Utilization of financial advisors by affluent retirees

John R. Salter, PhD, CFP, AIFA[a],* Nathan Harness, PhD, CFP[b],
Swarn Chatterjee, PhD[c]

[a]Division of Personal Financial Planning, Texas Tech University, Lubbock, TX, USA
[b]Department of Accounting, Economics, and Finance, Texas A&M University at Commerce,
Commerce, TX, USA
[c]Department of Housing and Consumer Economics, University of Georgia, Athens, GA, USA

Abstract

Approximately 78 Million baby boomers will reach traditional retirement age during the next 20 years. As the wave of baby boomers retire a shift in focus from asset accumulation to asset decumulation will occur relating to new retirement challenges. Financial advisors will continue to be an integral part of the asset decumulation phase as they are in the accumulation phase of retirement planning. The authors investigate the factors relevant to affluent retirees' utilization of financial advisors and the differences in planning activities undertaken by those utilizing an advisor using a proprietary dataset. The authors find the variables of gender, education, marital status, wealth, and debt all to be associated with the use of financial advisors. Utilization of advisors was also associated with an increased level of planning activities, awareness, and confidence. © 2010 Academy of Financial Services. All rights reserved.

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1. Introduction

America is at the cusp of a large wave of new retirees as ~78 million baby boomers near retirement. Currently, the eldest baby boomers are about 63 years old, which means over the next 20 years more than 78 million Americans will be turning 65 years old (Paul, 2001).

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* Corresponding author. Tel.: +1-806-742-5050; fax: +1-806-742-5033.
E-mail address: john.salter@ttu.edu (J. Salter).

Much of the previous research focus has directly related to retirement preparation and preparedness. Because of the looming retirement of such a large generation, possessing such a large amount of wealth to both manage and protect, a new research focus on retirement income management will emerge.

There are compelling reasons driving this change in focus. Historically, retirees were provided retirement benefits that paid out as an annuity for their life through defined benefit plans. Today, the number of traditional private defined benefit plans has drastically decreased and are being replaced by the cheaper and participant investment directed defined contribution plans such as 401(k)s (Bassett and Rodrigues, 1998). In terms of dollars invested, in the second quarter of 2009, over $3.65 trillion was invested in defined contribution plans (and 3.74 trillion in IRAs) compared to only $1.97 trillion in private defined benefit plans. In 1985, $813 billion was invested in private defined benefit plans and only $509 billion in defined contribution plans (and $241 billion in IRAs). In terms of growth between 1985 and 2009, defined contribution assets have seen roughly a seven-fold increase in assets where private defined benefit plans have seen only a two and a half-fold increase (ICI, 2009). Second, life expectancy has increased and will continue to increase (Cervellati and Sunde, 2005). Rather than receiving defined benefit payments for life, retirees are more likely to face the challenge of having to manage investments and control distributions to ensure assets last longer. Third, current and future retirees will face the rising cost of healthcare (Glied, 2003). These rising costs combined with the increasing life expectancy will require planning over a longer lifetime. Finally, it is evident that the Social Security system will have future financial difficulties under the administration's current mode of operation. Burdick and Manchester (2004) project this system to operate in a deficit by 2016 and a full exhaustion of the trust fund by 2037, leading to uncertainty for the future stability of this income stream.

Future retirees face financial issues that were not as evident in the past, therefore a need exists to research, educate, and create solutions to hedge the risks these problems impose. Some retirees may take the initiative to control their own destiny by managing their own finances. Others will enlist the help of professional financial advisors to help them find their way through the maze of problems and solutions. Previous research has focused primarily on the use of a financial advisor when planning for retirement, rather than using an advisor once these issues occur during retirement. This paper will focus on affluent retirees' use of a financial advisor as well as analyze the differences in financial planning activities between those who do and do not enlist the help of an advisor. These writers will also discuss possible opportunities for advisors and recommendations for retirees.

2. Literature review

Previous research, as noted, has focused primarily on the use of financial advisors and advice when preparing for retirement. Though this paper focuses on retirees, previous research does add value for determining the characteristics of those who seek financial advice.

Soberon-Ferrer and Dardis (1991) use data from the Consumer Expenditure Survey to demonstrate that households with higher income, a working spouse, higher educational

attainment, and those living in urban areas, showed a significantly greater preference for service consumption. Similarly, Bodie and Crane (1997), using a proprietary dataset comprising of TIAA-CREF clients, suggest that portfolio allocation of individuals who had access to investment advice were consistent with economic theory and with the recommendations of expert financial practitioners. However, these researchers also found that many of clients did not efficiently manage their tax exposure in their pre- and postretirement portfolios.

Bae and Sandager (1997) examined the reasons people seek financial advice using the CFP Board Survey of Trends in Financial Planning and the 1994 International Association for Financial Planners (IAFP) Survey of Financial Advisors. The authors found the primary reasons for seeking advice were retirement planning, investment planning, and tax planning. The complex economic environment, changes in tax law, and new investment alternatives were also credited as driving factors.

