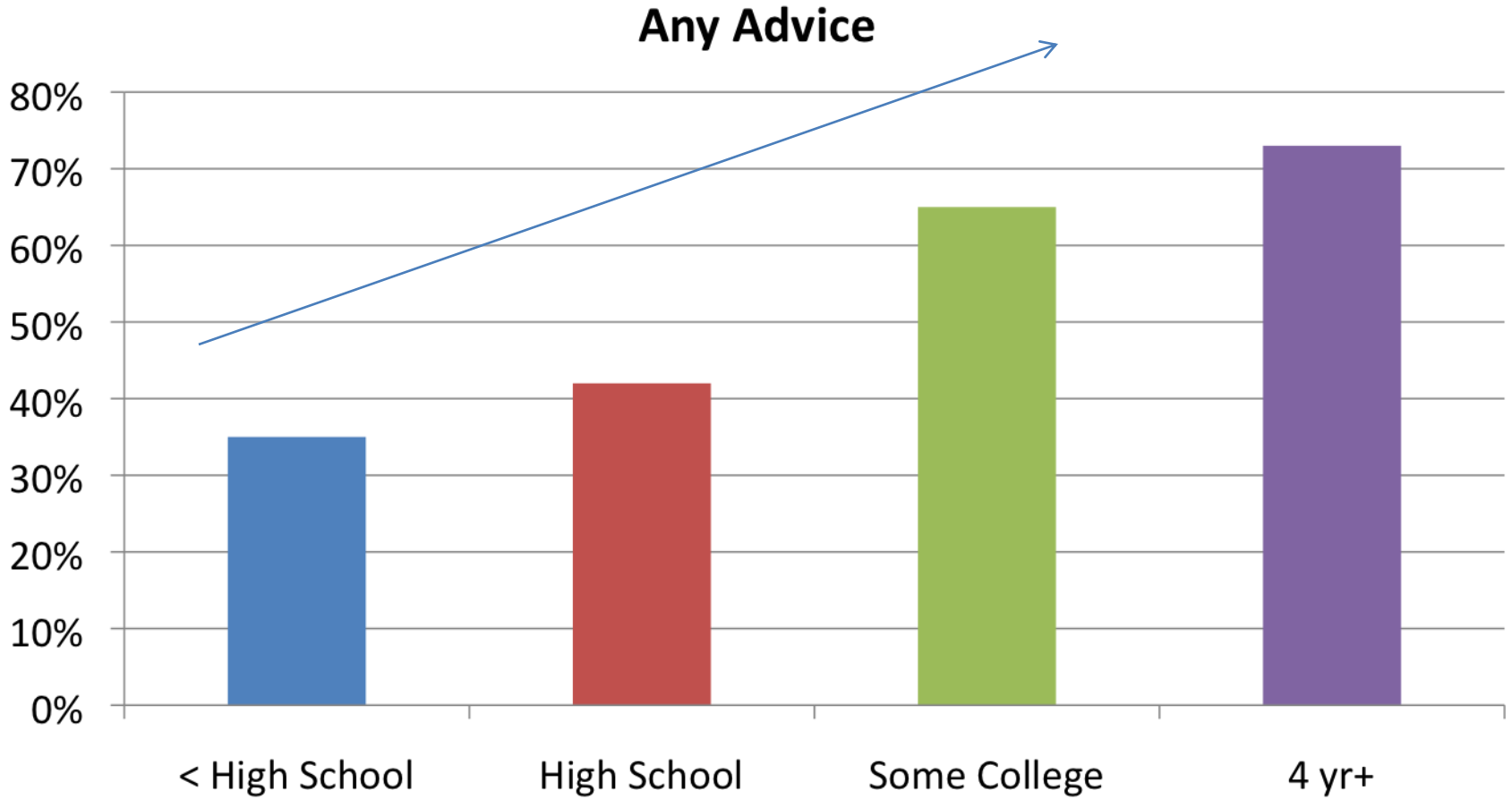
- Who takes up advice?
- People with financial literacy deficits or high capacity?
  - Data source
    - FINRA National Financial Capability Survey
    - Telephone survey of 1,488 individuals
    - Respondents asked if they sought advice, from what kind of advisor, and how they felt about financial advisors

# Who received advice?



Source: Tabulations of FINRA National Financial Capability Survey

# Who received advice?



Source: Tabulations of FINRA National Financial Capability Survey

# Findings—Take Up of Advisors

Factor	Debt Advisor	Investment Advisor	Loan Advisor	Insurance Advisor	Tax Advisor
Gender	--	Male ↓	Male ↓	Male ↓	--
Income	↑	↑	↑	↑	↑
Education	--	↑	--	↑	--
Race	--	Asian ↓	--	African American ↑	Hispanic ↓
Financial Literacy Score	--	↑	--	↑	↑
Income Drop	↑	↑	--	↑	↑
Homeowner	↓	--	↑	--	--

Source: Tabulations of FINRA National Financial Capability Survey

# Attitudes Toward Financial Advisors

Factor	Trust advisor	Advisor too expensive	Met multiple advisors
Gender	Male ↓	--	Male ↑
Income	--	↓ as income increases	↑ as income increases
Education	↑	--	--
Race	--	Asian ↑	--
Income Drop	↓	--	--
Homeowner	↓	--	--

Source: Tabulations of FINRA National Financial Capability Survey

# Conclusions

- Advice models have potential
- Proposed general framework of complements
- Compensation schemes may matter
- Little empirical evidence
- Advice going to those with most capability – babysitter model?
  - Context may matter – planning vs. trigger event

# Implications / Next steps

- Understanding psychology of advice
- Examine Fiduciary Duty (CFPB/Dodd Act)
- Field experiments needed
  - Beyond portfolio measures
- Better understanding of counseling needed
- Coaching has emerging potential to support self control; again need empirical work



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# Questions and Answers?

Thank You for your participation in  
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