

The demand for financial professionals' advice: The role of financial knowledge, satisfaction, and confidence

Cliff A. Robb,^{a,*} Patryk Babiarz,^b Ann Woodyard^c

^a*Institute for Personal Financial Planning, Kansas State University, 313 Justin Hall,
Manhattan, KS 66506, USA*

^b*Department of Consumer Sciences, University of Alabama, 310 Adams Hall, Box 870158,
Tuscaloosa, AL 35487, USA*

^c*Department of Consumer Sciences, University of Alabama, 301 Adams Hall, Box 870158,
Tuscaloosa, AL 35487, USA*

Abstract

Using a large, nationally representative sample provided by the Financial Industry Regulatory Authority (FINRA), individuals' use of professional planning advice is analyzed in the context of personal financial knowledge (objective and subjective), financial satisfaction, risk tolerance, and selected sociodemographic variables. The results indicate that different characteristics are associated with individuals using different types of financial advice (e.g., debt counseling vs. investment planning, or tax assistance). In general, financial knowledge (both objective and subjective) and satisfaction are positively related to using any type of financial advice, and specifically with using advice related to investing and saving, mortgage decisions, insurance, and tax planning. In contrast, knowledge and satisfaction are inversely related to the use of debt counseling. Other interesting relationships are noted among the demographic variables of interest, and implications for planners and policymakers are discussed. © 2012 Academy of Financial Services. All rights reserved.

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* Corresponding author. Tel.: +1-785-532-1407; fax: +1-785-532-5505.

E-mail address: cliffrobb@ksu.edu (C. Robb)

1. Introduction

Financial issues related to the allocation of scarce resources are known stressors for American families (Dew, 2008; Pittman and Lloyd, 1988; Zagorsky, 2003). Changes in the social contract between employer and employee regarding retirement funding (Westerman and Sundali, 2005), uncertainty in health care policy, increasing complexity in the tax code, an ever-broadening spectrum of financial products and services, a choice of over 8,000 mutual funds and nearly 1,000 exchange traded funds (Investment Company Institute, 2011) all add to the elaborate array of information facing families making important decisions regarding the use and allocation of financial resources. Additionally, the trend in increasing income inequality in the United States has been associated with greater levels of household debt and mortality, and lower levels of self-reported well-being (Dynan and Ravina, 2007; Lacoviello, 2008; Wilkinson and Pickett 2008).

The magnitude, multitude, and complexity of these financial decisions have caused many households to seek outside assistance. Sometimes a specific event will lead a family to look for advice from a financial professional; an unexpected job change, an addition to the family, an inheritance. In other cases, the impetus to seek a financial professional can be sourced internally, such as the realization that retirement is looming, debt is taking over the family budget, or that the tax code has attained a level of complexity that the household finds intimidating. Regardless of the initial trigger, a large percentage of families rely on outside assistance in making family financial decisions.

Given the significant growth of the financial sector, particularly in the area of personal financial advice, the literature that explores the determinants of seeking financial assistance is relatively sparse. The available studies focus on estimating the size, as well as general demographic and economic descriptors of the segments of consumers who seek professional financial advice (e.g., Elmerick, Montalto, and Fox, 2002; Chang, 2005; Hanna, 2011). Some recent studies point to the fact that certain psychological factors (e.g., financial satisfaction, risk tolerance), as well as financial knowledge may be related to the decision to seek professional financial assistance (Grable and Joo, 2001; Perry and Morris, 2005; Lusardi and Mitchell, 2007; Finke, Huston, and Winchester, 2011).

The goal of the present study is to examine the correlations between the use of professional advice in various areas of personal finance and factors such as financial satisfaction, subjective and objective financial knowledge, and risk attitude. The study utilizes a rich data set collected by the Financial Industry Regulatory Authority (FINRA) during the recent National Financial Capability Study (NFCS).

2. Background

Data from 2010 indicated that roughly 28% of Americans used a financial planner or adviser, with a larger percentage indicating that planners have become more important in recent years (Certified Financial Planner Board of Standards, 2010). This change in sentiment is likely the result, at least in part, of the recent financial climate. Americans who used financial planners were more likely to state that they feel more prepared for their financial

futures when compared to Americans who did not use a planner, and having a financial plan was associated with greater confidence in economic recovery (Certified Financial Planner Board of Standards, 2010, 2011). In 2011, a strong majority (82%) of Americans sampled agreed that everyone should have a financial plan, but the number of individuals who report having an official (written) plan is less than half that (Certified Financial Planner Board of Standards, 2011).

As in all economic decision-making, financial decisions require households to consider the relevant trade-offs between individual decision-making (time intensive) and professional advice (resource intensive). Not surprisingly, previous studies noted that wealthier households were more likely to use professional advice, whereas less wealthy households might rely on more informal social networks (Chang, 2005). Not only do wealthier individuals have more resources available to pay for professional advice, but the benefits associated with effective financial decisions also increase with assets (Hanna and Lindamood, 2009). Further, as choices become more complicated and options become more numerous, the costs associated with individual decision-making increase as the necessary time and knowledge required to make an informed decision increases. In general, theorists have suggested that the demand for financial planning services or advice should be related to the number and complexity of financial decisions that a particular household faces (Peterson, 2006).