Many studies have focused on factors associated with workers seeking retirement planning help. Joo and Grable (2001) found gender to be the only significant demographic variable, with females being more likely to seek help compared to males. This conclusion concurs with findings from other previous studies, including Barber and O'Dean (2001) who found age was negatively associated with seeking financial advice. Socioeconomically, Joo and Grable (2001) found higher income households were more likely to seek advice compared to lower income households, although no relationship existed for middle-income households. Individuals who demonstrated positive financial behaviors and attitudes, as well as those with higher financial risk tolerance were more likely to seek financial help.

Miller and Montalto (2001) studied individuals who used financial planners based on the 1998 survey of consumer finances. The authors found accountants, attorneys, brokers, and financial planners to be the most used sources for financial advice. Miller and Montalto found the demographic variables of age, education, income, net worth, and assets as significant factors for seeking out financial advice. They also found, using a probit model, that high debt to income ratios were predictors of credit advice. Education, gender, marital status, and employment type were predictors of investment advice. Finally, education, income, net worth, assets, age, debt, and being in the workforce were predictors of seeking comprehensive advice.

Chang (2005), using the Survey of Consumer Finances, found wealthier investors had a higher likelihood of seeking paid professional financial advice. Those on the lower socioeconomic scale most heavily relied on social networks, including friends and relatives. Overall, research suggests that friends and relatives are most heavily relied upon, next to paid professionals, which were marginally relied upon, above advice and information supplied by media.

Bluethgen, Gintschel, Hackethal, and Muller (2008), accessed a proprietary dataset of German investors and found that wealthier and older individuals, and women were more likely to seek financial advice. Bluethgen et al. also found that individuals who received financial advice had more diversification within their allocated portfolios. Kim and Geistfeld (2006) found in their study that older individuals (70 years or older), educational attainment, physical limitations, and difficulty in managing personal finances, were positively associated with seeking financial management assistance among the elderly.

3. Theory

Merton (1996) and Markowitz (1952) conducted early studies on portfolio choice, emphasizing the importance of diversification in individual investment portfolios. Recent research on household portfolio holdings also reveals the importance of diversification (Calvet, Campbell, and Sodini, 2007). However, Campbell (2006) identified in his presidential address to the American Finance Association that the actual individual investor behavior deviates quite substantially from standard theories of portfolio allocation and diversification as suggested in seminal studies. The behavioral economists attribute this difference between suggested theory and actual individual behavior to a misspecified modeling of individual preferences (Kahneman and Tversky, 1979), cognitive mistakes (Kotlikoff, Johnson, and Samuelson, 2001), and information constraints (Vissing-Jorgensen, 2003).

One empirical determinant of measurable individual investor behavior is the use of professional financial planners. If individual investors face significant limitations to attaining investment information and are susceptible to making serious cognitive errors while making investment decisions, seeking financial planning services can mitigate the difficulty in information search and correct cognitive mistakes, which the individuals might otherwise make.

To explain this need for financial planning help, Grable and Joo (1999) use the Suchman (1966) framework of help-seeking behavior. As described in Joo and Grable (2001), this framework is comprised of five stages. In Stage 1, the individual determines a shortfall in her or his savings. Stage 2, the consequences of insufficient savings are identified, which may comprise of lower living standards at retirement or failure to reach retirement goals. Stage 3, the causes for inadequate savings are identified, these factors may include inability to access or understand appropriate investment information or cognitive errors when making investment decisions. In Stage 4, the individual makes the decision to seek and use professional financial planning help. According to Stigler (1961), individuals decide to seek help in Stage 4 only if they determine that the benefits of obtaining professional help outweigh the costs of accessing it. In Stage 5, individuals who choose to seek help determine the source of professional help. This may comprise of either professional financial planners or nonprofessionals such as friends and family. This process of choosing an expert or nonexpert for financial advice is determined by demographics, socioeconomic status, and behavioral characteristics of the individual.

In this article, we focus mainly on Stage 5 of the help seeking process described above. We hypothesize that individuals for whom the benefits of seeking professional financial planning help outweigh the costs of accessing the service are most likely to seek professional financial planning advice. We further hypothesize that individual investors who seek professional financial planning advice will be able to reduce their cognitive errors by making informed financial planning decisions with the help of their financial planners.

Hypothesis 1: Individuals who need help managing their resources are more likely to use a financial planner after controlling for other socio-economic, demographic, and behavioral related characteristics

Hypothesis 2: Individuals who use the help of a professional financial planner are likely

to have a financial plan, will be better prepared for retirement and will have a greater participation in risky assets.

4. Data and methodology

4.1. Survey details

Our sample is derived from a survey administered jointly by the Society of Actuaries (SOA), LIMRA, and the International Foundation for Retirement Education (InFRE). This survey, entitled "Will Retirement Assets Last a Lifetime?," is the second phase (Phase II) of an original pilot study of six focus groups. The original survey was conducted in the fall of 2005 to provided qualitative information on how retirees approach key financial decisions.

