Use of Financial Planners by U.S. Households

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Abstract

We examine the use of financial planners by U.S. households using data from the 1998 Survey of Consumer Finances and find that over one-fifth (21.2%) of households use financial planners. A small portion of households (2.7%) obtain advice from financial planners on only credit or borrowing, whereas 11.5% look for recommendations on only saving or investing issues, and 7.0% obtain comprehensive advice (i.e., credit or borrowing and saving or investing). The use of financial planners by households varies by financial and sociodemographic characteristics of the household, and the effects of these characteristics vary by category of use (i.e., credit/borrowing only, saving/investing only, comprehensive advice). © 2002 Academy of Financial Services. All rights reserved.

1. Introduction

The field of personal financial planning (PFP) is growing. A recent CFP Board survey of practitioners documents growth because of increased demand for both specialized financial services and comprehensive financial planning (Certified Financial Planner Board of Standards, 1999a). In two recent surveys of consumers, the CFP Board finds an increase in the percentage of households using financial planners, from 19% in 1999 to 22% in 2002 (Certified Financial Planner Board of Standards, 1999b, 2002). A national consumer survey

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commissioned by the Consumer Federation of America and the Financial Planning Association reports that 92% of Americans consider financial planning to be important personally (Consumer Federation of America, 2002).

Black, Ciccotello, and Skipper (2002) note that in the midst of these encouraging financial trends, the development of personal financial planning (PFP) as a profession is hindered by lack of a theoretical foundation. Black et al. make a case for rigorous research grounded in modern portfolio theory (MPT) to advance our understanding of PFP delivery models. The application of MPT in a financial planning context uses a broad definition of the family financial portfolio (including financial, human and family resources) and holds the financial planner as the critical agent in rebalancing the portfolio as changes occur. Black et al. present contrasting approaches to family financial decisions through a specialist and planner model. In the specialist model the individual or family is responsible for rebalancing the family wealth portfolio as changes in human or financial capital occur. In the planner model the financial planner serves as the agent responsible for maintaining the balanced portfolio.

An important step in assessing MPT as an appropriate framework for PFP research is to understand who uses financial planners and for what services (specialized or comprehensive) financial planners are being used. To this end, we examine the use of financial planners by U.S. households using a data source that is representative of all households in the U.S. We provide estimates of the number of households that obtain only specialized advice for credit and borrowing or saving and investing decisions, and contrast that with those using planners for comprehensive financial decisions (credit, borrowing, saving, and investing). We find that use of financial planners by U.S. households varies by demographic characteristics of the households, as well as by household financial characteristics, and these effects vary by category of use.

2. Background information

2.1. Use of financial professionals

The International Association for Financial Planning (IAFP; now merged with the Institute of Certified Financial Planners to form the Financial Planning Association) sponsored a survey of approximately 7,000 consumers with household incomes of $60,000 or more to examine the types of financial services consumers used and the reasons for using these services (Gentile, 1998). The five most frequently used sources of financial advice were accountants (55%), attorneys (51%), stockbrokers (51%), financial planners (44%), and bankers (6%). When asked which advisers would be chosen for investment advice, 50% of the people surveyed selected stockbrokers and 25% selected financial planners. Accountants (6%), bankers (4%), and attorneys (2%) were all much less likely to be chosen specifically for investment advice.

The type of financial adviser used varied with age of the client. The IAFP study showed that younger consumers preferred financial planners, while older consumers preferred to stay with stockbrokers or accountants, often ones they have worked with for many years. Respondents were also asked to identify the financial adviser they considered "most valued

or trusted." Among respondents that used multiple financial advisers, 63% of those that used financial planners rated financial planners as the most valued or trusted; 42% of those that used stockbrokers rated stockbrokers as the most valued or trusted (Gentile, 1998).

Consumers may also seek financial advice on issues related to credit and borrowing. While some consumers may seek this advice from financial planners, other consumers may turn to financial counselors or other financial professionals. One might expect that the typical client who is obtaining credit and borrowing advice would have a significantly different profile than the typical client who wants advice on saving and investing. Previous empirical research has not addressed this topic.