People obtain financial advice from a number of sources (including accountants, attorneys, stockbrokers, financial planners, and bankers) and the type of adviser selected varies based on needs and sociodemographic factors. Elmerick et al. (2002) indicated that roughly one-fifth of Americans reported the use of some sort of financial service based on the 1998 Survey of Consumer Finances (SCF). Demand for financial services was further divided into categories of credit or borrowing, saving and investment, and comprehensive planning advice. The use of comprehensive advice was positively associated with education of the household head, income, net worth, and financial assets (Elmerick et al., 2002). Hanna (2011) used data from the SCF to assess the degree to which financial risk tolerance influences the decision to use financial planning services. Hanna (2011) noted an interesting relationship, as individuals with greater levels of risk tolerance (less risk averse) were more likely to take advantage of financial planning services when compared with individuals with lower risk tolerance (more risk averse). Other studies indicated a positive association between use of financial services and age (Bluethgen, Gintschel, Hackethal, and Mueller, 2008; Joo and Grable, 2001), self-employment (Miller and Montalto, 2001), and wealth (Bluethgen et al., 2008; Chang, 2005). An analysis of help seeking behavior of university faculty suggested that certain psychological factors, such as financial satisfaction might be related to the decision to seek professional financial assistance (Grable and Joo, 2001). Previous research also identified an important role of cultural differences. For example, minorities often lack financial experience or may have issues trusting expert financial advice (Chang, 2005; Perry and Morris, 2005). Gender differences in experience and confidence have been noted as well, as women tend to be less confident than men and report lower levels of experience with personal financial matters (Barber and Odean, 2001; Estes and Hosseini, 1988).

Using a proprietary data set, Finke, Huston, and Winchester (2011) analyzed the degree to which consumers demand comprehensive versus transaction-based advice-supported fi-

financial planning services. As in earlier research, comprehensive financial planning was associated with higher levels of education, wealth, income, and greater financial knowledge. Individual financial knowledge is an interesting variable for analysis, as the theoretical impact of knowledge could arguably be positive or negative. Other studies that assessed the role of knowledge indicated that greater knowledge either increases one's awareness of the need for assistance and the potential costs of poor decisions or emboldens individuals to make their own financial decisions (Lusardi and Mitchell, 2007; Perry and Morris, 2005). Finke et al. (2011) used a single item measure of subjective financial knowledge, as respondents were coded based on whether they agreed or disagreed with the statement, "I understand financial-related issues."

The analysis of the demand for professional financial advice is further complicated by the fact that many client-planner relationships may be driven in large part by planners who actively seek out desirable clientele. Moreover, whereas many of the existing studies discuss the concept of demand for financial advice, it is possible that the affects are going in the opposite direction in some cases. For example, it is fairly obvious that in the process of being advised, individuals build their knowledge and skills. Research in this area has only begun to scratch the surface, as previous studies rely on data that are limited in scope (cross-sectional) and content (available sample and variables). The present analysis uses a large, nationally representative sample to analyze the use of financial professionals in the context of financial knowledge (both objective and subjective), confidence, satisfaction, risk attitude, and a number of other key sociodemographic variables.

3. Methodology

In 2009, the FINRA Investor Education Foundation commissioned a NFCS. The objectives of the NFCS survey were to benchmark key indicators of the U.S. population's financial capability and evaluate how these indicators vary with demographic, behavioral, attitudinal, and financial literacy characteristics. The NFCS consists of three separate but related surveys conducted online: a national survey, a state-by-state survey, and a military survey. This analysis uses the state-by-state dataset, which contains information collected from approximately 500 respondents per state. The working sample consists of 28,146 individuals.

The present analysis is concerned with understanding which factors are related to the use of professional advice in the area of personal finances. A series of logistic regressions are estimated to measure the correlations between the use of financial professionals and various sociodemographic variables.

3.1. Dependent variables

Use of financial professionals is based on the following NFCS question: "*In the last 5 years, have you asked for any advice from a financial professional about any of the following?*" asked in the contexts of "*debt counseling,*" "*savings or investments,*" "*taking out a mortgage or a loan,*" "*insurance of any type,*" and "*tax planning.*" For each of the specific behaviors, a binary indicator variable is created that equals one if the individual provides a

positive response, and zero otherwise. Further, a composite binary indicator variable equal to one is generated should respondents provide a positive response for any of the given behaviors, zero otherwise.

3.2. *Independent variables*

Estimations of use of financial professional services include measures of financial knowledge, confidence, satisfaction, and subjective risk attitude, in addition to race, gender, marital status, income, unexpected income shock, labor-force participation, age, education, and census region of residence.

