RETIREMENT INCOME INSTITUTE
Alliance for Lifetime Income

Who Should Read This Insight:
Policymakers, retirement investors, attorneys, financial professionals, researchers

Institute Research Agenda Topic:
Understanding differences in consumer behavior and decision-making

UNDERSTANDING WHY PEOPLE SEEK FINANCIAL ADVICE

Definitions of **bold key terms** are at the end of this article.

LINDA S. JAMISON
is an author, public speaker, and consultant who has served in senior executive positions in the US government, including in the White House. She has worked at the United Nations and was a senior leader with the Center for Strategic and International Studies, where she was the founding dean of an international leadership academy. Jamison has trained and advised policymakers and political leaders in the art and practice of leadership both in the United States and abroad. She has a master's degree from American University in Washington, DC, and a bachelor's degree from the University of Denver.

Authors, Titles and Publication Dates of the Articles Addressed in the Insight
Maher H. Alyousif and Charlene M. Kalenkoski. 2017. "Who Seeks Financial Advice?" Available at SSRN:

Maher Alyousif has a doctorate from Texas Tech University. Professor Charlene M. Kalenkoski, PhD, is the Director of the PhD Program, Texas Tech University.

IDEAS IN THIS INSIGHT YOU CAN PUT INTO ACTION

Most studies show that few Americans actively seek advice from financial experts about how to manage their money. People who rely on their own judgment and understanding of complex financial issues often make poor financial decisions.

For their article, Alyousif and Kalenkoski used the 2012 National Financial Capability Study (NFCS), which includes a financial literacy question on each of these five topics: (1) compound interest, (2) inflation, (3) bond price, (4) mortgage interest, and (5) risk. This study examines psychological, demographic, and economic factors in order to shed light on whether consumers will look to experts for five kinds of advice: (1) managing debt, (2) handling investments and savings, (3) securing a mortgage or loan, (4) purchasing insurance, and (5) tax planning. While people who struggle with managing their money might lack the self-confidence and the understanding of how to make beneficial financial decisions, the authors contend that other factors—such as age, gender, income, and financial literacy—play a role in whether consumers will actively seek advice about financial matters.

PRINCIPAL INSIGHTS

According to national studies that measure financial education and stability, in 2015 44% of US households had less than three months of savings they could access in case of an emergency, 55% had credit scores high enough to borrow money at reasonable rates, and only 22% were confident about having saved enough money for retirement. Despite these statistics, few US adults use **financial advisors** to help them navigate the range of financial issues that most people confront. The authors state that if more adults used the services of **financial professionals**, they would be better equipped to effectively manage their money and avoid problems, especially problems that can lead to financial instability.

In discussing financial advice, the authors are referring to **consumers** who pay for professional services rather than those who ask friends, colleagues, or family members for guidance. The five most common types of these services are to help (1) manage debt, (2) handle investments and savings, (3) secure a mortgage or a loan, (4) purchase insurance, and (5) address tax planning. Popular academic explanations have historically described the reasons that people might not want to ask financial experts for advice, including the apparent practical and psychological costs. First, there is the trade-off of paying a fee or a commission in exchange for a service that might not be worth the cost. Furthermore, consumers might question the integrity of advice when financial advisors could be advancing their own interests through sales incentives and other enticements. Next, people may be reluctant to reveal personal and private information about their lives and their goals to financial professionals.

The participants in the 2012 NFCS were asked several questions to determine the level of their financial knowledge, including questions on how to calculate compound interest, the impact of inflation rates on a savings account and bond prices, the basics of mortgage interest, and ways to evaluate the safety of investments. Participants were also asked about their financial behavior in order to measure whether they could be considered financially stable. These included questions on whether they were able to pay their bills and other expenses, whether they had rainy-day savings for an emergency, and whether they had retirement savings. Interestingly, 73% of the respondents responded that they are knowledgeable about finances even though only 16% were able to answer all of the financial literacy questions correctly. Just 24% indicated that they were satisfied with the condition of their personal finances. Still, only 9% to 30% of the NFCS participants indicated they have sought any, some, or all of the five types of financial advice.

The data analysis reveals other factors that influence financial behavior by gender. In general, women are less likely than men to seek financial advice, are more financially fragile than men, and have less financial knowledge. Furthermore, women are more likely to seek financial advice about savings and investment when they are more comfortable taking risks. This likelihood increases when women know more about finances, and are more educated, less financially vulnerable, and single. When women have children, they are more likely to seek advice about insurance.

Men aged 35–54 are less likely to look for professional savings and investment services, especially compared to men 65 and older, who are more likely to look for this kind of guidance. Men of all ages with low levels of education are less likely to seek any financial guidance, although the likelihood of men looking for advice on savings, investment, and insurance increases when they are married with children.

The authors assert that less knowledge about financial matters and lower incomes may negatively impact the ability of both men and women to be financially stable, however. Likewise, the lower the income, the less likely both men and women are to seek any financial advice. As income levels rise, and as consumers learn more about basic financial matters, both men and women are increasingly likely to seek all five types of financial advice.

The degree to which adults understand basic financial matters significantly impacts their financial behaviors, particularly in states with highly ranked K–12 public education systems. When financial knowledge is low, there is less chance that adults will seek advice on savings and investment, mortgages and loans, and tax planning. And when adults are financially fragile, they are more likely to seek advice on debt.

While the authors focus on consumers seeking professional, paid financial advice, they explain that a significant unknown is the degree to which adults use social networking, colleagues, money talk shows, and the internet to gain access to financial information; any of these sources can influence their understanding of financial matters.

Looking across age, gender, income, and financial literacy, men and women of all ages are more likely to seek all types of financial advice when they have higher incomes and a higher tolerance for risk. Regardless, fewer than 30% of US adults seek any type of professional advice about financial services that can benefit them in growing and protecting their money. Closing the gap in basic financial education could induce more adults to seek financial advice. One recommendation is to require college and university students to take fundamental finance courses as a life skill that can help them evaluate when, where, and how to make the best use of professional financial advice and how to interpret the results. Another recommendation is for future researchers to focus on the trust factor of seeking financial advice. The range of services in professional specialties can be confusing, but, as consumers increase their confidence and understanding, they might reduce their anxiety about paying for services with the very commodity that they are trying to grow and protect.

To learn more, visit the Retirement Income Institute at
www.allianceforlifetimeincome.org/retirement-income-institute

KEY TERMS ARE SOURCED FROM THE ALLIANCE FOR LIFETIME INCOME'S ANNUITIES LANGUAGE GLOSSARY AND INVESTOPEDIA

consumer: *Someone who invests in annuities.*

financial advisor, financial professional: *A qualified person who can help you understand your options and make financial decisions to work toward your financial goals.*

For industry use only.