2.2. Models for delivery of personal financial planning services

Black et al. (2002) suggest two possible models for delivery of personal financial planning services. In the specialist model, the individual consumer works directly with and coordinates the services of multiple financial professionals, for example, a stock broker, insurance agent, CPA, attorney, banker, and so forth. In the planner model, the individual consumer works directly with a financial planner, and the financial planner serves as the intermediary between the consumer and the relevant financial professionals.

A consumer's choice between these two models will depend on the amount and types of financial advice desired. When comprehensive personal financial planning is desired, including the coordination of advice from multiple financial professionals, consumers are likely to seek advice of financial planners. According to the Certified Financial Planner Board of Standards (1999c), the financial planning process "typically includes, but is not limited to, the six elements of establishing and defining the client-planner relationship, gathering client data including goals, analyzing and evaluating the client's financial status, developing and presenting financial planning recommendations or alternatives, implementing the financial planning recommendations, and monitoring the financial planning recommendations." The financial planning process is designed to help clients create a plan for reaching their financial goals.

2.3. Purpose of this research

Little previous research has examined the characteristics of people who use financial planners. In 1999, the Certified Financial Planner Board of Standards (1999a) conducted a survey of 661 financial planners with the Certified Financial Planner (CFP) designation. This first annual CFP Practitioner Survey collected data on the characteristics of CFP practitioners and their clients. The average CFP client is between the ages of 45 and 54 with average annual income of $131,000 (median income $75,000) and average net worth of $13 million (median net worth $390,000). Only 3% of the clients are African American, 2% are Asian, and 2% are Hispanic.

This research examines characteristics of people who use financial planners using data from the 1998 Survey of Consumer Finances. In contrast to the CFP survey, this study uses data representative of the entire U.S. population. Additionally, in this study the use of financial planners is more broadly defined, including planners with no additional certifica-

tion, as well as planners who might also be Certified Financial Planners (CFP), Certified Public Accountants (CPA), or Chartered Financial Consultants (ChFC). The Survey of Consumer Finances contains detailed information on household financial resources and financial behavior, as well as household demographic characteristics. This study will contribute information representative of all U.S. households, and will complement the existing studies that have focused on more narrowly defined populations, including current clients of financial planners, or households with income above a defined level.

3. Methodology

Data analyzed in this study are from the public use tape of the 1998 Survey of Consumer Finances (SCF), sponsored by the Federal Reserve Board in conjunction with the U.S. Department of Treasury (Kennickell, Starr-McCluer, & Surette, 2000). The public use data set includes information collected through interviews from 4,305 U.S. households and provides very detailed information on the financial resources and financial behavior of U.S. households. The SCF data includes information on a wide range of financial and non-financial assets, debt, use of financial services, and the sources used by households for financial advice.

Two questions from the 1998 SCF are used to identify households that use financial planners for financial advice. The first question asks, "How do you (and your [spouse/partner]) make decisions about credit or borrowing? Do you call around, read newspapers, read material you get in the mail, use information from television, radio, an online service or advertisements? Do you get advice from a friend, relative, lawyer, accountant, banker, broker, or financial planner? Or do you do something else?" All responses given are recorded. The second question asks, "How do you (and your [spouse/partner]) make decisions about savings and investments?" The same sources were asked about and all responses given are recorded.

If the household indicates they use a financial planner for advice on credit and borrowing decisions but not for advice on savings and investing decisions, the household is classified as seeking credit and borrowing advice only. If the household indicates they use a financial planner for advice on savings and investing decisions, but not for advice on credit and borrowing decisions, the household is classified as seeking saving and investing advice only. Finally, if a household indicates they use a financial planner for advice on credit and borrowing decisions and for advice on savings and investing decisions, the household is classified as seeking comprehensive advice. These three categories are thus mutually exclusive and cover all households in the 1998 SCF who use financial planners.

The information on use of a financial planner is self-reported and based on the respondents' perceptions; information on the credentials or certification of financial planners is not available in the survey. There is likely to be some variation from respondent to respondent in the types of financial professionals considered to be included in or excluded from the operational definition of a financial planner. Some respondents may believe that only professionals with the CFP designation are financial planners, where as others may believe

that an insurance agent is a financial planner. In the SCF, responses for lawyers, accountants, insurance agents, bankers, brokers, and financial planners are prompted for and recorded individually. This should increase the probability that the financial planner category captures the use of professionals, both with and without credentials, specializing in financial planning.

