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Center for Financial Security

UNIVERSITY OF WISCONSIN-MADISON

WIS-6:
A Review of Advice Models and the Demographic Determinants of Using Financial Advisors and Counselors

The research reported herein was performed pursuant to a grant from the U.S. Social Security Administration (SSA) funded as part of the Financial Literacy Research Consortium. The opinions and conclusions expressed are solely those of the author(s) and do not represent the opinions or policy of SSA, any agency of the Federal Government, or the Center for Financial Security at the University of Wisconsin-Madison.

A Review of Advice Models and the Demographic Determinants of Using Financial Advisors and Counselors

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Abstract

While financial education programs seek to transfer information to individuals with low functional financial literacy, financial advice and counseling may prove important complements to information transfer for individuals with acute and technical financial problems. Financial advice may also help clients apply newfound financial knowledge and adhere to their stated goals. This paper reviews the literature on advice models and uses the 2009 Financial Industry Regulatory Authority Financial Capability Survey to present stylized evidence about the take-up of financial advice. The results indicate that low-income individuals, individuals with low educational attainment, and individuals with low financial literacy are less likely to access financial advice.

Statement Concerning Overlap or Complementarity with Other Funded Research: Funded under a cooperative agreement with the Social Security Administration 19-F-10003-5-01 to the University of Wisconsin Board of Regents. Portions of this work related to financial coaching funded by a grant from the Annie E Casey Foundation to the University of Wisconsin Center for Financial Security.

1. Introduction

This paper provides an overview of financial advice models in the context of crafting policies and strategies for improving individuals' financial capacity. Providers of financial advice range from technical experts who help clients with complex one-time financial transactions to generalists who help consumers plot long-term financial strategies, manage their finances, and ideally attain greater financial security through increased savings and reduced debt. However, the financial advice field is quite diverse and is not well defined. The ways in which consumers access financial advice and whether access to and use of financial advice varies by race, income, and education remain relatively unstudied. This paper sets out to review the literature on credentialed financial advising, transactional financial advice, financial counseling and financial coaching as well as explore take-up of selected forms of financial advice.

The paper begins with an overview of advice models in the context of improving consumers' financial literacy and bolstering their financial capacity. It then provides more detailed information about existing advice models, including financial advising, planning, counseling, and coaching. Next, the paper identifies populations who may benefit from and who may be expected to use financial advice services. Using the 2009 Financial Industry Regulatory Authority (FINRA) Financial Capability Survey, the paper reports summary statistics related to consumers' use of advice services across demographic groups. The paper concludes with policy and programmatic recommendations based on these findings.

2. Concerns about Consumers' Financial Capacity

The 2009 FINRA Financial Capability Survey documents a number of concerns regarding Americans' financial capability (Applied Research & Consulting LLC 2009). Although American adults believe they know how to manage their day-to-day expenses, nearly one-half of the survey respondents reported problems paying their monthly expenses and bills. Furthermore, a majority of the respondents lack emergency 'rainy day' funds, have not set aside money for college tuition, and have not tried to figure out how much money they will need during retirement. The study also found that 23 percent of respondents use non-bank or alternative lending services including payday loans, tax refund advances, pawnshops, and rent-to-own stores. Only 36 percent of respondents had obtained a copy of their credit report in the past year, and many respondents could not correctly answer simple financial literacy questions. Scores on the financial literacy questions were especially low among women, individuals with low educational attainment, African Americans, and Hispanics.

A recent study is highlights several common themes that have emerged from research on financial literacy. Agarwal et al. (2010) conclude that a large proportion of individuals lack financial literacy based on their ability to perform basic numerical tasks, that financial literacy levels vary across demographic groups, and that low financial literacy is correlated with negative financial behaviors. The authors suggest that financial counseling can facilitate improvements in financial behavior, ultimately leading to better financial outcomes. This conclusion is a common refrain among researchers and policymakers concerned with financial literacy. While counseling and financial advice more generally represent potential strategies for ameliorating gaps in individuals' functional financial literacy, questions still exist regarding how financial advice might influence financial behaviors. This paper seeks to further clarify the concept of financial advice. It sorts financial advice into several service categories and presents a review of the literature on each category. The literature review focuses on the theoretical underpinnings of each form of financial advice as well as on the empirical evidence related to the efficacy of each service category.

Financial advice does not have a standard definition but can be thought of as a third party who helps a consumer make a financial decision. Of course, advice is but one mechanism to facilitate decision making. Consumer might also benefit from education or other forms of information that aids in weighing the costs and benefits of various choices. In other cases decisions may be made for consumers (compulsory), or the decision designed to encourage a particular option through the use of defaults. Advice is therefore a component of a larger financial capacity building system available for consumers in financial markets. Figure 1 categorizes financial capacity building interventions into information/education models, advice models, and mechanism models. In this figure, information strategies are designed to increase individuals' financial knowledge. Mechanism models focus on information and choice architecture, and they rely on lessons from behavioral finance to guide consumer choices. Advice models are related to but separate from mechanism models and from information-based models. The provision of financial advice may entail analyzing technical aspects involved in making a decision and then providing a recommendation. It might also entail specific guidance during a financial crisis or for a specific decision. In addition, financial advice might be explicitly focused on behavior change, particularly in the case of financial coaching. In each case this individualized financial advice could support financial choices, but is viewed in this model as a complement to information and decision mechanisms.

Figure 1 here

3. Overview of the Financial Advice Industry

The scale of the financial advice market is difficult to estimate. According to the U.S. Bureau of Labor Statistics (BLS), 208,400 individuals were employed as personal financial advisors in 2008 (BLS 2010). About 29 percent of these individuals were self-employed. The

BLS projects that 271,200 personal financial advisors will work in the US in 2018, which is an increase of 30 percent over the 2008 figure. For comparison's sake, the BLS predicts that the accounting field will grow by 22 percent between 2008 and 2018. Given that individuals are increasingly responsible for managing their retirement savings and that Baby Boomers are nearing retirement, the demand for financial advice may indeed be increasing. In addition, the BLS estimates that 317,200 individuals were employed in the securities, commodities, and financial services field in 2008. This field is growing at a slower rate than the financial advising and accounting fields, as employment in this field is projected to increase by 9 percent between 2008 and 2018. A subset of financial advisors operates on a fee-only basis and does not accept commissions. The National Association of Personal Financial Advisors (fee-only advisors) currently has about 1,000 members in the US, representing a small subset of the overall industry (National Association of Personal Financial Advisors 2010).