The Phase II data were collected in February 2008 to further explore retirees' financial decision making. This online survey was conducted by Synovate, a survey vendor, who recruited ~1,500 respondents across the United States to answer 61 questions of varying length. The survey participants were chosen based on specific characteristics, including individuals who have been retired longer than one year, were between the ages of 55 and 75, and who had $100,000 or more in household investable financial assets. Those who did not meet these criteria were removed from the sample. The time of collection and demographics of those surveyed provide immense insight into a group of individuals targeted by those in the financial services industry. After cleaning the data, the usable sample was 1,524 respondents.

4.2. Sample

The survey targeted individuals between the ages of 55 and 75 who were currently retired at the time of data collection. Fig. 1 presents the categories of respondents' ages, with the bulk of the sample (59%) being between the ages of 60 and 69. The average years in retirement are overlaid on Fig. 1 to show time in retirement by age group. Across the entire sample, the mean age was 65 with an average of 7.5 years in retirement.

Basic demographic information of the respondents is presented in Table 1. The results highlight the differences between the sample and the general population. The majority of those sampled were male (55%) with some college (31%) or college degree as highest degree obtained (28%). The large proportion of males was mostly because of the survey design, which terminated if the respondent was not the primary or shared decision-maker. Given the smaller proportion of females who might consider themselves primary or shared decision–makers, when it comes to household finances in this cohort, an unequal gender sample was expected (Gillespie, 1971). Over 72% of participants reported being married with the other respondents reporting having been divorced (12%), widowed (9%), never married (7%), and less than 1% separated. Household income was normally distributed around the $50,000 to $74,999 category. The bulk of the sample, 70%, had an annual household income between $25,000 and $99,999. Interestingly, 8.49% of those sampled had annual household incomes over $150,000.
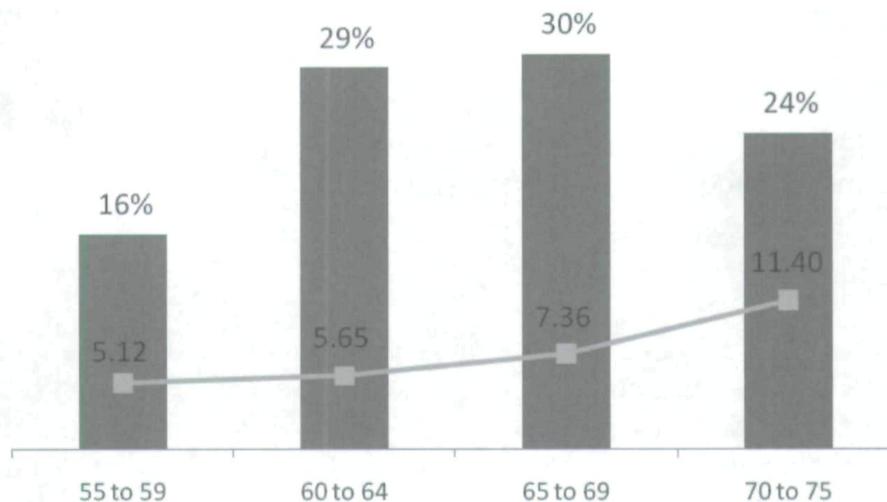
Fig. 1. Average age and average years in retirement.

The sample was screened for those who had less than $100,000 in investable assets. Investable assets were based on a self-reported estimate using the following question:

> "What would you estimate to be the total amount of your household's investable assets? Please include savings accounts, checking accounts, mutual funds, individual stocks and bonds, individual deferred annuities, certificates of deposit, (CDs), IRAs, Keogh plans, 401(k) or 403(b) or other work-sponsored retirement plans, and second home and/or other real estate investments. Exclude the value of your primary residence."

The majority of households (30%) reported having $100,000 to $249,999 in investable assets. Over 17% of the sample reported having $1,000,000 or above in investable assets. The largest portion of respondents (33%) reported having zero outstanding debt; however, almost 5% of the sample had over $250,000 in debt. Although it was not directly asked what the exact composition of this debt entailed, it is most likely that home equity and mortgage loans comprised most of the debt for those in the highest debt categories. A χ^2 was performed to compare those who had debt between $150,000 and $249,000 and reported having a mortgage or home equity loan (91%) and those who reported not having a mortgage or home equity loan (9%). The χ^2 statistic for the difference was 174.4, which was significant at the $p < .0001$ level (df $= 1$). A similar result was found for those who had debt over $250,000, with 88% reporting having a mortgage or home equity loan and the other 12% reporting not having a mortgage or home equity loan. The χ^2 statistic for this difference was 54.8, which was significant at the $p < .0001$ level (df $= 1$).