Several independent variables are analyzed to identify sociodemographic and financial variables associated with the use of financial planners by households. The sociodemographic variables include age, education, race/ethnicity, marital status of the respondent, household size, employment status, and census region. The financial variables include measures of income, net worth, financial assets, and the ratio of debt-to-income. The SCF financial asset variable includes transaction accounts (such as checking, savings, money markets, and call accounts at brokerages), certificates of deposit, mutual funds, stocks, bonds, quasi-liquid retirement accounts (IRAs and thrift-type accounts), savings bonds, cash value of whole life insurance, other managed assets, and other financial assets such as loans and future proceeds (Kennickell, 2000). The debt-to-income ratio is included in the analysis to proxy for relative indebtedness, and is measured as the ratio of consumer debt (total debt less nonhousing/ nonresidential property debt) to annual household income. Bivariate and multivariate analyses are used to identify characteristics associated with use of financial planners by households.

4. Results

4.1. Descriptive statistics

The percentage of households that use financial planners and how use varies by sociodemographic and financial characteristics of the household are presented in Tables 1 and 2. Over one-fifth (21.2%) of households in the sample sought some type of advice from financial planners related to credit and borrowing, or saving and investing decisions. Most households using a financial planner only seek advice related to saving and investing decisions (11.5%). Households using a financial planner for comprehensive decisions (saving, investing, credit, and borrowing) make up the next largest portion (7.0%) and those seeking advice on only credit and borrowing are the smallest group (2.7%). These estimates from the SCF data indicate that 21.8 million U.S. households seek advice from financial planners. Approximately 11.8 million households seek specialized advice on saving and investing; 7.2 million households seek comprehensive advice; and 2.8 million households seek specialized advice on credit and borrowing. Across most demographic and financial subgroups, the percentage of households that seeks advice from financial planners for saving and investing decisions is higher than the percentage that seeks advice for credit and borrowing decisions. The only exception is households containing seven people or more. These households are more likely to seek advice on credit and borrowing than advice on saving and investing.

Table 1
Percent of households with selected socio-demographic characteristics that use financial planners by type of advice (row percents)

Characteristics	Only credit/borrowing advice	Only saving/investment advice	Comprehensive advice*
Total	2.7	11.5	7.0
Age of respondent†			
Under 35	2.9	9.5	6.8
35 to 44	2.4	13.6	7.1
45 to 54	3.8	14.8	8.3
55 to 64	2.6	10.6	6.4
65 and over	2.1	9.0	6.0
Education of respondent†			
< High school	1.6	5.8	2.3
HS graduate	2.8	10.6	4.7
Some college	2.8	13.2	6.9
Bachelors degree	3.4	14.6	10.3
Graduate school	2.7	15.3	16.8
Race/ethnicity of respondent†			
White, non-Hispanic	2.2	12.3	7.2
Black, non-Hispanic	6.3	11.7	7.0
Hispanic	1.6	3.8	2.5
Other	2.2	9.0	12.0
Marital status of respondent†			
Married	2.3	13.0	7.0
Unmarried male	3.6	9.6	6.4
Unmarried female	2.7	10.1	7.3
Household size†			
One person	2.5	9.5	7.9
Two people	2.3	13.3	6.9
Three people	2.1	11.5	7.5
Four people	2.6	10.7	5.7
Five people	3.9	12.5	5.5
Six people	5.5	15.8	5.3
Seven people or more	9.5	1.5	10.1
Employment status†			
Wage and salary	2.7	12.9	7.5
Self-employed	3.1	11.2	10.2
Not in the labor force	2.4	8.9	4.5
Census region†			
Northeast	1.9	11.4	7.7
North central	2.4	10.6	5.9
South	2.8	12.0	5.8
West	3.3	11.8	9.6
Weighted sample size (millions)	2.8	11.8	7.2

* Credit/borrowing AND saving/investing.

† For each type of advice, statistically significant differences in socio-demographic characteristics between households that use financial planners and households that do not (Chi-Squared p-value < .001).