Figure 2 summarizes the professional certifications within the financial advising field and the estimated numbers of advisors who work in each category. Each certification requires varying degrees of qualifications. While Certified Public Accountants (CPAs) are not personal financial advisors in the same way as financial planners, accountants may perform tax planning and offer investment advice. Therefore, CPAs are included in the list of financial advisors. It is important to note that while this list of financial advisors covers the bulk of the industry, it is not all encompassing. Other technical experts, including estate attorneys and bank trustees, may also provide financial advice to clients, but are highly heterogeneous and financial advice is generally a very small part of their overall services. This set of advisors covers the most common forms of advisors focused on personal finance issues. Appendix I contains more information about professional certifications in the financial advice field.

Figure 2 here

While financial counseling and coaching are also forms of financial advice, they are also not represented in Figure 2. Because financial counselors often serve lower-income clients, many financial counseling agencies operate as nonprofit entities. Estimates of the scale of the financial counseling field are difficult to ascertain, and what estimates do exist yield different estimates. One estimate suggests that about 2,400 local offices of nonprofit agencies offer financial counseling related to housing and mortgage problems in the US (Herbert et al. 2008). Another study suggests that over 2,100 nonprofit agencies across the US offer credit counseling, financial counseling, financial education or literacy services, or housing counseling based on IRS tax records (Collins 2010). Overall, the scale of the financial counseling field appears to be relatively small. There are no widespread credentials in this field and the number of individual counselors is not well documented. Financial coaching is a relatively new field and is closely aligned with financial counseling. Fewer than 100 coaching programs currently exist in the US (Murrell and Collins 2010). Universal standards and certifications have yet to emerge in the fledgling financial coaching field, but the field may become more standardized as it continues to grow and as coordination increases across programs.

The remainder of this paper reviews the literature for four types of advice models: technical experts, transactional agents, counselors, and coaches. To the extent a theory or rationale that underlies each form of advice is defined in the literature, this is explored and discussed in the paper. Then any empirical research concerning the take-up and effectiveness of each form of advice is also reviewed and synthesized to the extent it is available from existing literature.

4. Technical Experts

Technical experts are defined in this paper as fee-for service objective providers of highly technical information. They are a skilled professional in legal and financial aspects of personal financial products such as life, property and liability insurance, all forms of investments, loans and credit, ownership structures for small businesses, estate planning and trusts, tax planning and other highly complex issues related to consumer law and personal finance. This is information that is difficult for a typical consumer to acquire and process, and may be required only for a few key decision points over someone's lifetime.

Rationale. Stigler's seminal 1961 paper introduced the concept of returns to information search (Stigler 1961). According to Stigler's analysis, a consumer will stop gathering information at the point when the marginal benefit of additional searching equals the marginal cost (including time, effort, and other resources). Because less experienced and less educated consumers face higher marginal costs of searching for information, they will engage in less searching. Hiring a technical expert to assist in a financial decision can lower the marginal cost of searching for information relative to searching on one's own. An advisor can also lower the marginal cost of searching for information acquiring expertise on relatively esoteric topics and then spreading the costs of information across multiple clients each of whom may only need this information once in their lifetime.

Bluethgen et al. (2008) published one of the only papers that provides a detailed economic model of financial advice. The authors ground the model on mounting evidence that consumers often demonstrate significant cognitive errors when making financial decisions. The authors cite Shapira and Venezia's (2001) research on financial professionals, which concluded that financial professionals are less likely to fall prey to the disposition effect (holding losing stocks too long in hopes of a rebound and selling profitable stocks too soon) than the general public as evidence that advisors can perhaps avoid the mistakes many consumers make. In Bluethgen et al.'s model, financial advisors add value by identifying and correcting clients' cognitive mistakes. Advisors are also a mechanism to reduce the costs of information search by exploiting economies of scale by serving many clients over time and spreading the fixed costs of acquiring information across a pool of clients.

Other scholars have also published papers suggest a theoretical basis for the existence of financial advice. After constructing a theoretical model related to financial advising, Fischer and Gerhardt (2007) suggest that financial advisors can be particularly valuable for segments of the population that are prone to cognitive biases and that have low financial literacy levels. In a unique study of the neurobiological effects of financial advice, Engelmann et al. (2009) examine functional MRI images of people's brains as they receive financial advice. The advice aided clients' decision-making processes, and the MRI scans suggest that financial decisions were less taxing on the brain when participants' received advice. Haslem (2008) suggests other roles of an advisor include ameliorating feelings of insecurity, helping validate past decisions and serving as a neutral party in spousal disagreements. Haslem (2010) assesses the relationship between financial advisors and investors in light of the financial crisis in 2008 finding a role of the advisor to potentially help clients from panicking or acting irrationally in hindsight.

Empirical Evidence. Perhaps unexpectedly, some recent studies on the efficacy of financial advice conclude that financial advice has non-significant or even negative effects on financial outcomes. In the boldly titled paper, 'Financial Advisors: A Case of Babysitters?' Hackethal et al. (2010) conduct one of the most careful reviews concerning the role of investment advisors. This study controls for selection effects, as individuals who use advisors likely differ from individuals who do not use advisors in ways that affect financial outcomes. The authors find that clients who use financial advisors had lower average returns and were more likely to incur substantial losses on their investments. Further, there was no evidence that using a financial advisor led to better market timing or diversification strategies, and financial advising was linked to more trading, higher turnover, and higher trading costs. In the end, the results provide no evidence that financial advisors' fees are worth their costs. Concerning take-up, the authors find that advisors are less likely to serve investors who are younger, who have fewer assets, and who are less financially sophisticated. Since financial advising is not linked to positive outcomes, these groups may in fact benefit from their lower usage of financial advising. The authors strongly caution against policies that support financial advising as a substitute for promoting financial literacy and capability. The authors admit that investors who use advisors may well understand the true costs of these services, and that they may value their own time and effort more than the fees and poorer portfolio performance associated with financial advice. Other studies have also concluded that financial advice does not improve investment performance (see Hackethal et al. 2010; Jansen et al. 2008; Kramer and Lensink 2009; Kramer 2009). Hackethal et al.'s 2010 article uses of an instrumental variable approach using zip code level factors that predict advice but plausibly do not affect the behaviors studied (number bank branches in the zip code, availability of financial services, voter participation, and mean education levels). The authors find no effects on overall portfolio variance, systematic risk, or probabilities or sizes of losses.