Financial knowledge is based on responses to five questions included in the NFCS, which are designed to test individuals' understanding of key financial concepts such as compounding interest, inflation, bond pricing, mortgages, and portfolio diversification. The number of correct answers is summed, and higher scores indicate greater levels of financial knowledge.

Four subjective statements related to an individual's subjective financial knowledge comprise the measure of financial confidence. Individual responses are measured on a seven-point Likert-type scale, with higher average response rates indicating greater subjective financial knowledge or confidence. Financial satisfaction is measured using the question: "Overall, thinking of your assets, debts and savings, how satisfied are you with your current personal financial condition?" Responses are measured on a 10-point scale, with 1 signifying "not at all satisfied," and 10 indicating "extremely satisfied." Self-reported risk attitude is measured based on responses to the following question: "When thinking of your financial investments, how willing are you to take risks?" Responses are measured on a 10-point scale, with 1 signifying "not at all willing" and 10 indicating that respondents are "very willing" to take on financial risks. Coding for the other independent variables of interest is detailed in Table 1.

4. Results

4.1. *Descriptive statistics*

Table 2 reports descriptive statistics for the full sample and for each of the subsamples consisting of individuals who sought specific types of financial advice. Exactly 53% of respondents report using some type of professional financial advice within the five-year period preceding the NFCS interview. The advice sought most frequently pertained to insurance (32% of respondents) and saving or investing (30%). Almost a quarter of the respondents sought advice about a mortgage or a loan, over 17% reported asking for advice on tax planning, and about 10% reported the receipt of debt counseling.

The average financial knowledge of the sampled respondents on a scale of 0 to 5 equals 3.13 with the median score of 3.0 (for brevity, median statistics are not reported in tables). The lowest level of financial knowledge is observed among individuals who seek debt counseling (average of 2.99), whereas the highest level is noted among individuals who

Table 1 List of variables

Variable	Coding
Dependent variables	
Asked for any advice	=1 if respondent asked for any advice from financial professional in the past 12 months; =0 otherwise.
Asked for advice about debt counseling	=1 if respondent asked for advice about debt counseling from financial professional in the past 12 months; =0 otherwise.
Asked for advice about saving or investing	=1 if respondent asked for advice about saving or investing from financial professional in the past 12 months; =0 otherwise.
Asked for advice about mortgage or loan	=1 if respondent asked for advice about taking out a mortgage or a loan from financial professional in the past 12 months; =0 otherwise.
Asked for advice about insurance	=1 if respondent asked for advice about insurance from financial professional in the past 12 months; =0 otherwise.
Asked for advice about tax planning	=1 if respondent asked for advice about tax planning from financial professional in the past 12 months; =0 otherwise.
Independent variables	
Financial knowledge	Sum of correct answers to the following questions: 1) "Suppose you had \$100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow?" (Answers: a. "More than \$102," b. "Exactly \$102," c. "Less than \$102"). 2) "Imagine that the interest rate on your savings account was 1% per year, and inflation was 2% per year. After 1 year, how much would you be able to buy with the money in this account?" (Answers: a. "More than today," b. "Exactly the same," c. "Less than today"). 3) "If interest rates rise, what will typically happen to bond prices?" (Answers: a. "They will rise," b. "They will fall," c. "They will stay the same," d. "There is no relationship between bond prices and the interest rates"). 4) "A 15-year mortgage typically requires higher monthly payments than a 30-year mortgage, but the total interest paid over the life of the loan will be less." (Answers: a. "True," b. "False," c. "Don't know"). 5) "Buying a single company's stock usually provides a safer return than a stock mutual fund." (Answers: a. "True," b. "False," c. "Don't know").
Financial confidence	Average of the responses to the following questions (responses were measured using a 7-point Likert-type scale with 1 indicating "Strongly disagree," 4 indicating "Neither agree nor disagree," and 7 indicating "Strongly agree"): 1) "I am good at dealing with day-to-day financial matters such as checking accounts, credit and debit cards, and tracking expenses." 2) "I am pretty good at math." 3) "I regularly keep up with economic and financial news." 4) "On a scale from 1 to 7, where 1 means very low and 7 means very high, how would you assess your overall financial knowledge?"

Table 1 List of variables (continued)

