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?

The research reported herein was performed pursuant to a grant from the U.S. Social Security Administration (SSA) funded as part of the Financial Literacy Research Consortium (SSA Grant: FLFC 19-F-10003-5-01 to the University of Wisconsin Board of Regents). The opinions and conclusions expressed are solely those of the author(s) and do not represent the opinions or policy of SSA or any agency of the Federal Government or of the University of Wisconsin System, including Center for Financial Security.
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

![Bar chart showing the percentage of CFP Board, FINRA, SCF, and ALP in investing/planning and loans/debt.](chart.png)
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

<table>
<thead>
<tr>
<th>Factor</th>
<th>Debt Advisor</th>
<th>Investment Advisor</th>
<th>Loan Advisor</th>
<th>Insurance Advisor</th>
<th>Tax Advisor</th>
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<td>Asian ↓</td>
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<td>African American ↑</td>
<td>Hispanic ↓</td>
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<tr>
<td>Financial Literacy Score</td>
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<td>Income Drop</td>
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<tr>
<td>Homeowner</td>
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*Source: Tabulations of FINRA National Financial Capability Survey*
## Attitudes Toward Financial Advisors

<table>
<thead>
<tr>
<th>Factor</th>
<th>Trust advisor</th>
<th>Advisor too expensive</th>
<th>Met multiple advisors</th>
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<tbody>
<tr>
<td>Gender</td>
<td>Male ↓</td>
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<td>Male ↑</td>
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<td>Income</td>
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<td>↓ as income increases</td>
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*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 the Center for Financial Security 2011 Webinar Series.

For more information:
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