While some studies have concluded that financial advice is beneficial for investors, these studies typically do not control for selection into advice. Based on data from Italian banks, Guiso and Jappelli (2006) find that financial advice increases investors' risk-adjusted returns, but the authors did not control for selection processes. Horn et al. (2009) use a change in German tax withholding laws to test whether investors make investment mistakes by purchasing tax disadvantaged assets. This natural experiment indicates that financial advice helps clients avoid tax mistakes. The authors suggest that this finding may be attributable to the fact that tax consequences are one of financial advisors' core competencies. However, Horn et al. (2009) failed to incorporate selection processes into their analysis, so the possibility of endogeneity between using an advisor and making mistakes cannot be ruled out. Haslem (2010) concludes that fee-only advisors who recommend index funds may add value to investors' funds that exceed the fees they charge. Nonetheless, when accounts advised by financial advisors are matched with accounts advised by brokers, the broker-advised accounts outperform the financial advisor accounts in all measures of performance.

In terms of take-up Bluethgen et al.'s (2008) analysis indicates that older individuals, households with higher net worth, and women are more likely to access financial advice. Hung and Yoong (2010) analyze the take-up of investment advice and construct a hypothetical experiment to measure the effects of advice on short-term financial decisions using the American Life Panel. They compare imposed, unsolicited advice to advice that is offered to and then voluntarily selected by participants. The experimental design allows the authors to estimate the causal effects of both the intent to treat and treatment on the treated, a standard experimental technique that can be used to address selection bias. The authors find that imposed, unsolicited advice does not affect behavior. On the other hand, voluntary selected advice was linked to improvements in client outcomes. The authors suggest that selection effects are negative such that individuals with the lowest financial capacity were more likely to take-up advice—a unique finding given prior studies. Almost all studies that analyze selection effects for financial capacity building interventions conclude that clients with the greatest financial capacity are the most likely to participate in financial services. The authors contend that compulsory financial advice is unlikely to be effective but that wider access to optional advice might be useful.

Summary of the Literature on Technical Experts. Overall, the academic literature on financial advice is unexpectedly rich, with many studies only released as working papers or published in the past few years. Most studies in this area focus on investment advisors, and several studies use data on European banking clients. The economic theory underlying the financial advice market is grounded on three primary suppositions: (1) the cost of obtaining financial information may be lower for individuals who work with advisors, (2) advisors can help individuals avoid making cognitive mistakes, and (3) advisors' services may simply be a less costly substitute when clients' own time and effort are more valuable than the total costs of using advisor. Several of the empirical studies fail to account for the endogeneity between clients' selection into advice and their financial capability. This selection effect on most studies appears to be positive such that clients who use financial advisors tend to be already more financially capable, with at least one study finding the opposite. This makes it difficult to estimate the causal effects of financial advising in the absence of an experiment. Too few studies use well designed quasi-experimental or experimental approaches; among the few that use valid techniques it appears advising either yields few beneficial effects on investment choices. Surprisingly, the effects of advice on investment performance may even be negative once the costs of advice are incorporated. Nonetheless, financial advising appears to be a growing field. To the extent that individuals' use of financial advisors can be viewed as a revealed preference, the demand for such services appears to be growing. Given these trends more research is required to better understand the role and mechanisms of advisors, as well as the net benefits of using an advisor for various types of financial choices.

5. Transactional Agents

One reason field studies may fail to the effects of advisors suggested by theory is that there are few examples of purely fee-based objective financial advisors in existence. Most financial advisors with technical expertise are at least in part compensated based on which financial products their clients ultimately use. This sets up a potential for a conflict of interest common in any sales transaction. Consumer often values the expertise of a salesperson; what makes transactional agents problematic in the personal finance context is that consumers may not recognize what is unbiased objective advice versus what might be a sales pitch. In practice technical experts and transactional agents are quite blended, with the same financial professional playing each role with each client. This has contributed to a rich debate in the literature as well as in the law and in public policy.

Rationale. There are a myriad of transactional agents in personal finance including real estate agents, insurance agents, and mortgage brokers to name a few. The list of potential agents is extensive and is beyond the scope of this review. Instead of focusing on specific types of transactional agents, we focus on the transactional agent as purveyor of financial advice more generally. Transactional agents may provide general financial guidance, but they typically focus on providing services related to specific transactions. There are few purely advisory financial professionals, and as such the categories outlined in Figure 1 might be better illustrated along a continuum, with the bulk of advice providers functioning as transactional agents. The potential for a conflict of interest exists when advisors are differentially compensated depending on the choice a client makes. Assuming that individuals who sell financial products have better information than consumers, this information asymmetry may lead to inefficient outcomes for consumers if consumers make choices that are not consistent with their own latent preferences. The issue of conflicts of interest in sellers' provision of information has been widely studied in economics, including in the area of financial advice.

Several scholars highlight the potential for conflicts of interest between sellers and consumers due to information asymmetries. Darby and Karni (1973) introduced the concept of credence goods, which are items that consumers can never completely evaluate (for example, the thoroughness of a medical procedure). In markets for credence goods, consumers value advisors who are able to evaluate the quality of goods or services. Demski and Sappington's (1987) study on client-agent relationships suggests that the nature of credence goods is such that sales-based compensations create further incentives to mislead clients. Unless agents are held accountable for longer-term outcomes, agents will likely fail to provide high-quality information to clients. Krausz and Paroush (2002) develop a theoretical framework that accounts for conflicts of interest and information asymmetries. Assuming that agents try to maximize their own utility, the authors conclude that investment advice will fail to correspond with investors' needs. This conclusion is further supported by Ottaviani (2000), whose model shows agents have an incentive to promote their own interests even if only a small proportion of clients are uninformed. A refined version of this paper by Inderst and Ottaviani (2009) reiterates these findings and cautions that policies regulating heterogeneous firms are not likely to succeed. Hung and Yoong (2010), building on Ottaviani (2000), observe that clients with low financial literacy may be more susceptible to abuse by the agent and that advisors appear to have an incentive to support disclosure regulations and credentialing if participants are sophisticated enough to appreciate the value of the credibility these strategies imply. However, if clients