Variable	Coding
Financial satisfaction	Response to the following question: “Overall, thinking of your assets, debts and savings, how satisfied are you with your current personal financial condition?” Responses were measured using a 1–10 scale, with 1 signifying “Not at all satisfied,” and 10 noting “Extremely satisfied.”
Attitude towards risk	Response to the following question: “When thinking of your financial investments, how willing are you to take risks?” Responses were measured using a 1–10 scale, with 1 signifying “Not at all willing,” and 10 noting “Very willing.”
Respondent is white	=1 if respondent is white; =0 otherwise
Female	=1 if respondent is female; =0 otherwise
Married	=1 if respondent is married; =0 otherwise
Respondent’s (household) income	
Income less than \$15K	=1 if respondent’s (household) household income is less than \$15,000
At least \$15K and less than \$25K	=1 if respondent’s (household) income falls into \$15,000–\$24,000 range
At least \$25K and less than \$35K	=1 if respondent’s (household) income falls into \$24,999–\$35,000 range
At least \$35K and less than \$50K	=1 if respondent’s (household) income falls into \$34,999–\$50,000 range
At least \$50K and less than \$75K	=1 if respondent’s (household) income falls into \$49,999–\$75,000 range
At least \$75K and less than \$100K	=1 if respondent’s (household) income falls into \$74,999–\$100,000 range
At least \$100K and less than \$150K	=1 if respondent’s (household) income falls into \$99,999–\$150,000 range
\$150K and greater	=1 if respondent’s (household) income is more than \$150,000
Income shock	=1 if the respondent (household) experienced a large unexpected drop in income in the past 12 months; =0 otherwise
Labor force participation	
Works full-time	=1 if the respondent works full-time; =0 otherwise
Works part-time	=1 if the respondent works part-time; =0 otherwise
Self employed	=1 if the respondent is self-employed; =0 otherwise
Homemaker	=1 if the respondent is a homemaker; =0 otherwise
Student	=1 if the respondent is a student; =0 otherwise
Disabled	=1 if the respondent is disabled; =0 otherwise
Unemployed	=1 if the respondent is unemployed; =0 otherwise
Retired	=1 if the respondent is retired; =0 otherwise
Respondent’s age	
18–24	=1 if respondent is between 18 and 24 years old; =0 otherwise
25–34	=1 if respondent is between 25 and 34 years old; =0 otherwise
35–44	=1 if respondent is between 35 and 44 years old; =0 otherwise
45–54	=1 if respondent is between 45 and 54 years old; =0 otherwise
55–64	=1 if respondent is between 55 and 64 years old; =0 otherwise
65 or older	=1 if respondent is over 65 years old; =0 otherwise
Respondent’s education	
No high school	=1 if respondent did not complete high school; =0 otherwise
High school	=1 if respondent completed high school; =0 otherwise
Some college	=1 if respondent has some college experience; =0 otherwise
College	=1 if respondent completed college; =0 otherwise
Post-grad	=1 if respondent completed post graduate education; =0 otherwise

Table 1 List of variables (continued)

Variable	Coding
Census region of residence	
New England	=1 if respondent's region of residence is New England; =0 otherwise
Mid Atlantic	=1 if respondent's region of residence is Mid Atlantic; =0 otherwise
EN Central	=1 if respondent's region of residence is East North Central; =0 otherwise
WN Central	=1 if respondent's region of residence is West North Central; =0 otherwise
S Atlantic	=1 if respondent's region of residence is South Atlantic; =0 otherwise
ES Central	=1 if respondent's region of residence is East South Central; =0 otherwise
WS Central	=1 if respondent's region of residence is West South Central; =0 otherwise
Mountain	=1 if respondent's region of residence is Mountain; =0 otherwise
Pacific	=1 if respondent's region of residence is Pacific; =0 otherwise

demand advice on saving or investing (3.47) and tax planning (3.45). The average financial confidence measured on a scale of 1 to 7 equals 5.22 (median 5.5). Respondents seeking debt counseling are the least confident about their financial abilities (5.09), whereas respondents looking for other types of financial professionals' advice are more confident (average score ranging between 5.39 and 5.53). The average satisfaction with ones' current financial condition equals 4.51 (median 4.0 on a 10-point scale), with the average responses varying from 3.48 for individuals seeking debt counseling to 5.27 for individuals who demand advice on tax planning.

Table 2 provides additional information on the demographic and socio-economic makeup of the sample, including variables such as subjective risk tolerance, age, education, race, gender, marital status, household income, income shocks, labor force participation, and census regions of residence.

4.2. Multivariate analysis

Table 3 reports the estimation results of the six logistic regression models. The dependent variables used in these specifications are binary indicators for seeking any type of professional financial advice, and for demanding advice specifically related to debt counseling, saving or investing, taking out a mortgage or a loan, insurance purchase, and tax planning. Estimates show that the correlations between the probability of seeking any type of professional financial advice and variables measuring financial knowledge, confidence, and satisfaction are not indicative of the correlations measured in the specific context of the type of advice sought. For example, financial knowledge and financial confidence are significantly and positively correlated with the propensity to request professional advice. However, the magnitudes, as well as the directions of these correlations, differ across types of advice. Similarly, although financial satisfaction appears to have no significant effect on the overall