4.3. Methodology

To empirically test our hypothesis, we first studied the descriptive statistics of the sample. Next we estimated, using a binary logistic regression, the likelihood of using a personal financial planner after controlling for various socio-economic, demographic, and behavioral characteristics. The control variables are drawn from findings of previous research. This was followed by a comparative χ^2 test of financial planning activities among respondents who use

Table 1   Respondent demographic information

Variable	Frequency (%)
N	1524
Gender	
Male	55.0
Female	45.0
Education	
< High school	0.4
High school	14.1
Some college	30.5
College graduate	28.4
Graduate school	26.6
Marital status	
Married	72.6
Widowed	8.6
Divorced	11.6
Separated	0.8
Never married/single	6.4
Current annual income (in thousands)	
<$15	1.9
$15 to $24.9	9.0
$25 to $34.9	11.8
$35 to $49.9	18.7
$50 to $74.9	24.2
$75 to $99.9	14.9
$100 to $149.9	11.1
$150 to $249.9	5.5
> $250	3.0
Current debt outstanding (in thousands)	
Zero	33.5
<$5	16.9
$5 to $9.9	5.6
$10 to $19.9	7.1
$20 to $49.9	10.1
$50 to $99.9	11.4
$100 to $249.9	10.6
> $250	4.8
Investable assets	
$100 to $249	30.5
$250 to $499	27.4
$500 to $999	24.2
$1M to $1.99M	12.5
> $2M	5.3

a financial planner and those who do not. Finally, we examined the differences in risky asset allocation between the respondents who use financial planners and those who do not.

5. Results

5.1. Retiree utilization of a financial advisor

This section explores the characteristics of those who reported having a financial advisor. Table 2 presents demographics of the sample based on the survey question "Do you currently

Table 2   Descriptive statistics (%) of retirees having a current financial advisor

Variable	Advisor	No advisor	χ^2	Total sample
	Frequency (%)	Frequency (%)		Frequency (%)
N	857	667		1524
Who is financial decision maker				
Males	26.6	33.4	***	29.6
Females	33.4	28.7	*	31.3
Shared responsibility	40.0	37.9		39.1
Education				
< High school	0.2	0.6		0.4
High school	12.7	15.8	*	14.1
Some college	29.7	31.6		30.5
College graduate	31.1	25.0	***	28.4
Graduate school	26.4	26.9		26.6
Marital status				
Married	71.7	73.7		72.6
Widowed	10.4	6.3	***	8.6
Divorced	10.2	13.5	**	11.6
Separated	0.9	0.6		0.8
Never married/single	6.8	5.9		6.6
Investable assets (in thousands)				
$100 to $249	25.9	36.4	***	30.5
$250 to $499	27.8	26.8		27.4
$500 to $999	26.6	21.1	**	24.2
$1M to $1.99M	13.5	11.4		12.6
> $2M	6.3	4.2	*	5.4
Age				
55 to 59	22.7	23.1		22.9
60 to 64	32.6	32.3		32.4
65 to 69	29.7	25.0	**	27.6
70 to 75	15.1	19.7	**	17.1
Income (in thousands)				
<$34.9	23.7	21.1		22.7
$35 to $49.9	16.6	22.1		18.7
$50 to $74.9	26.2	20.8		24.2
$75 to $99.9	11.8	19.9		14.9
$100 to $149	12.9	8.2		11.1
>$150	8.8	7.9	*	8.5

This table presents demographics for sample respondents. The results are split based on the whether or not the respondent reported currently having someone they consider to be a personal financial advisor. The "advisor" column presents frequencies of those who currently have an advisor and the "no advisor" column presents frequencies of those who do not currently have an advisor. The "total sample" column presents frequencies for the entire sample. ***, **, and * indicate significance for the χ^2 tests at the 1%, 5%, and 10% levels perceptively.

have someone you consider to be your personal financial advisor?" Of the total 1,524 respondents, 56.3% answered yes and 43.7% answered no.

Among those who worked with an advisor at the time of this investigation, the proportion of male decision-makers was 26.9%, significantly smaller than was found among retirees with financial advisors where 33.4% were male. This relationship was also statistically significant but in the opposite direction for females, of those retirees who report having an advisor, 33.4% are female decision-makers. A smaller proportion of females than found

among retirees who did not have a financial advisor (28.7%). The relationship between having a financial advisor and education appears linear; however, was only significant at the high school and college levels. The majority of the sample reported being married (72.6%). The only statistically significant differences between marital status and having an advisor were for those who were widowed or divorced. Those with a financial advisor appear more likely to be widowed households (10.4%) than those who reported not having a financial advisor (6.3%). Additionally, the amount of investable assets had a positive relationship with having an advisor at the $250,000 and higher level. This relationship was only statistically significant at the $500,000 to $999,999 investable assets category and the $2,000,000 and above investable assets category. Of those with an advisor 26.6% had investable assets between $500,000 to $999,999 and 6.8% had investable assets greater than $2,000,000, while those who did not have an advisor represented only 21.1% and 4.2% or the sample, respectively.

Neither age nor income had a monotonic relationship with having a financial advisor. Within the age categories, those with an advisor were slightly more likely to be in the 65 to 69 age group and those without an advisor were slightly more likely to be in the 70 to 75 age group. Results for both χ^2 statistics for age were significant at the 1% significance level. Income was only statistically significant for those who had incomes between $75,000 and $99,999. Respondents in this income category represented 11.75% of the income distribution for those with advisors and 19.93% of the income distribution for those without advisors.