cannot use or value the disclosures and credentials, these efforts will not succeed. Monitoring and auditing can also have positive effects, but these efforts can be costly to administer.
Despite concerns about sellers' incentives to mislead clients, other studies suggest that this problem may not be as prevalent in practice as theoretical models predict. Garicano and Santos (2004) invoke the repeated game nature of advisor-client relationships and suggesting that this relationship will undermine incentives to provide biased information. Bolton et al. (2007) argue that financial products and services are more like experience goods than credence goods. The authors suggest financial advisors match product providers to clients based on the advisors superior knowledge of the client's circumstances. The authors argue that competition creates incentives for even sales-based advisors to provide quality information. Because financial actors and institutions need to maintain relationships with their clients repeatedly over time, discipline is imposed through the loss of reputation that can be caused by biased advice. In a classic article on information unraveling, Grossman and Hart (1980) suggest that when information is verifiable, even voluntary disclosure regimes will result in full information unraveling and therefore full disclosure. In the case of product information, consumers assume that any withheld information is negative, which therefore results in full information disclosure.

Role of the Law. A common question in the papers discussed above is whether the market can self-regulate. A legal framework – developed from common law—is that of a fiduciary duty or relationship. This legal framework defines a relationship between two parties, the fiduciary and the principal. The fiduciary acts for the benefit of the principal, and the fiduciary's duty is to act only in the interest of the principal. The scope of this duty is limited to the scope of the relationship between the principal and the fiduciary, which in the personal finance field is limited to specific money matters. Fiduciary duty carries with it the highest standard of care. When the fiduciary acts or gives advice, it must be in the interest of the principal. The fiduciary cannot put his interests before that of the principal, again within the scope of the relationship.

Fiduciary duties most often arise within a contractual situation (Langevoort 2010). For example, when an individual hires an attorney to take certain actions on the individual's behalf, the attorney is bound by fiduciary duty. A stock broker (or mortgage or insurance broker, and so on) by contrast, is a salesperson and has no duty of loyalty and care. Langevoort recommends that broker-customer relationships should only be fee-based and that incentives unrelated to the customer's success should be prohibited. Link advisor compensation to portfolio performance over time instead of only relying on sales commissions is one solution to the conflict of interest embedded in transactional agents, but would difficult to implement, since most advisors cannot be expected to wait as long as a client's lifetime for compensation.

As opposed to self-regulated broker-dealers under the Financial Industry Regulation Authority (FINRA) and the Securities and Exchange Act of 1934, financial advisors are subject to the Investment Advisers Act (IAA) of 1940, which does imply fiduciary duty. The IAA may be seen as the first federal attempt to define a fiduciary duty, although it is not explicit and it is quite vague (15 USCS 80b-1). The act specifies investment advisers can only give advice on the purchase and sale of traded securities. The scope of advice and duty to investors further developed through case law. In *SEC v. Capital Gains Research Bureau, Inc*, the United States Supreme Court clarified the vague language of the IAA such that committing fraud is considered a breach of fiduciary duty, including a failure to disclose material facts to the investor. The Court concluded that an investment adviser who does not disclose material facts rises to the level of fraud, even if there was not intent to commit fraud.

The 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act amends the Investment Advisors Act of 1940 in two ways. First, Section 913 of the bill instructs and authorizes the Securities Exchange Commission (SEC) to *evaluate* the relationship between investment advisers and their customers. The SEC is to assess (among other things) how the relationship is defined, how customers understand the relationship, and how various jurisdictions enforce the relationship. The SEC is to report its findings in 2011. Second, Section 913 of the bill authorizes the SEC to promote and enforce rules for the fiduciary duty between a broker/investment adviser and his customer and prosecute or sanction an investment adviser who violates the rules of conduct the SEC imposes. A customer is defined as someone who receives personalized investment advice from an investment adviser, as well as a broker or dealer currently operating under a self-regulatory regime. The Act is clear that an advisor receiving a commission is not itself a violation of the fiduciary duty owed to the customer, however.

Mechanisms of fiduciary duty include disclosures listing the products an advisor sells and details regarding the scope and limits of the advisor's fiduciary duty ('good faith and fair dealing'). Monitoring by management is another mechanism. This is effective as long as managers review sales and make sure advisors establish why they sold the product they did (beyond the commission).

Empirical Evidence. Despite longstanding debate over the impact of the source of transactional agents' compensation on their objectivity, research in this area is fairly scarce. The best source of evidence in this regard comes from the financial planning field. Financial planners help individuals choose investments, and planners are compensated in several ways. While financial planners are generally compensated through fees, commissions, or a combination of the two, surveys yield different estimates of the source of financial planners' income. For example, a

1994 survey by the College for Financial Planning indicated that 33 percent of planners received earnings by commission only, 35 percent by fees and commission, and 8 percent by salary only (College for Financial Planning 1994). In contrast, a contemporaneous 1994 report by the International Association for Financial Planning concluded that 18 percent of planners received earnings by commission only, 58 percent by fees and commission, and 5 percent by salary (International Association For Financial Planning 1994). While these figures are now dated, they are cited here because they represent two surveys conducted in the same year failing to produce a conclusive result (Bae and Sandager, 1997).

It seems likely that the discrepancies in the findings may be due to the fact that financial planners are often compensated in multiple ways (for an example of the complexity of planners' compensation, see Hira et al. 1986). The Financial Planning Association defines fee-only as earning all of one's compensation from fees. The College for Financial Planning Survey of Trends in the Financial Planning Industry in 2009 (College for Financial Planning 2009) defines fee-only compensation as earning greater than 90 percent of one's income from fees, and fee-based compensation was defined as earning between 50 and 90 percent of one's income from fees. The survey indicated that 26 percent of advisors with the CFP® designation were fee-only, and 30 percent were fee-based. Along with earlier surveys, the 2009 survey indicates that the industry has continued to shift towards fee-based pricing and that nearly all advisors earn some form of fee-based compensation. The report suggests that more financial services are created explicitly for fee-based models. Another survey found that a majority of consumers (55 percent) prefer fee-based services and that only 20 percent prefer to pay commissions exclusively (Bae and Sandager 1997). Robinson (2007) contends that over time the arguments against commission-based financial planning have become widely accepted in the field.[1]