Table 2 Descriptive statistics, $N = 28,146$

Variable	Total sample	Asked for advice about:				
		Debt counseling	Saving or investing	Mortgage or loan	Insurance	Tax planning
Asked for any advice	0.5300	1.0000	1.0000	1.0000	1.0000	1.0000
Asked for advice about debt counseling	0.1038	1.0000	0.1626	0.2029	0.1877	0.1898
Asked for advice about saving or investing	0.3024	0.4754	1.0000	0.5225	0.5844	0.7077
Asked for advice about mortgage or loan	0.2486	0.4874	0.4289	1.0000	0.4781	0.4689
Asked for advice about insurance	0.3231	0.5856	0.6226	0.6194	1.0000	0.6629
Asked for advice about tax planning	0.1743	0.3222	0.4075	0.3291	0.3592	1.0000
Financial knowledge	3.13	2.99	3.47	3.41	3.32	3.45
Financial confidence	5.22	5.09	5.52	5.39	5.43	5.53
Financial satisfaction	4.51	3.48	5.23	4.54	4.70	5.27
Attitude towards risk	4.34	4.63	5.13	4.84	4.76	5.17
Respondent is white	0.6851	0.5861	0.7144	0.7104	0.7077	0.7083
Female	0.5133	0.5200	0.4997	0.5168	0.5173	0.4996
Married	0.6132	0.6458	0.6770	0.7429	0.6944	0.7241
Respondent's (household) income						
Income less than \$15K	0.1459	0.1066	0.0707	0.0548	0.0803	0.0554
At least \$15K and less than \$25K	0.1318	0.1457	0.0899	0.0871	0.1106	0.0838
At least \$25K and less than \$35K	0.1295	0.1522	0.1042	0.1024	0.1196	0.0898
At least \$35K and less than \$50K	0.1614	0.1745	0.1499	0.1612	0.1634	0.1410
At least \$50K and less than \$75K	0.1872	0.2170	0.2165	0.2301	0.2083	0.2151
At least \$75K and less than \$100K	0.1074	0.1041	0.1412	0.1488	0.1279	0.1464
At least \$100K and less than \$150K	0.0881	0.0691	0.1399	0.1363	0.1155	0.1487
\$150K and greater	0.0486	0.0308	0.0876	0.0793	0.0744	0.1197
Experienced an income shock	0.4062	0.5805	0.4072	0.4298	0.4424	0.4371
Labor force participation						
Works full-time	0.3609	0.4353	0.4001	0.4578	0.4021	0.3821
Works part-time	0.0978	0.0942	0.0930	0.0802	0.0936	0.0977
Self employed	0.0807	0.0992	0.1029	0.1034	0.1060	0.1327
Homemaker	0.0895	0.0809	0.0707	0.0957	0.0857	0.0828
Student	0.0583	0.0439	0.0469	0.0338	0.0360	0.0385
Disabled	0.0423	0.0438	0.0219	0.0300	0.0368	0.0140
Unemployed	0.0980	0.1027	0.0635	0.0694	0.0753	0.0667
Retired	0.1725	0.1001	0.2010	0.1296	0.1645	0.1855
Respondent's age						
18–24	0.1352	0.1036	0.1011	0.0910	0.0907	0.0986
25–34	0.1708	0.2517	0.1670	0.2160	0.1858	0.1860
35–44	0.1828	0.2282	0.1651	0.2214	0.1918	0.1781
45–54	0.1960	0.2147	0.1869	0.2063	0.2151	0.1859
55–64	0.1631	0.1250	0.1880	0.1502	0.1741	0.1793
65 or older	0.1520	0.0768	0.1919	0.1151	0.1426	0.1721
Respondent's education						
No high school	0.0348	0.0256	0.0153	0.0156	0.0198	0.0167
High school	0.2932	0.2677	0.2036	0.2204	0.2352	0.1924
Some college	0.4193	0.4504	0.4134	0.4214	0.4224	0.3914
College	0.1586	0.1656	0.2070	0.2066	0.1920	0.2147
Post grad	0.0940	0.0907	0.1608	0.1360	0.1307	0.1849
Census region of residence						
New England	0.0484	0.0417	0.0513	0.0478	0.0468	0.0512
Mid Atlantic	0.1364	0.1299	0.1402	0.1117	0.1213	0.1428
EN Central	0.1529	0.1562	0.1566	0.1544	0.1547	0.1553
WN Central	0.0665	0.0718	0.0721	0.0697	0.0765	0.0730
S Atlantic	0.1942	0.2152	0.1964	0.1952	0.1945	0.1926
ES Central	0.0596	0.0553	0.0477	0.0606	0.0587	0.0460
WS Central	0.1121	0.0970	0.0995	0.0996	0.1080	0.0935
Mountain	0.0699	0.0732	0.0722	0.0847	0.0828	0.0754
Pacific	0.1600	0.1597	0.1640	0.1763	0.1567	0.1703