Source: 1998 Survey of Consumer Finances. Descriptive statistics and tests for differences calculated using SCF final nonresponse adjusted sampling weight (×42001).

Table 2
Percent of households with selected financial characteristics that use financial planners by type of advice (row percents)

Characteristics	Only credit/borrowing advice	Only saving/investment advice	Comprehensive advice*
Total	2.7	11.5	7.0
Income†			
Less than $25,000	2.6	7.1	3.3
$25,000 to $49,999	3.0	11.0	6.5
$50,000 to $74,999	2.1	14.0	10.6
$75,000 or More	2.7	19.8	12.3
Net worth†			
Less than $50,000	2.7	7.9	3.9
$50,000 to $99,999	2.1	11.9	5.6
$100,000 to $199,999	3.6	11.9	7.7
$200,000 or More	2.4	17.0	12.5
Financial assets†			
Less than $25,000	2.4	7.7	4.1
$25,000 to $49,999	2.6	15.2	5.3
$50,000 to $99,999	2.9	12.0	9.2
$100,000 or More	3.3	18.8	13.7
Debt to income ratio†			
Ratio = 0	2.1	9.7	6.5
0 < ratio < 0.08	2.1	11.1	9.7
0.08 ratio < 0.32	2.5	15.6	6.4
0.32 ratio	4.2	10.6	6.2
Weighted sample size (millions)	2.8	11.8	7.2

  * Credit/borrowing AND saving/investing.

  † For each type of advice, statistically significant differences in financial characteristics between households that use financial planners and households that do not (Chi-Squared p-value $< .001$).

  Source: 1998 Survey of Consumer Finances. Descriptive statistics and tests for differences calculated using SCF final nonresponse adjusted sampling weight ($\times$42001).

4.2. Bivariate analysis

Chi-square tests are used to identify sociodemographic and financial characteristics that are significantly different between households that use financial planners and households that don't, not controlling for other factors. All χ^2 tests are statistically significant across all three categories of financial planner use (credit and borrowing; saving and investing; and comprehensive advice).

The percentage of households that seeks comprehensive advice or only saving and investing advice from a financial planner increases with education of the householder, and with the level of household income, net worth, and financial assets. With the exception of financial assets, these relationships are not linear for households that seek advice for only credit and borrowing. Across all three categories of use, households with a 45 to 54 year old householder are more likely to use financial planners compared to households with younger or older householders. Householders with Hispanic householders are less likely to use financial planners than households with non-Hispanic householders. Households with an

unmarried male householder are more likely to seek advice on credit and borrowing, but less likely to seek advice on saving and investing or comprehensive advice than households with a married householder or an unmarried female householder. Across all three categories of use, the percentage of households that use financial planners is higher when the householder is a wage and salary worker or self-employed, than when the householder is not in the labor force.

The sociodemographic and financial characteristics of households that use financial planners are summarized in Tables 3 and 4. Compared to households that seek only credit and borrowing advice, households that seek saving and investing advice, or comprehensive advice have higher income, net worth, and financial assets. Households that seek comprehensive advice also have a more highly educated householder than households that seek advice only for credit and borrowing, or only saving and investing. For households that seek comprehensive advice, median education of the householder is 16 years, and median household income and net worth are $51,000 and $175,200, respectively. Comparable statistics are 14 years, $30,000 and $75,240 for households seeking only credit and borrowing advice; and 14 years, $49,000 and $120,400 for households seeking only saving and investing advice. Households with Black, non-Hispanic householders, and households with unmarried male householders represent a larger percentage of households that seek advice only for credit and borrowing (28.3% and 27.2%, respectively) relative to their share of the total population of households (11.9% and 20.2%, respectively).

4.3. Multivariate analysis

Multivariate probit regression analysis is performed to estimate the effect of each of the sociodemographic and financial variables while simultaneously controlling for the effects of all other independent variables (Table 5). Separate probit equations are estimated for each of the three types of financial planner use.

4.3.1. Credit and borrowing advice

Households are more likely to seek advice on credit and borrowing decisions from financial planners when the householder is between the ages of 45 and 64 compared to younger or older; when the householder has at least a high school diploma compared to less education; when the householder is Black, non-Hispanic compared to White, non-Hispanic; and when the householder is unmarried compared to married. The likelihood of seeking advice from financial planners on credit and borrowing is negatively related to household income, but positively related to the level of household financial assets. Households with high debt-to-income ratios are more likely to seek advice on credit and borrowing than households with lower ratios. The level of household net worth does not affect the likelihood of using a financial planner for credit and borrowing advice when income and financial assets are controlled.