Despite the intuitive nature of the critiques against commission-based pricing, it is possible that some of the concerns about the conflicts of interest that arise due to commissions are overstated. Unfortunately, little empirical evidence exists regarding the effect of various pricing schemes. This dearth of empirical evidence is rather surprising given the heated debate surrounding the sources of advisor compensation and conflicts of interest. Bigel's surveys of financial planners (2000) concluded that fee-based financial planner measured scores on an ethical orientation scale was no different from commission-based planners. Similarly, Cupach and Carson (2002) conclude that neither the amount nor the type of life insurance coverage an insurance agent would recommend depended on the agent's prospective compensation. Their study was hypothetical, but it serves to undermine the notion that transactional agents recommend products based on their commissions. Finke et al. (2009) analyze the same issue of insurance sales and the use various credentials as signals of fiduciary responsibility. Using the 2004 Survey of Consumer Finances, Finke et al. find that people to use on financial planners are more likely to have adequate life insurance holdings compared to similar people using an insurance broker. The authors suggest since fiduciary duty is stronger for the former this may be evidence of the import of this legal framework. Another article suggests that in fact fee-only pricing is inferior and can cause advisors to overbill clients and to do the minimal amount of work required to maintain clients' business (Robinson 2007). Clearly, more empirical research is need in this area.

[1] The National Association of Personal Financial Advisors, which is comprised of fee-only advisors, has compiled several documents that critique commission-based pricing (see http://www.napfa.org/).

Based on the literature, several conclusions about the transactional agents can be drawn. First, it is clear financial planners and advisors are compensated from a variety of sources including fees, commissions, salaries, and retainers. This heterogeneity in income sources makes it difficult to compare data on advisors versus transactional agents since surveys and organizations use a variety of categories to classify planners' funding sources. Second, at least in theory, financial advisors who earn commissions appear to have an incentive to sell products that will garner the highest commissions, and their commissions may not be tied to the success of their advice. Thus, several organizations explicitly advocate fee-based pricing as the proper pricing structure for the industry, since it best aligns clients' interests with agent incentives. However, little empirical evidence exists in this area, and what evidence does exists suggests concerns about commission-based pricing may be overstated. The effect of compensation on advice deserves more research.

6. Financial Counseling

Counseling strategies are part of all of the advice models discussed in this paper. The dictionary definition of counseling includes "professional guidance…utilizing psychological methods…using various techniques of the personal interview."[2] The counseling field is broad, including a range of human and social services as well as therapeutic mental health services. Financial counseling as defined for this paper means a professional advisor who works with a client on specific personal financial issues, often in an attempt to remedy a serious financial problem. The counselor typically is not an investment professional or financial planner, and often lacks specific technical training in finance. Counselors also tend to focus more on basic personal financial management rather than overall planning or investing.

[2] counseling. (2010). In *Merriam-Webster Online Dictionary*. Retrieved August 19, 2010, from http://www.merriam-webster.com/dictionary/counseling

Rationale. The foundation for financial counseling is similar to expert advice in terms of the role of providing information and avoiding mistakes. But counseling is set apart from other advice models by several factors. First, counseling typically aims to help clients resolve financial crises or barriers. For example bankruptcy counseling and credit counseling seeks to help clients address acute financial problems. Another form of counseling is aimed at helping marginal clients to qualify for a mortgage or small business loan. Counseling can delve into the client's personal circumstances and develop a course of action in response to the current situation. Second, like other models, counseling involves the provision of financial information. However, counseling also entails directing, instructing, and motivating clients (Kerkmann 1998) especially since individuals in crisis contexts may not know what options are available to them or have difficulties in searching for and processing information. Counseling can connect clients to public and private resources, and may be especially useful in helping clients navigate the bureaucratic requirements for obtaining such resources. Financial counselors can help clients make sound decisions at a time when emotional stress is distorting their decision-making processes. Third, counseling services are unrelated to a specific branded financial product. Counselors are typically not compensated based on commissions or sales-related goals. Because counseling often targets people in financial crisis with limited ability to pay, counselors tend to have lower wages and fewer credentials. While the costs of counseling are lower than technical expert advisors, counseling costs are still often subsidized by public or private sources. This cost and funding structure leads to a large role for nonprofit or public organizations as providers of counseling services.

Financial counselors generally work with clients across a range of financial topics, but individual counseling agencies typically specialize in a particular area of counseling. Each form of financial counseling is distinct in practice and is typically treated independently in the academic literature. The federal government has increasingly enacted policies that either mandate or promote financial counseling in certain circumstances. The Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 (BAPCPA) and the 2008 National Mortgage Foreclosure Mitigation Counseling Program (NMFMCP) are the two most notable examples of federal policies that promote financial counseling. The BAPCPA requires individuals to complete counseling prior to filing for bankruptcy, and the NMFMCP represents an investment of nearly one-half billion dollars in mortgage default counseling over a four-year period. The NMFMCP was enacted directly in response to the spike in foreclosures that accompanied the decline of the U.S. housing market in 2007. States have also experimented with various financial counseling initiatives.

Empirical Evidence. While public investment in financial counseling services has increased dramatically over the past few years, few studies have analyzed the impact of financial counseling. A number of recent studies have focused on counseling provided to homeowners who are delinquent on payments. Collins (2007) studied a small sample of 299 clients who received face-to-face and/or telephone-based counseling for mortgage default. Using an instrumental variable of the number of marketing materials the city used to promote counseling in each zip code, each additional hour of counseling reduced the probability of negative foreclosure outcomes by 3.5 percent. Ding, Quercia, and Ratcliffe (2008) studied a similar form of mortgage default counseling delivered via telephone finding the odds of reinstating the defaulted loan were 50 percent higher for borrowers who received counseling than for non-counseled borrowers. Quercia and Cowan (2008) used number of hours in counseling as an exposure measure to estimate effects. Each hour reduce the odds of foreclosure by 10 percent.

This study did not control for selection, however, and included a mix of counseling programs and delivery. A preliminary evaluation of the National Foreclosure Mitigation Counseling Program (NFMCP) (Mayer et al. 2009) finds counseling helps mortgage borrowers who are behind on payments to avoid foreclosure and to receive more favorable loan modifications from their lender to reduce their monthly payment. Collins and Schmeiser (2010) find strong evidence of negative selection into loan default counseling, as borrowers in the most difficult predicaments are most likely to participate. However, controlling for negative selection, counseling is consistently linked to an increase in the probability that borrowers will receive a favorable loan modification. The authors find mixed evidence on the effectiveness of counseling in terms of reducing the probability that borrowers will lose their homes to foreclosure, however. The authors conclude that the timing of default counseling is an important determinant of outcomes. Counseling in the early stages of default problems is effective than counseling when seriously delinquent.