5.2. Predictors of utilizing a financial advisor

Table 3 shows the logistic regression estimates based on advisor choice. The logistic results suggest that several characteristics are significantly and positively associated with having a financial advisor. Compared to those who are married, widowed respondents demonstrated 81.3% higher predicted odds of having a financial advisor than similar households who reported not using an advisor. The same relationship holds for both female (1.526 Odds) and shared financial decision-makers (1.472 Odds) when compared to male decision-makers. Compared to individuals who completed high school, educational attainment of a college degree resulted in 33.3% higher predicted odds of having a financial advisor than similar households who reported not using an advisor. Those with debt between $5,000 and $49,999 were more likely to have an advisor compared to those with no debt. As compared to those with between $100,000 and $249,999 in investment assets, results indicate all other investment asset categories were positively and monotonically associated with having a financial advisor.

Planning behavior also had an impact on advisor choice. As compared to those who did not have a formal written plan for managing finances during retirement and had no intention of creating one, those who had a written plan before retirement show a 154.4% higher predicted odds of having a financial advisor. This relationship was even larger for those who created a plan for managing assets after retirement (3.02 Odds). Confidence in how assets were being managed was also positively and significantly associated with having a financial planner. As compared to those who were not confident at all, those who were very confident and somewhat confident were 10.414 and 4.187 times more likely to have a financial advisor,

Table 3   Binary logistic regression of retirees having a current financial advisor

Variable	Coefficient		Odds ratio
Intercept	-2.8912	***	
Who is financial decision maker: reference category = male			
Female	0.4228	***	1.526
Shared responsibility	0.3868	***	1.472
Education: reference category = high school and below			
College graduate	0.2878	**	1.333
Graduate school	0.0848		1.088
Marital status: reference category = married			
Widowed	0.595	**	1.813
Divorced	-0.2208		0.802
Separated	0.4421		1.556
Never married/single	0.1382		1.148
Current annual income (in thousands): reference category = < $34			
$35 to $49.9	-0.0555		0.946
$50 to $74.9	-0.1228		0.884
$75 to $99.9	-0.2154		0.806
$100 to $149.9	-0.0635		0.938
> $150	-0.0342		0.966
Current level of debt outstanding (in thousands): reference category = zero debt			
<$5	0.211		1.235
$5 to $9.9	0.557	**	1.745
$10 to $19.9	0.7308	***	2.077
$20 to $49.9	0.7843	***	2.191
$50 to $99.9	0.3143		1.369
$100 to $249.9	0.3300		1.391
> $250	0.4279		1.534
Age: reference category = Age 55 to 60 Years			
61 to 65 years	0.0189		1.019
66 to 70 years	0.2434		1.276
71 to 75 years	-0.1028		0.902
Investable assets: reference category = $100 to $249			
$250 to $499	0.3156	**	1.371
$500 to $999	0.5368	***	1.711
$1M to $1.99M	0.5984	**	1.819
> $2M	0.748	**	2.113

|			
Employment: reference category = not currently employed			
Full time employment	0.4921		1.636
Part time employment	0.0966		1.101
Risk tolerance of assets and investments			
Moderate risk	0.8380		2.312
Some risk	0.5473		1.729
Minimum risk	−0.0486		0.953
Confident have enough money to live comfortable throughout retirement: reference category = not at all confident			
Very confident	−0.7002	*	0.496
Somewhat confident	−0.0477		0.953
Not too confident	−0.4588		0.632
Have formal written plan for managing finances in retirement: no, no plan to create one			
Yes, created before retirement	0.9339	***	2.544
Yes, created after retirement	1.1075	***	3.027
No, but plan to	0.2832		1.327
Confident assets are being managed in best way: reference category = not at all confident			
Very confident	2.3432	***	10.414
Somewhat confident	1.4321	*	4.187
Not too confident	0.4788		1.614
Type of retirement assets			
Defined benefit	−0.2924	**	0.746
Defined contribution	−0.1228		0.884
Untapped inheritance	0.5406	***	1.717
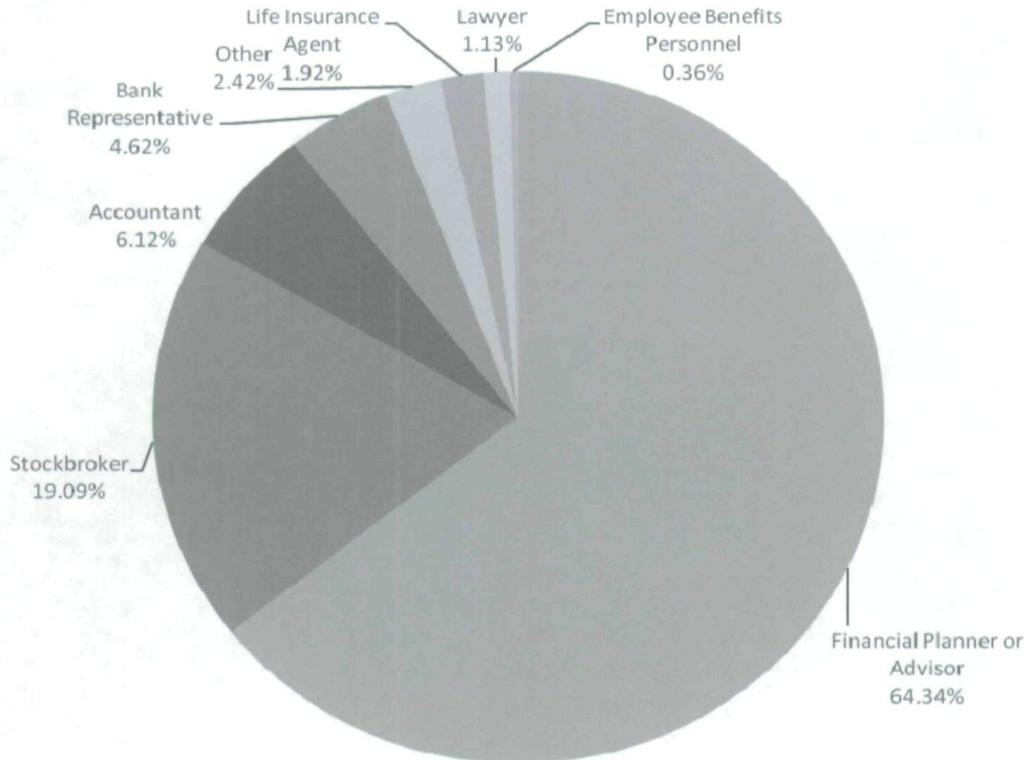
Fig. 2. Type of financial professional used by respondent.