Saving and investing advice

Compared to households with a householder under age 35, households with a householder age 35 to 44 are more likely, and households with a householder age 55 and over are less

Table 3
Socio-demographic characteristics of households that use financial planners by type of advice (column percents)

Characteristics	Total sample	Only credit/borrowing advice	Only saving/investing advice	Comprehensive advice*
Age of respondent				
Mean	48.7	47.8	47.8	47.4
Median	46.0	46.0	46.0	46.0
Education of respondent				
Mean	13.1	13.7	13.9	14.6
Median	13.0	14.0	14.0	16.0
Percent Distribution				
Age of respondent†				
Under 35	23.3	22.4	19.1	22.8
35 to 44	23.3	20.9	27.6	23.9
45 to 54	19.2	27.5	24.7	22.9
55 to 64	12.8	12.5	11.9	11.9
65 and over	21.4	16.8	16.8	18.5
Education of respondent†				
< High school	19.1	11.4	9.61	6.2
HS graduate	29.3	31.1	27.1	19.7
Some college	25.0	26.2	28.8	24.6
Bachelors degree	15.6	20.2	19.9	23.0
Graduate school	11.0	11.2	14.7	26.6
Race/ethnicity of respondent†				
White, non-Hispanic	77.7	64.8	83.0	80.0
Black, non-Hispanic	11.9	28.3	12.1	11.8
Hispanic	7.2	4.3	2.4	2.6
Other	3.2	2.7	2.5	5.5
Marital status of respondent†				
Married	52.3	44.7	59.1	52.6
Unmarried male	20.2	27.2	16.9	18.7
Unmarried female	27.5	28.0	24.0	28.8
Household size†				
One person	25.2	23.8	20.9	28.3
Two people	32.9	28.9	38.0	32.5
Three people	16.5	12.7	16.5	17.7
Four people	14.6	14.4	13.6	12.0
Five people	7.2	10.5	7.8	5.7
Six people	2.2	4.6	3.1	1.7
Seven people or more	1.4	5.1	0.2	2.1
Employment status†				
Wage and salary	59.2	59.9	66.3	63.7
Self-employed	11.3	13.2	10.9	16.5
Not in the labor force	29.6	26.9	22.8	19.9
Census region†				
Northeast	19.3	13.9	19.2	21.2
North Central	24.0	21.9	22.1	20.2
South	35.7	38.1	37.1	29.4
West	21.1	26.1	21.7	29.2

* Credit/borrowing AND saving/investing.

† Statistically significant differences in the distribution of households by financial characteristics for each type of advice (Chi-Squared *p*-value < .001).

Source: 1998 Survey of Consumer Finances. Descriptive statistics and bivariate tests are calculated using the SCF final nonresponse adjusted sampling weight (×42001).

Table 4
Financial characteristics of households that use financial planners by type of advice (column percents)

Characteristics	Total sample	Only credit/ borrowing advice	Only saving/investing advice	Comprehensive advice*
Income†				
Mean	$52,295	$54,880	$74,642	$85,975
Median	$33,000	$30,000	$49,000	$51,000
Net worth†				
Mean	$282,980	$311,880	$389,255	$586,143
Median	$71,700	$75,240	$120,400	$175,200
Financial assets†				
Mean	$134,271	$134,693	$195,600	$294,395
Median	$17,320	$30,090	$48,600	$76,700
		Percent Distribution		
Income†				
Less than $25,000	37.4	37.2	23.1	17.8
$25,000 to $49,999	29.0	33.0	27.7	27.2
$50,000 to $74,999	17.4	13.5	21.4	26.6
$75,000 or more	16.2	16.4	28.0	28.5
Net worth†				
Less than $50,000	43.4	43.5	29.9	24.0
$50,000 to $99,999	14.4	11.6	14.9	11.6
$100,000 to $199,999	16.1	21.7	16.7	17.9
$200,000 or more	26.0	23.2	38.5	46.5
Financial assets†				
Less than $25,000	55.0	48.9	36.6	32.4
$25,000 to $49,999	11.3	11.0	14.9	8.6
$50,000 to $99,999	11.2	12.4	11.7	14.9
$100,000 or more	22.5	27.7	36.7	44.1
Debt to income ratio†				
Ratio = 0	32.3	28.1	30.7	33.6
0 <ratio < 0.08	18.5	14.4	17.7	25.6
0.08 ratio <0.32	22.7	21.5	30.7	20.7
0.32 ratio	22.6	36.0	20.8	20.1