Two studies were located that examine credit counseling—typically focused on consumer credit cards and other consumer loans rather than mortgages. Elliehausen et al. (2007) evaluate credit counseling using a quasi-experimental design. Counseling clients in their dataset participated in an initial 60- to 90-minute session, and some clients attended more than one credit counseling session. A non-experimental comparison group was comprised of similar borrowers who did not receive counseling. The estimated benefits of counseling decreased sharply after controlling for selection into the program—a signal of strong selection bias. Among counseled borrowers in the lowest credit score quintile, credit scores increased by only three-fifths of 1 percent more than the comparison group. There were non-significant effects on credit scores for individuals outside of the lowest credit score quintile. Aside from credit scores, counseling was also estimated to reduce debt by 10 percent among individuals with low credit scores. Lyons et al. (2008) evaluate one-on-one telephone pre-bankruptcy credit counseling sessions, which lasted between 60 and 90 minutes. Participants completed pre- and post-tests, and mean composite financial knowledge scores across five true/false questions improved by 6.5 percent. However, the treatment was not linked to behavior changes.

Evaluations of pre-purchase homeownership counseling focus primarily on affects on subsequent mortgage performance. Hirad and Zorn (2002) conducted an often cited quasi-experimental evaluation of pre-purchase counseling's impact on 90-day delinquency rates. The authors compared a non-randomized comparison group to borrowers who completed four modes of counseling: in-person, classroom, home-study, and telephone. When selection and assignment processes are modeled, however, only classroom counseling led to a statistically significant decline in 90-day delinquency rates. Hartarska and Gonzalez-Vegas show a small increase in loan borrowers paying off their loans (typically a sale or refinance) and a decrease in mortgage default relative to a non-random comparison group (Hartarska and Gonzalez-Vega 2005, 2006). Unobserved selection effects of borrowers who enrolled in the program relative to non-participating borrowers could explain these findings however. Quercia and Spader (2008) evaluate four modes of counseling delivery: classroom, individual, home-study, and telephone. The authors find that no form of counseling affects borrowers' propensity to default on their loan. Since the mode of counseling was not randomly assigned, the potential for selection bias remains. Agarwal et al. (2009) counseling where clients both attended an educational classes and participated in one-on-one counseling. The authors conclude that the combined program significantly decreased default rates. In addition to the counseling program, the education and the type of mortgages offered to clients could also explain the result.

Overall, this literature shows the same issues as the technical financial advisor literature-selection effects and heterogeneous program design. Careful analysis to account for selection negates most of any descriptive findings. Counseling appears to have some positive but small effects. The literature does not preclude the value of internet or phone counseling, nor does it test the variety of contexts in which counseling occurs. This remains a rich area for further study.

7. Financial Coaching

Financial coaching is a newly emerging subset of the broader behavioral coaching field. As such many insights to this newly emerging field can be draw from the more general literature on coaching psychology. The idea of coaching started in business organizations, where experienced employees are trained to coach new employees. The purpose of coaching in these settings is to pass on valuable knowledge as well as to act as a role model for new employees (Binger and Huntsman 1988; Gorby 1937). Today, the term 'coaching' has been applied to a wide range of activities, including executive coaching for senior managers. Executive coaching focuses on upgrading managers' technical and leadership skills (Fillery-Travis and Lane 2006). Coaching has also been applied to personal contexts such as life coaching, which helps clients determine and achieve personal goals (Grant 2003). Financial coaching is emerging as a branch of life coaching that focuses on the attainment of personal financial goals.

Biswas-Diener and Dean (2007) contend that coaching is a subset of positive psychology, since it focuses on utilizing personal and social strengths to attain goals and achieve happiness. Positive psychology focuses on using human strengths, positive qualities, and virtues to help individuals enhance their lives (Linley and Harrington 2008). There appears to be some debate over the position of coaching within the field of psychology, as Grant positions coaching in the realm of traditional psychology rather than in positive psychology (Grant 2008). Regardless, coaching is distinct from clinical therapy. Whereas clinical psychologists and counselors work with clients who have an illness or are dysfunctional, coaching psychologists work with clients who do not suffer from mental illness and instead want to attain specific goals in their work and personal lives. Grant (2008) notes that a variety of definitions of coaching exist, though all definitions agree that clients must be free of any serious mental health issues and that coaching is often solution or outcome focused. In recent years, formally trained psychologists have become increasingly involved in coaching, lending credibility to the discipline.

The academic literature on coaching psychology, which is a new but fast growing area of research, suggests that coaching is best applied to clients who have at least a modest record of past success upon which they can build. Clients in crisis and individuals facing an array of social, physical, mental, and financial problems likely need direct counseling interventions first, but they may be candidates for coaching once these critical issues are addressed (Grant 2001). Ideal coaching clients are interested in improving their situations—they have goals and are ready to begin making changes. Clients not yet at this stage may benefit from a variety of non-coaching services before they are ready to begin coaching. Some clients need to be engaged in supportive services during and after working with a coach. In some cases working with a coach may help motivate clients to acquire additional information or seek advice on how to solve previously neglected problems.

While at least one author brands coaching as 'simply a repackaging of certain practices that were once subsumed under the more general terms consulting or counseling' (Tobias 1996), coaching is distinct from therapy (Hart et al. 2001). Coaching and therapy share a theoretical background as well as core practice skills including listening and forming a one-to-one relationship between practitioners and clients. The intentions of coaching and therapy differ, however. Coaching is more goal oriented and results focused than therapy. Coaches always concentrate on achieving goals defined by the client. In contrast, therapy might focus on the reasons behind problems regardless of their relationship to goal attainment. Coaches pay more attention to the future, while therapists tend to look at issues in the context of the past (Bluckert 2005b). While therapists adopt more of a caretaking or healing role with their clients, coaching focuses on forming collaborative alliances with clients. There may also be less stigma associated with seeing a coach rather than a traditional counselor (McKelley and Rochlen 2007).