respectively. Finally, respondents who had untapped inheritances in any amount were more likely to have a financial advisor.

Respondents who reported being very confident that they had enough money to live through retirement showed 51.4% lower predicted odds of having a financial advisor, as compared to those who are not confident they would have enough money to last through retirement. Those who reported having a defined benefit plan were 25.4% less likely to have a financial advisor than in similar households.

Fig. 2 displays the breakdown of respondents reported use of financial professionals. The survey asked respondents to report what type of financial professional they had as their financial advisor. An interestingly large proportion of respondents reported having a financial planner or advisor as their financial professional. Financial planners or advisors represented 64.3% of the advisor type; stockbrokers accounted for 19.1%, accountants 6.1%, bank representatives 4.6%, life insurance agents 1.9%, lawyers 1.1%, employee benefits personnel 0.4%, and other 2.4%.

5.3. Services by financial advisors

A deeper analysis into the specific areas of advice provided by financial professionals is provided in Table 4. Given the large proportion of individuals who reported using a financial planner or advisor, and the small proportion of individuals who reported using other types of financial professionals, the analysis in Table 4 only includes the four most utilized types of

Table 4   Areas of financial advice provided by type of financial advisor (%)

	Financial advisor	Stock broker	Accountant	Bank rep	Total sample
Managing assets in retirement	84.2	81.8	45.5	75.4	80.3
Minimizing exposure to retirement risks	59.8	52.2	33.2	53.0	55.7
Planning expenses and income in retirement	37.5	26.0	23.5	25.3	34.1
Minimizing amount of taxes you pay in retirement	49.3	37.2	73.2	51.2	48.2
Planning any required minimum distributions	39.1	31.4	26.4	21.1	35.0
None of the above	2.8	7.8	14.2	6.7	5.1

This table presents frequencies for those who report working with a financial planner/advisor, stockbroker, accountant, or bank representative. The "total sample" column is the total sample of those who reported currently having a financial advisor ($n = 858$). The areas of financial help were randomly presented to the participants. Each frequency reported represents the percentage of those who report receiving help from their financial professional within each one of the areas of financial advice. χ^2 tests were performed across each type of financial professional for every financial help question and found to be statistically significant at the 1% level.

financial professionals. The χ^2 analysis revealed significant differences between the types of financial professionals at the 0.01 significance level for every area of advice tested. Questions were randomized and presented to those respondents who reported having a financial advisor at the time of this study ($N = 858$). The question presented to the respondent was, "Which of the following has your personal financial advisor helped you with?" Respondents were then asked to check each aspect that their financial advisor had helped them with. Results indicate that of the overall sample, the greatest area of advice was in managing assets during retirement (80.3%). Eighty-four percentage of those who reported using a financial planner or advisor received help with managing assets during retirement, while 82% of brokers, 46% of accountants, and 75% of bank representatives helped respondents with managing assets during retirement. Minimizing exposure to retirement risks (55.7%) and minimizing the amount of taxes paid during retirement (48.2%) were the only other two areas where close to half of the overall sample reported receiving help. Both of these financial areas showed statistically significant differences at the 0.01 level across different types of financial professionals. The largest percentage of respondents who received help with minimizing exposure of retirement risks reported using a financial planner or advisor (59.8%), while the largest percentage of respondents who reported receiving help with minimization of taxes paid during retirement reported using an accountant (73.2%).

A large proportion of the sample (40%), who had a financial advisor at the time of this study, did not appear to receive help planning for required minimum distributions. This is not surprising given the age of the entire sample ranged from 55 to 75. When the sample was segmented to those between the ages of 70 and 75, 61.1% reported receiving help planning for required minimum distributions. Surprisingly, when the sample was segmented into those between the ages of 65 and 70, only 37.8% reported receiving help planning for required minimum distributions.