* Credit/borrowing AND saving/investing.

† Statistically significant differences in the distribution of households by financial characteristics for each type of advice (Chi-Squared p-value < .001).

Source: 1998 Survey of Consumer Finances. Descriptive statistics and bivariate tests are calculated using the SCF final nonresponse adjusted sampling weight (×42001).

likely to seek advice on saving and investing decisions from financial planners. The likelihood of seeking advice on saving and investing increases with education, but the effect is not linear. Compared to households with White, non-Hispanic householders, households with Black, non-Hispanic householders are more likely, and households with Hispanic householders or non-Hispanic householders of other races are less likely to seek advice on saving and investing. Households are less likely to seek advice on saving and investing decisions from financial planners when the householder is an unmarried male compared to a married individual, and when the householder is self-employed compared to a wage and

Table 5
Probit results of the likelihood of using a financial planner by type of advice

Characteristics	Coefficient—advice on credit or borrowing only	Coefficient—advice on saving or investing only	Coefficient—advice on saving, investing, credit and borrowing
Age of respondent (reference category: under 35)			
35 to 44	−0.10759	0.08607*	−0.22920***
45 to 54	0.23539***	0.03792	−0.27851***
55 to 64	0.14465*	−0.16839***	−0.22006***
65 and over	0.03969	−0.15840**	−0.30097***
Education of respondent (reference category: less than high school)			
High school graduate	0.27076***	0.18831***	0.13885*
Some college	0.19760**	0.17655***	0.22654***
Bachelors degree	0.18666*	0.21435***	0.39700***
Graduate school	0.24500**	0.14642**	0.47584***
Race/ethnicity of respondent (reference category: White, non-Hispanic)			
Black, Non-Hispanic	0.45802***	0.13454**	0.29529***
Hispanic	−0.10026	−0.35503***	−0.22738**
Other	−0.05956	−0.24383***	0.09727
Marital status of respondent (reference category: married)			
Unmarried male	0.22282***	−0.13514***	−0.01542
Unmarried female	0.12919*	−0.04619	0.25358***
Household size (reference category: one person)			
Two people	0.12753*	0.03974	−0.06823
Three people	0.08467	−0.15003**	−0.10396
Four people	0.28447***	−0.15608**	−0.17787**
Five people	0.49137***	0.03857	−0.21439**
Six people	0.35250**	0.01361	0.11421
Seven people or more	0.84166***	−0.77056***	0.05586
Employment status (reference category: wage and salary)			
Self employed	0.08128	−0.08773**	−0.01123
Not in the labor force	−0.03497	−0.03958	−0.09487*
Census region (reference category: northeast)			
North Central	0.07555	−0.04946	−0.07702*
South	0.14204**	−0.01348	−0.06656
West	0.33489***	−0.02260	0.18102***
Income (reference category: less than $25,000)			
$25,000 to $49,999	−0.02376	0.06498	0.22601***
$50,000 to $74,999	−0.26391***	0.07304	0.41948***
$75,000 or More	−0.14899*	0.22845***	0.29008***
Net worth (reference category: less than $50,000)			
$50,000 to $99,999	−0.09852	0.06421	0.17892**
$100,000 to $199,999	0.01314	0.05664	0.23851***
$200,000 or More	−0.16171	0.10395	0.33814***
Financial assets (reference category: less than $25,000)			
$25,000 to $49,999	0.21415**	0.24761***	0.02615
$50,000 to $99,999	0.25532**	0.11900*	0.16353**
$100,000 or more	0.45915***	0.34858***	0.23266***
Debt to income ratio (reference category: equal to 0)			
0 < ratio < 0.08	−0.00605	0.03066	0.12392***
0.08 ratio < 0.32	0.06658	0.17433***	−0.07108
0.32 ratio	0.20843***	0.08102*	−0.05030

* Statistically significant with p-value $\leq$ .05.