Table 3 Results from logistic regressions

	Dependent variable: Asked for advice about...					
	Any advice	Debt counseling	Saving or investing	Mortgage or loan	Insurance	Tax planning
	Coeff. (SE)	Coeff. (SE)	Coeff. (SE)	Coeff. (SE)	Coeff. (SE)	Coeff. (SE)
Intercept	−2.001 (0.098)***	−2.272 (0.155)***	−3.621 (0.113)***	−2.723 (0.117)***	−2.657 (0.105)***	−4.255 (0.141)***
Financial knowledge	0.110 (0.012)***	−0.076 (0.019)***	0.125 (0.013)***	0.099 (0.014)***	0.052 (0.012)***	0.054 (0.016)***
Financial confidence	0.034 (0.012)***	−0.051 (0.019)***	0.063 (0.014)***	0.035 (0.014)**	0.067 (0.013)***	0.055 (0.016)***
Financial satisfaction	0.002 (0.006)	−0.173 (0.010)***	0.081 (0.006)***	−0.053 (0.006)***	0.003 (0.006)	0.064 (0.007)***
Attitude towards risk	0.089 (0.006)***	0.071 (0.009)***	0.123 (0.006)***	0.050 (0.006)***	0.057 (0.006)***	0.089 (0.007)***
Respondent is white	0.011 (0.033)	0.376 (0.048)***	−0.023 (0.036)	−0.105 (0.037)***	0.037 (0.034)	0.042 (0.042)
Female	0.349 (0.029)***	0.055 (0.046)	0.292 (0.031)***	0.287 (0.032)***	0.220 (0.030)***	0.209 (0.036)***
Married	0.195 (0.032)***	0.131 (0.051)**	0.011 (0.035)	0.353 (0.037)***	0.247 (0.034)***	0.177 (0.043)***
Respondent's (household) income (Ref: Income less than \$15K)						
At least \$15K and less than \$25K	0.409 (0.056)***	0.468 (0.093)***	0.230 (0.071)***	0.476 (0.079)***	0.315 (0.064)***	0.433 (0.098)***
At least \$25K and less than \$35K	0.536 (0.058)***	0.529 (0.095)***	0.396 (0.071)***	0.639 (0.079)***	0.404 (0.065)***	0.479 (0.097)***
At least \$35K and less than \$50K	0.655 (0.057)***	0.471 (0.094)***	0.492 (0.069)***	0.909 (0.075)***	0.493 (0.063)***	0.755 (0.093)***
At least \$50K and less than \$75K	0.813 (0.058)***	0.522 (0.097)***	0.677 (0.069)***	1.087 (0.076)***	0.524 (0.064)***	0.996 (0.092)***
At least \$75K and less than \$100K	0.805 (0.066)***	0.337 (0.110)***	0.716 (0.075)***	1.179 (0.082)***	0.577 (0.070)***	1.085 (0.098)***
At least \$100K and less than \$150K	0.958 (0.071)***	0.089 (0.122)	0.886 (0.079)***	1.251 (0.086)***	0.630 (0.074)***	1.261 (0.101)***
\$150K and greater	1.180 (0.085)***	−0.110 (0.152)	1.018 (0.088)***	1.271 (0.094)***	0.795 (0.083)***	1.726 (0.107)***
Income shock	0.348 (0.030)***	0.525 (0.046)***	0.367 (0.032)***	0.179 (0.033)***	0.359 (0.030)***	0.490 (0.038)***
Labor force participation (Ref: Works full-time)						
Works part-time	0.221 (0.053)***	0.013 (0.074)	0.170 (0.052)***	0.100 (0.052)*	0.263 (0.049)***	0.646 (0.056)***
Self employed	0.001 (0.050)	−0.296 (0.081)***	0.056 (0.054)	−0.269 (0.057)***	0.040 (0.051)	0.242 (0.063)***
Homemaker	−0.174 (0.053)***	−0.409 (0.088)***	−0.080 (0.059)	−0.143 (0.057)**	−0.103 (0.054)*	0.091 (0.068)
Student	−0.252 (0.072)***	−0.385 (0.121)***	0.008 (0.081)	−0.384 (0.088)***	−0.261 (0.080)***	−0.062 (0.104)
Disabled	0.023 (0.075)	0.045 (0.111)	−0.241 (0.095)**	−0.015 (0.090)	0.146 (0.079)*	−0.206 (0.130)
Unemployed	−0.255 (0.054)***	−0.438 (0.081)***	−0.144 (0.062)**	−0.301 (0.063)***	−0.213 (0.057)***	−0.021 (0.075)
Retired	0.017 (0.055)	−0.111 (0.098)	−0.014 (0.056)	−0.131 (0.061)**	0.056 (0.054)	0.245 (0.066)***
Respondent's age (Ref: 18–24)						
25–34	0.082 (0.055)	0.482 (0.089)***	−0.065 (0.063)	0.147 (0.063)**	0.253 (0.059)***	−0.082 (0.075)
35–44	−0.037 (0.056)	0.361 (0.091)***	−0.220 (0.064)***	−0.097 (0.064)	0.104 (0.060)*	−0.322 (0.077)***
45–54	0.015 (0.056)	0.226 (0.092)**	−0.069 (0.063)	−0.316 (0.065)***	0.176 (0.060)***	−0.296 (0.077)***
55–64	0.067 (0.060)	0.011 (0.103)	0.189 (0.067)***	−0.488 (0.070)***	0.074 (0.064)	−0.179 (0.081)**
65 or older	0.173 (0.071)**	−0.275 (0.131)**	0.404 (0.077)***	−0.591 (0.083)***	−0.041 (0.074)	−0.045 (0.091)
Respondent's education (Ref: High school or less)						
Some college	0.221 (0.035)***	0.213 (0.057)***	0.289 (0.041)***	0.230 (0.042)***	0.203 (0.038)***	0.260 (0.051)***
College	0.324 (0.040)***	0.246 (0.065)***	0.432 (0.045)***	0.298 (0.046)***	0.252 (0.042)***	0.411 (0.054)***
Post-grad	0.565 (0.051)***	0.261 (0.081)***	0.653 (0.052)***	0.395 (0.054)***	0.389 (0.050)***	0.637 (0.061)***
Census region of residence (Ref: South Atlantic)						
New England	−0.036 (0.050)	−0.146 (0.081)*	0.031 (0.053)	−0.100 (0.055)*	−0.092 (0.051)*	0.027 (0.062)
Mid Atlantic	−0.115 (0.063)*	0.032 (0.099)	0.040 (0.066)	−0.256 (0.072)***	−0.086 (0.065)	0.057 (0.077)
EN Central	0.061 (0.053)	−0.038 (0.083)	0.086 (0.056)	−0.001 (0.058)	0.053 (0.054)	0.043 (0.066)
WN Central	0.286 (0.049)***	0.098 (0.075)	0.177 (0.051)***	0.051 (0.053)	0.262 (0.049)***	0.203 (0.060)***
ES Central	0.002 (0.057)	−0.125 (0.091)	−0.169 (0.063)***	0.134 (0.063)**	0.051 (0.058)	−0.196 (0.077)**
WS Central	0.019 (0.056)	−0.187 (0.090)**	−0.012 (0.061)	−0.051 (0.063)	0.071 (0.057)	−0.016 (0.073)
Mountain	0.275 (0.046)***	−0.099 (0.072)	0.086 (0.049)*	0.237 (0.049)***	0.251 (0.046)***	0.123 (0.057)**
Pacific	0.027 (0.054)	−0.178 (0.087)**	0.022 (0.058)	0.130 (0.058)**	−0.003 (0.055)	0.051 (0.067)