Some coaches use the GROW model, which was developed out of counseling psychology in the 1980s (Passmore 2008). This model has four stages: (1) identifying goals, (2) reviewing reality, (3) generating options, and (4) agreeing on a way forward. Passmore argues that this traditional model works best with clients who are motivated to learn and who have personal goals that are part of a wider vision for their life. Solution focused coaching directs attention away from a client's problems to potential solutions (O'Connell and Palmer 2008), and it encourages clients to use their existing skills and knowledge to find individual and creative solutions to their challenges. Solution focused coaches ask clients to set small, identifiable goals and to develop strategies to achieve those goals. Coaches often assign tasks in between sessions that involve making incremental changes on a daily basis.

Financial coaching addresses self-control problems in three ways. First, coaching helps clients set specific and attainable goals. Goal-setting helps bring a planned action into conscious awareness where it can better compete for executive attention. Goals motivate clients to take action. The second facet of coaching that facilitates self-control is external monitoring. Coaches keep track of clients' progress through regular contact. External monitoring can prove more effective than self-monitoring in terms of clients' adherence to their goals (Ariely and

Wertenbroch 2002). Third, coaching seeks to enhance clients' willpower. Feedback and support from an can strengthen clients' resolve (Joseph 2005). Furthermore, as coaching clients practice self-control, they gain confidence in their ability. Higher self-efficacy improves clients' ability to restrain impulses, which is the definition of willpower (Bandura and Wood 1989). Coaching integrates goal-setting with monitoring and willpower to enhance self-control, potentially leading to greater adherence of clients to planned behavior.

Psychologists advocate goal setting as a means for acquiring knowledge and achieving personal success. Locke and Latham found that goals impact performance through four specific mechanisms: (1) goals serve a directive function by drawing attention and effort toward goal-relevant activities and away from goal-irrelevant activities; (2) goals have an energizing function by leading to greater effort; (3) goals affect persistence and time spent on an activity; and (4) goals affect action indirectly by leading to the arousal, discovery, or use of knowledge and strategies relevant to the task (Locke and Latham 2002).

A coach is an external resource who can help clients form realistic personal goals and then identify incremental steps towards achieving them. Clients to set their own goals; goals are not externally imposed. Coaches may or may not personally endorse a client's goal, but coaches supportively encourage the client to make progress towards goals that are realistic, measurable, and attainable. In general, the coaching relationship is non-judgmental and based on both the client's trust in the coach and on the coach's trust that the client will perform (Bluckert 2005a).

In the last decade, a growing number of for-profit and nonprofit entities have adopted the term 'coaching' to describe services designed to help clients reach their financial goals. In 2007, a report for the Annie E. Casey Foundation indicated 40 financial coaching programs exist that target low- and moderate-income populations (Collins et al. 2007). Interest in financial coaching stems from a desire to go beyond financial literacy and to help individuals realize behavior changes. Financial coaching is differentiated from financial counseling in that coaches provide advice and encouragement, and do so through a process largely driven by the client. Coaching is not designed to aid clients in acute crisis resolution, nor is it explicitly designed to convey technical information or advice to clients. Nevertheless, some programs use the term 'financial coaching' to describe education, advice, mentoring, or other services. The real value of the coach comes in helping people to achieve their goals, despite all too human procrastination and self-control failures.

A financial coach helps clients organize information and direct their behavior towards a goal. Given the distractions of life, individuals may not prioritize basic organizational necessities including monitoring bank account balances, tracking bills, and managing income. This lack of attention can lead to neglect and eventual avoidance of financial related tasks, especially as the costs of neglect (dwindling balances, late fees, and fund imbalances) reinforce negative experiences. A financial coach helps clients focus on managing these details and also gives clients opportunities to practice positive behaviors over a relatively short time period.

Financial coaching may also inspire clients to seek financial education, financial products, and services that meet their needs. Coaching can also help clients receive more value from financial counseling and advice by implementing the plans or strategies developed by advisors or counselors. Combining coaching with other services has the potential to help individuals realize changes in their financial behaviors, which can in turn enhance their financial security.

Because coaching focuses on helping clients' attain goals rather than on providing detailed financial advice, coaches do not have to be experts in financial matters. From a service delivery perspective, the financial coaching approach relieves the burden on existing counselors to be experts who can advise clients and fix problems. By transferring the responsibility of goal formation and attainment to clients, staff may feel more confident in their work and experience lower rates of burnout and turnover. While coaching may initially require spending more time with clients, the focus on positive behavior may over time result in more resilient clients who are better able to weather future problems, requiring less support in the long run.

Empirical Studies. Since financial coaching is such a new field, little evidence about its effectiveness has emerged. However, evaluations from other fields suggest that financial coaching is a promising strategy for enhancing clients' financial security. In health care settings, coaching has shown promise for improving fitness and treating chronic disease. In one study, individuals in California who had chronic health conditions had the opportunity to participate in health coaching, self-care training, community resource referrals, and a fitness program (Tidwell et al. 2004). The authors concluded that in the area of health promotion coaching could enhance adherence to treatment as part of a multi-faced approach. Another study looked at health coaching with diabetic women. Women who participated in the program reported higher treatment satisfaction, had higher attendance, and had lower attrition rates than women in the control group (Whittemore et al. 2004).

8. Demographic Determinants of the Take-up of Financial Advice

A number of factors may motivate people to seek financial advice. Knowledge levels clearly play a role. Financial literacy is strongly and positively associated with seeking financial planning advice (Lusardi and Mitchell 2008). But race and culture can also play a role in who seeks financial advice. One study of Latinos found low levels of financial literacy and low rates using financial advice, both because the predominance of smaller low-wage employers with this population which are less likely to offer financial services to employees than larger firms, and because Latinos favor seeking advice from family and friends than from more formal channels (Richman et al. 2008).

Disability status is another potential predictor of one's propensity to seek financial advice, although the impact of disability status on financial behavior is rarely studied. At least one study on the provision of advice addresses parents of children with disabilities (Sloper 1999). Parents of children with disabilities experience high levels of stress and are in contact with a number of service agencies that provide health, education, housing, and other benefits and support. These agencies often lack coordination with one another, which causes confusion and puts further demands on the parents of children with disabilities. The study concludes that advice models are more beneficial when provided in a holistic context.