The deccumulation phase of investing appears to be the area where retirees received the least amount of help from their financial professional. Only 34.1% of the sample indicated that they received help with planning expenses and income during retirement. Those who reported using a financial planner or advisor were most likely to receive help planning

Table 5 Planning activities done by participant based on having a financial advisor

Activities	Entire sample	Worked with current advisor before retirement	Did not work with current advisor before retirement	Those currently with advisor	Those currently without advisor	χ^2
N	1524	411	447	858	666	
Identify retirement income resources for early, mid and late phases of retirement	41.7	50.1	40.8	45.3	37.1	***
Determine whether your income would cover your expenses in retirement	69.1	78.7	64.3	71.2	66.5	***
Estimate how inflation might affect expenses after 15 or more years in retirement	37.1	49.2	32.1	40.3	33.0	***
Take into account that the eligibility for Medicare health care benefits begins at age 65	49.7	59.3	45.4	52.1	46.6	***
Determine whether you would have to work for pay in retirement	30.0	33.8	28.2	57.8	42.2	*
Compared options for moving to reduce cost of living expenses	22.8	21.6	24.9	23.3	22.2	
Evaluate when the best time to take Social Security benefits would be	61.0	67.8	60.2	63.8	41.1	***
None of the above	14.7	8.4	15.2	11.9	18.4	***

Table 6   Asset allocation: allocation with advisor minus without advisor (%)

	None		1 to 24		25 to 49		50 to 74		75 to 99		100		DK	
Stock	−13%	***	1%		5%	**	3%		0%	***	0%		9%	***
Bond	−28%	***	11%	***	7%	***	1%		0%		0%		9%	***
Mutual fund	−24%	***	−1%		7%	***	5%	***	1%		−1%		13%	***
Annuity	−25%	***	8%	***	7%	***	2%	*	0%		0%		9%	***
CD	4%		5%	*	−5%	***	−5%	***	0%	***	0%	***	5%	***
Second home	−1%		−1%		0%		0%		0%		0%		3%	***
Other	3%		−4%	***	−1%	*	−2%	***	0%	***	0%		7%	***

This table presents the differences and χ^2 statistics for asset allocation based on whether the retiree did or did not utilize the services of a financial advisor. ***, **, and * indicate significance for the χ^2 tests at the 1%, 5%, and 10% levels perceptively.

expenses and income (37.5%). Approximately 25% of those who worked with a stockbroker, accountant, or bank representative reported receiving help planning expenses and income during retirement. Those who reported receiving help with none of the aforementioned planning areas only represented 5.1% of the sample.

5.4. Differences of those who work with a financial advisor

Significant differences appear throughout the survey when the sample was broken into those who reported using a financial advisor and those who do not have a financial advisor at the time of this study. These differences are most apparent when these researchers analyzed retiree-planning behaviors. Table 5 presents planning activities before retirement done by participants to determine if they could afford to retire based on whether they worked with their financial advisor before retirement, were working with a financial advisor at the time of this study, or were not working with a financial advisor. In almost every category, those who worked with their financial advisor before retirement reported significantly higher frequencies relating to having performed the planning activities. For the overall sample, the most frequently reported planning activities utilized to determine if they could afford to retire were estimation of whether income would cover expenses in retirement (69.1%) and evaluation of Social Security benefits (61.0%).

These researchers briefly analyzed asset allocation using χ^2 tests for significant differences in cell frequencies. Given the categorical nature of the question, differences, other than group differences, were difficult to test. First, group cell frequencies were calculated across each row. Each cell thus would equal to the percentage of respondents who reported that their allocation to stocks fit within that range. For example, 18% of respondents who had a financial advisor reported having no allocation to stocks, while 32% of respondents who did not have a financial advisor reported having no allocation to stocks. This resulted in a 13% difference in no allocation to stocks between those who had and did not have an advisor. Table 6 reports this difference and χ^2 tests for significance across each category of allocation to each asset class. Negative percentages indicate that the cell frequencies were larger for those who did not have an advisor and the opposite is true for positive percentages. The largest differences seem to appear on the tails of the distribution. In every asset class except

Table 7　Have estimated asset longevity assets and investments might last in retirement (%)

	Advisor	No advisor	Sample	χ^2
N	858	666	1524	
No	24.6	33.6	28.5	***
Yes	67.8	53.4	61.5	***
Never thought about it	7.6	13.0	9.9	***

This table presents the differences and χ^2 statistics for estimating asset longevity based on whether the retiree did or did not utilize the services of a financial advisor. ***, **, and * indicate significance for the χ^2 tests at the 1%, 5%, and 10% levels perceptively.

for CD's and other assets, respondents were more likely to report having no allocation if an advisor was absent. Interestingly, significant differences were observed for all asset classes in the "don't know" category. Finally, a greater percentage of those using an advisor were not aware of the allocation of their assets.