Notes: Asterisks denote statistical significance of estimates at the 0.01 (***), 0.05 (**), and 0.10 (*) percent levels.

demand for professional financial advice, when estimated separately for different types of advice, the correlation between financial satisfaction and the probability of working with a financial professional is significant in most areas of advice.

Financial knowledge is negatively related to the probability of using debt counseling and positively related to the probabilities of seeking advice in other areas of personal finance. For example, all other things constant, a one-point increase in financial knowledge reduces the probability of seeking debt counseling by over 7%, but increases the probabilities of demanding advice in the areas of saving or investing, taking out a mortgage or a loan, purchasing insurance, and tax planning by 13%, 10%, 5%, and 6%, respectively.¹

The trends in correlations between financial confidence and the demand for financial professionals' advice are similar to the trends in correlations between financial knowledge and the probability of seeking advice in specific areas of personal finance. Financial confidence is negatively related to the probability of seeking debt counseling, with each one-point increase in confidence diminishing the probability of debt counseling by about 5%, on average. At the same time, financial confidence is a positive determinant of the propensity to demand other types of financial professionals' advice, with the highest quantitative effects on probabilities of using advice in areas of saving or investing, and insurance purchases. For example, a one-point increase in financial confidence is associated with about 7% increase of the probability of requesting advice pertaining to saving or investing, and also about 7% increase of the probability of requesting advice on insurance purchases.

Individuals who are more satisfied with their current financial condition are less likely to seek advice related to any form of debt and more likely to use advice in other areas of personal finance. *Ceteris paribus*, a one-point increase in financial satisfaction implies a reduced propensity to seek debt counseling and advice on mortgages or loans by an average of approximately 16% and 5%, respectively. At the same time, a one-point increase in financial satisfaction is associated with the 8% increased likelihood of using financial professional advice on saving or investing, and about 7% increased likelihood of using advice on tax planning. No association is noted between financial satisfaction and seeking insurance advice.

In terms of other factors affecting the demand for financial professionals' advice, subjectively reported willingness to take financial risk is positively related to the probability of seeking advice in all areas of personal finance. White respondents are 46% more likely to use debt counseling and 10% less likely to seek advice on mortgage or loan compared with minority respondents. Female respondents are 23–34% more likely than male respondents to use financial professionals' advice in all areas of personal finance except for debt counseling, where gender appears to have no significant effect. Individuals who are married are more likely than single individuals to use advice about any form of debt, insurance, or tax planning. However, marital status appears to be unrelated to the propensity of using advice on saving or investing. Household income is a positive correlate of the demand for all kinds of professional financial advice.

Compared with individuals who are employed full-time, respondents who identify themselves as employed part-time are more likely to use all kinds of financial advice except for debt counseling. In comparison to the same reference group, individuals who are self-employed are less likely to use advice on any form of debt and more likely to use advice

on tax planning. Similarly, homemakers and students are less likely to seek advice pertaining to debt, but they are also characterized by a lower propensity to demand advice on insurance. The odds that disabled respondents would seek advice on investment or saving are lower than for individuals working full-time. However, disabled respondents are more likely to need advice on insurance. Unemployment significantly reduces the demand for advice in any area of personal finance. Retired respondents report seeking advice on mortgages or loans less frequently than individuals who work full-time, however, they demand more tax advice.