** Statistically significant with p-value $\leq$ .01.

*** Statistically significant with p-value $\leq$ .001.

Source: 1998 Survey of Consumer Finances. Unweighted analysis of data pooled from all five implicates, RII techniques.

salary earner. The likelihood of seeking advice from financial planners on saving and investing is positively related to household income, and the level of household financial assets. Households with debt-to-income ratios of at least 0.08 are more likely to seek advice on saving and investing than households with lower ratios. The level of household net worth does not affect the likelihood of using a financial planner for saving and investing advice when income and financial assets are controlled.

Comprehensive advice

Education of the householder and levels of household income, net worth, and financial assets are all positively related to the likelihood of using a financial planner for comprehensive advice. The likelihood of using a financial planner for comprehensive advice generally declines with age of the householder. Once differences in income and education are controlled, households with a Black, non-Hispanic householder are more likely, and households with a Hispanic householder are less likely than comparable households with a White, non-Hispanic householder to seek comprehensive advice from financial planners. Households with some positive debt are more likely to use financial planners for comprehensive advise than comparable households with zero debt or higher levels of debt.

When other sociodemographic and financial characteristics are controlled, households with a householder not in the labor force are less likely than households with a wage and salary householder to seek comprehensive advice from a financial planner. Households with an unmarried female householder are more likely than comparable married couple households to use financial planners for comprehensive advice.

5. Discussion

The effects of the sociodemographic and financial characteristics on the use of financial planners by households vary by the category of use. We are particularly interested in the characteristics associated with seeking comprehensive advice. With respect to age of the householder, households are more likely to seek comprehensive advice when the householder is under age 35 (compared to 35 or older). The age effects observed for use of comprehensive advice seem to be more consistent with cohort differences, than household life cycle effects.

The coefficients on the categorical age variables increase in absolute value, but are negative, indicating that as the age of the householder increases, the likelihood of seeking comprehensive advice decreases. Although the magnitude of the probit coefficients cannot be directly interpreted, the relative size of the coefficients does provide useful information. If such a pattern were observed in panel data, a plausible interpretation would be that households are most likely to seek comprehensive advice when householders are young, and then the likelihood of seeking comprehensive advice declines as the householder ages. However, the SCF data are cross-sectional, and a more appropriate interpretation of the age effect is that behavior differs across cohorts.

The financial planning industry has experienced rapid growth and expansion relatively recently. Households may make many decisions related to management of household

resources close to the time that households are established—typically when adults are in their late twenties and early thirties. Thus, households that have been established in the midst of the growth and expansion of the financial services industry are more likely to have younger householders. And in turn, these households may be more likely to seek comprehensive advice from financial planners as the availability and awareness of these services has increased.

In contrast, households with older householders are more likely to have been established before the growth and expansion of the financial services industry, and to therefore have made decisions about management of financial resources before the financial planning industry was established. These households may choose to stay with their established procedure for managing resources (consistent with the IAFP study results, Gentile, 1998) which is less likely to be use of a financial planner. As a result, we would observe a higher likelihood of seeking comprehensive advice from financial planners among households with younger households, and a lower likelihood among households with older householders, a result that reflects differences across cohorts. Thus, over time, as current young households age and if they continue the financial management practices established early in the household life cycle, the use of comprehensive financial planning services by households may show less variation by age of the householder.

The likelihood of seeking comprehensive advice consistently increases with education of the householder. Education may increase awareness of the complexity of financial products and appreciation for comprehensive advice, leading households to seek comprehensive advice as they strive to meet their financial goals. More education may also raise the opportunity cost of information search and of monitoring household portfolio changes, and in turn increase the benefits (economics of scope) of comprehensive advice.