Respondents, who had an advisor at the time of this study, were more likely to have thought about and estimated how long their assets may last in retirement. Of those having an advisor, 67.8% had calculated how long their assets might last, compared to only 53.4% of those without an advisor. Approximately 13% of respondents without an advisor had never thought about the issue, compared to 7.6% of respondents utilizing an advisor (Table 7).

A similar result exists for meeting long-term care costs. Respondents with an advisor were more likely to plan to pay for long-term care expense through a private long-term care insurance policy (37%) than retirees without an advisor (25.9%). Additionally, those without an advisor were more likely not to have considered how they were going to meet long-term care expenses (17.2%) compared to those with an advisor (13.1%) (Table 8).

6. Conclusions

Consistent with Hypothesis 1, results of the current study reveal individuals who face complex financial decisions in managing their resources, such as those with higher investible assets and individuals with untapped insurance were more likely to seek financial advice for professionally managing and allocating their investments. Conversely, individuals with some level of debt also seek financial help and, as results indicate, individuals with moderate levels of outstanding debt ($5,000 to $50,000) were more likely to seek financial advice. The

Table 8　Paying for long-term care expenses (%)

	Advisor	No advisor	Sample	
N	858	666	1524	
Private policy	37.16	25.81	32.2	***
Never thought about	13.11	17.25	14.92	**

This table presents the differences and χ^2 statistics for long-term care expense coverage based on whether the retiree did or did not utilize the services of a financial advisor. ***, **, and * indicate significance for the χ^2 tests at the 1%, 5%, and 10% levels perceptively.

research also suggests that individuals with higher educational attainment were more likely to obtain a financial advisor. This is perhaps because individuals with higher levels of education are better able to evaluate their need for professional help and are more likely to seek professional financial advice for managing their wealth. These findings are also consistent with findings from previous research (Miller and Montalto, 2001). Results of the current study also indicate that, when compared with male primary decision makers, women and respondents with shared financial decision-making responsibilities were more likely to choose a financial planner. This finding is also in agreement with the Joo and Grable (2001), who found that women were more likely to seek financial planning help. Likewise, findings from the current study suggest that, when compared to married respondents, widowed individuals were more likely to seek financial planning help. Widowed respondents are perhaps more insecure about their future financial well-being and seek professional financial advice to make more informed and cognitively correct investment and portfolio allocation decisions. In addition, consistent with theory, we found that respondents, who perceived that they had sufficient wealth to live comfortably during their retirement years, were less likely to have a financial advisor. Interestingly, individuals who were in a defined benefit plan were also less likely to have a financial advisor and those who expected to receive inheritances were more likely to have a financial advisor. This is perhaps because individuals who were on a defined benefits plan were not worried about making cognitive errors while making informed investment decisions because they were guaranteed a fixed retirement benefit based on their number of years of service and hence did not select a financial advisor to manage their assets. This could be a cause for concern that the utility from seeking financial advice was not large enough for individuals during the preretirement years, suggesting that many retirees lack the information required to adequately manage the distributions received during retirement. Not seeking financial help might prove to be detrimental for these individuals over the long term.

The second part of our analysis indicates that a significantly higher percentage of individuals with financial planners were able to identify their retirement income resources. Additionally these individuals have taken into account the risk of inflation when calculating their retirement income needs, know their eligibility dates for collecting Social Security and Medicare benefits, and have thought about and taken action relating to longevity and healthcare risks. This indicates that individuals who choose the help of a financial advisor appear to be better prepared for retirement. In addition, a significantly higher percentage of individuals with financial advisors report to have greater investment allocation in risky financial assets such as stocks, mutual funds, and annuities, when compared to individuals who do not have financial advisors. This is perhaps because participation in financial markets requires very specialized investment information that an individual must be able to access and understand. This task will be very challenging for someone who does not have a financial advisor and is not endowed with a significant amount of knowledge in the area of invest-ments. As a result, individuals without professional financial advisors have lower investment allocation in risky financial assets than those who have professional financial advisors.

Though preliminary, these results are interesting in that individuals with high levels of confidence regarding how their assets are managed are ten times more likely to choose a financial planner. It is not clear whether or not the advisor brings confidence or those with

confidence choose an advisor, however; it is clear that those who currently have an advisor are more confident and more likely to take part in planning behaviors. Additionally, individuals who currently have a defined benefit plan are 25.4% less likely to choose a financial advisor, indicating that when responsibility for financial management is taken from the individual, the need for investment in intermediation declines. Future research should examine this relationship across time to determine if exogenous factors, such as economic conditions, influence advisor choice. Also of interest to researchers is whether one can predict confidence based on advisor choice.

This research also provides guidance and opportunities for financial advisors. These writers show the apparent benefit in enlisting the services of financial professionals. Areas where advisors seem to be underutilized lay in planning for required minimum distributions, planning for income and expenses, retirement risk exposure, and minimizing taxes. Financial advisors can add value in the area of optimal asset allocation, specifically, where we see differences in allocation based on whether an advisor is present. We also see areas of improvement for current advisors; including the production and use of written plans and initiating conversations regarding asset longevity, long-term care costs, and reducing debt.

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