Age is a significant determinant of the demand for advice across all areas of personal finance. Compared with respondents who are between 18 and 24 years old, the odds of seeking debt counseling for respondents who are 25–34, 35–44, and 45–54 are higher by 62%, 44%, and 25%, respectively. At the same time, the odds of seeking debt counseling are lower by 24% for individuals 65 or older. Demand for advice on saving or investing appears to be higher among older respondents. For example, individuals who are 55–64 or over 65 are 21 and 50% more likely to seek this type of service than the youngest group of respondents. On the contrary, the demand for advising on mortgages or loans diminishes with age. Individuals in the oldest group are 47% less likely to seek advice in areas of taking out a mortgage or a loan than the youngest respondents. The odds of seeking advice on insurance appear to culminate for respondents in the 25–54 age group, while seeking advice for tax planning is significantly less common among individuals who are between 35 and 64 years old, than for the youngest respondents. Finally, more educational attainment universally implies increased probability of seeking advice in all areas of personal finance.

5. Discussion and conclusions

Several important themes emerge from the empirical analysis. The results indicate significant underlying differences in the relationship between financial knowledge, confidence, satisfaction, and the demand for different types of professional financial advice. Deficiencies in both objective and subjective financial knowledge are associated with increased probability of demanding debt counseling; a service that most typically aims at preventing and/or reducing the adverse effects of excessive consumer debt. At the same time, better knowledge of finance, as well as confidence in one's own money management skills are positively associated with the probability of seeking advice in other areas of personal finance. These correlations could be interpreted in several ways. First, they may indicate that more knowledgeable and confident individuals understand better the benefits associated with good financial advice. In line with this argument, more knowledgeable and confident consumers would be more likely to use advice to avoid costs associated with poor financial decisions.

The results may also reflect market strategies of financial service providers. Targeting financially literate and confident customers appears to be a rewarding strategy for service providers in areas of personal finance other than borrowing. Therefore, this analysis has tangible implications for personal finance industry with respect to market segmentation and

positioning of financial products. More research is needed, however, to assess to what degree the positive effect of financial knowledge reflects a cause or consequence of advice on saving, insurance, or tax.

A growing body of literature examines the relationship between financial literacy and financial behaviors (e.g., Agarwal, Driscoll, Gabaix, and Laibson, 2008) or costs of financial services (e.g., Lusardi and Tufano, 2009). This analysis contributes to both these streams of research. First, the results suggest that studies, which attribute certain behaviors to financial knowledge by utilizing frameworks that do not control for being advised on financial matters, might misinterpret or overestimate the effect of financial knowledge. Second, the documented negative relationship between financial knowledge and the use of advice on debt might help explain why previous research found that low levels of financial knowledge are associated with reckless use of consumer debt or increased cost of borrowing.

The analysis results point to several underserved market segments. Consistent with the previous literature (e.g., Hanna, 2011), individuals unwilling to take financial risk are less likely to consult any type of financial professional for advice. This finding requires exploratory investigation that would address the question why more risk-averse individuals, who should value the advice that reduces potential wealth losses, are consistently less likely to use professional advice across all types of financial services.

Some results raise questions of equal access to financial professionals' advice for different consumer segments. From a planner perspective, clients with greater resource levels are likely to be more attractive. Indeed, findings in respect to several demographic and socio-economic factors (e.g., income, education, labor force participation) provide valuable information to guide market targeting. For example, tax planners benefit most from targeting married couples, as well as relatively young, affluent, well-educated, part-time or self-employed individuals. From the policy perspective, it is worth considering whether there is a role for any kind of intervention to support consumers who are less likely to seek or have access to professional financial advice. Recent research has indicated that seeking advice-specific financial assistance may entail the use of financial professionals that do not necessarily have a fiduciary responsibility with their client (Finke et al., 2011). Recent legislation has the potential to change this, as the passage of Dodd-Frank Act provides the Securities and Exchange Commission (SEC) with the right to impose fiduciary responsibilities on broker-dealers.

Although the study uses a large, nationally representative sample, there are a number of limitations inherent in the present analysis. The data set used in this study lacks detailed information about circumstances that necessitate the request for financial professionals' advice (or whether advice is solicited); a component that is essential to fully understand the nature of estimated correlations. Given the cross-sectional nature of the data, it is impossible to determine the true causal nature of the observed relationships, and further studies are necessary to examine the causality paths for the documented effects. The potential role of economic climate at the time of data collection should not be ignored. For example, the negative correlations between satisfaction with current financial situation and the likelihood of using advice on mortgages or loans may signal unfavorable consumer experiences and perceptions of consumer credit industry.

Notes

- ¹ For brevity, the odds ratios used for interpretations of results of logit models are not reported in tables.

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