Compared to households with a White Non-Hispanic householder, similar households with a Black, non-Hispanic householder are more likely to seek comprehensive advice, and households with Hispanic householders are less likely to seek comprehensive advice. Differences in the socialization process may provide one explanation for the observed racial differences. If Black, non-Hispanic individuals are not as socialized in financial issues (e.g., receiving education and real world experience related to financial management) as White, non-Hispanic individuals, they may be more likely to seek professional advice when making financial decisions. The observed ethnic differences may be a result of differences in the comfort level between clients and planners. If households with Hispanic householders encounter language barriers when seeking comprehensive advice, they may be less likely than households that do not encounter language barriers to seek financial advice.

Household income, financial assets, and net worth are all positively associated, and the ratio of debt-to-income is negatively associated with seeking comprehensive advice. The higher household income, the more likely the household can afford to pay for the services of a financial planner, and the higher the probability of having extra income to allocate to investments, thus increasing the likelihood of seeking comprehensive advice. Higher levels of financial assets and low indebtedness allow for more opportunities to allocate funds to different investments to meet financial goals, making comprehensive advice more relevant. Households with higher net worth may also have more to gain from comprehensive advice given the magnitude of their financial portfolio.

Alternatively, the use of comprehensive financial advice may have contributed to the

higher net worth. An explanation for this association may lie in the relationship between planning effort and wealth accumulation. Ameriks, Caplin, and Leahy (2002) use unique survey data to show that households with a stronger propensity to plan devote more time and effort to developing and monitoring plans, and this increased effort is associated with increased wealth. Planning effort is likely to be positively correlated with comprehensive financial planning. The cross sectional nature of our analysis does not allow us to determine the direction of causation. And so an interesting question for future research is whether higher net worth increases the use of comprehensive financial planning, or whether comprehensive financial planning results in higher net worth.

In this study, the sociodemographic and financial characteristics associated with seeking comprehensive advice or saving and investing advice from financial planners are markedly different from the characteristics associated with seeking credit and borrowing advice. Education, income, net worth, and financial assets are all positively related to comprehensive use of financial planners. When controlling for education and income, the probability of using a financial planner for comprehensive advice declines with age of the householder. Households with young, college educated, upper income householders seem to be a lucrative client base for financial planners offering comprehensive services. Our results also suggest that once differences in education and income are controlled, households with Black, non-Hispanic householders are as lucrative a market for financial services as households with White, non-Hispanic householders. This descriptive information can help financial planners appropriately market their services to the most opportune clientele.

Beyond the marketing opportunities for financial service professionals, our characterization of those using financial planners shows that families working in a specialist model are different from those working in a planning/comprehensive model. Black et al. (2002) discuss the potential economies of scope that may exist in the planning model. Such economies of scope would lead to reduced information, search, transaction and monitoring costs for those using financial planners as intermediaries between other financial service specialists. Our results confirm the presence of such economies. Higher income and education levels may imply higher information and search opportunity costs and should associate with higher rates of comprehensive planner use—exactly what is observed in this study. Those with higher levels of financial assets would also expect to gain more by reduced transaction and monitoring costs, and not surprisingly, those with higher levels of financial assets are more likely to work in a planner model.

While the comprehensive nature of the service provided in the planner model outlined by Black et al. (2002) goes well beyond credit, borrowing, saving, and investing, our results confirm a clear distinction between families seeking specialized versus comprehensive advice. Families with the most to gain (and save) through the rebalancing and coordinating function of the planner are clearly different than families performing this function for themselves.

6. Summary and conclusions

This study examines the use of financial planners by U.S. households using a data source that is representative of all households in the United States. We estimate that 21.8 million

U.S. households (21.2% of all households in the United States) seek advice from financial planners. Most of these households seek specialized advice on saving and investing (11.8 million), followed by comprehensive advice (7.2 million), and specialized advice on credit and borrowing (2.8 million). The characteristics associated with seeking comprehensive advice or saving and investing advice are different from the characteristics associated with seeking advice on credit and borrowing. Financial planners can use this descriptive information to appropriately market their services and build their clientele.

We also discuss our results as they relate to an issue in comprehensive personal financial planning raised by Black et al. (2002). Black et al. present and contrast two possible models for delivery of personal financial planning services—a specialist model and a planner model. Our empirical results confirm that families employing a planner/comprehensive model differ along many dimensions from families employing a specialist model. Our results are also consistent with the proposition that the planner model offers economies of scope in consumption.

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