Other studies have also examined variations in the use of financial advice across demographic groups. Hackethal et al. (2010) conclude that being self-employed increases the probability of using a financial advisor by 6.5 percentage points, that males are less likely to use a financial advisor, that married clients are less likely to use a financial advisor, that clients over 50 years old are more likely to use a financial advisor, and that being over 60 years old increases the probability of using a financial advisor by 15 percentage points. Haslem (2008) concludes that investors who are older, who are female, and who have larger asset levels are more likely to seek financial advice. Individuals who receive a lump sum of money or who are experiencing an important life event are also more likely to seek financial advice. Gerhardt and Hackethal (2009) find that investors who are female, older, married, risk-averse and have more wealth are more likely to use financial advisors. Elmerick (2002) et al. found that about 20 percent of households use financial planners for advice on credit and borrowing, savings and investment, or both. Income, education, and assets are also positively related to the likelihood of using an advisor. Hung and Yoong (2010) find that among a range of demographic factors, the only statistically significant predictor of advice seeking is marital status.

Given these findings, it seems clear that use of advice models is widely varied. It also seems that the notion on the literature that advice can overcome problems faced by low-literacy people maybe misguided, at least if these households are less likely to seek out advice. Yet studies in these areas cover multiple countries and time periods, and each uses different methodologies. As a final exercise this paper seeks to construct a simple model of who takes up various forms of advice using newly available data in the U.S. domestic context.

Data. The National Financial Capability Study was commissioned by FINRA in 2009 to survey 1,488 people in the US on a range of financial characteristics. Using a random-digit-dialed telephone survey with over-sampling by selected demographic variables, the dataset provides a reasonable cross-section of respondents regarding financial issues (for more on the survey see: http://www.finrafoundation.org/).

One section of the survey contained this question: ‘In the LAST 5 YEARS, have you asked for any advice from a financial professional about any of the following? 1) Debt counseling, 2) Savings or investments, 3) Taking out a mortgage or a loan, 4) Insurance of any type, and 5) Tax planning.’ This question was followed with a question regarding searching for an advisor (‘typically, when looking for a financial professional, do you meet with or talk to more than one advisor before making a choice?’). Another question asked, ‘Have you ever checked with a state or federal regulator regarding the background, registration, or license of a financial professional?' Finally, three attitude questions are asked: 1) 'I would trust financial professionals and accept what they recommend,' 2) 'Financial professionals are too expensive for me,' and 3) 'It is hard to find the right financial professional for me.' These questions were rated on a 1 to 7 scale with 1 meaning 'Strongly Disagree' and 7 'Strongly Agree.'

Statistical Specification. The survey includes demographic characteristics, which allows for a general illustration of consumers' take-up of advice and their attitudes towards advisors by gender, age, race, education, income, financial literacy, and negative financial experiences. Information on the variables used in this analysis is provided in Appendix II. Using an OLS linear probability specification with corrections for heteroskedastic errors, the following specification is used:

Eq. 1 $$Y = \alpha + \beta 1(\text{gender}) + \beta 2(\text{age group}) + \beta 3(\text{racial group}) + \beta 4(\text{education level}) + \beta 5(\text{income level}) + \beta 6(\#\text{ children}) + \beta 7(\text{owner}) + \beta 8(\text{fin lit score}) + \beta 9(\text{fin lit perception}) + \beta 10(\text{difficulty paying bills}) + \beta 11(\text{large drop in income}) + \beta 12(\text{regional fixed effects}) + \varepsilon$$

where Y is the take-up of debt advice, savings or investment advice, mortgage or loan advice, insurance advice, and tax planning. An additional model defines Y as any form of advice, meaning at least one of the prior dependent variables is positive. A second set of models defines the dependent variable Y as an indicator of whether the respondent met with multiple advisors or checked their advisors' backgrounds. Finally the three 1 to 7 scale attitudinal measures of trust, perceived costs, and difficulty in finding an advisor are modeled using a standard OLS model with robust standard errors. These models are intended to test for differences in the take-up of advice by various demographic characteristics, including the extent to which populations with historically low savings rates access such services. This also captures the effect of financial literacy and awareness on consumers' take-up and perceptions of financial advice. Ideally this will test the extent to which financial capacity is complemented by advice models, and therefore the extent to which financial advice might substitute for financial capability. Finally, drops in income are included in the models to test whether various trigger events or other contexts might cause people to access financial advice.

Findings. Table 1 shows that overall 57 percent of survey respondents report receiving some form of financial advice. In terms of the individual forms of advice, 8 percent report obtaining advice on debt management, 24 percent report receiving advice on a loan, 21 percent report seeing a tax planner, and about one-third report obtaining advice on insurance and investing. Figure 3a shows differences in the take-up of any form of advice by age, 3b by income, 3c by education level, and 3d by race/ethnicity. Overall, a predictable pattern emerges. Individuals with higher incomes and higher educational attainment are more likely to take-up advice of any kind. Younger respondents and racial/ethnic minorities are less likely to take-up financial advice. Figures 3e to 3h display similar findings for receiving advice specifically related to investing and saving.

Table 1 here

Of course, these simple means might obscure interactions among demographic factors. Table 2 shows take-up of advice controlling for the variables described in Eq. 1. Here it appears that the take-up of each form of advice varies across several demographic characteristics. For instance, the take-up of debt advice modestly increases with education (at least some college relative to no high school) as well as with greater income levels. As might be expected, self-reported difficulty in paying bills is related to the take-up of debt advice. The take-up of advice on savings and investing is less likely among males, which is consistent with prior studies. The take-up of savings and investing advice also increases significantly at higher income levels (a test of coefficients also suggests higher education has significant effects over college education alone). Here, performance on financial literacy test questions has a positive effect, with more literate people seeking investment advice at higher rates. Self-reported financial literacy has weaker effects.[3] Experiencing a large drop in income is also associated with seeing a financial advisor. Overall, savings or investment advice is unrelated with age after controlling for the other factors, but a strong income and education effect exists such that people with higher incomes or more education are more likely to report taking-up such advice. This is consistent with the most financially capable people being more likely to use investment advisors. An income effect is also observed for advice on loans or mortgages, with higher income individuals much more likely to report the use of such advice. Homeowners are also more likely to have received advice on loans, likely due to their mortgages. Again, males are less likely to report using such advice. Insurance advice shows similar positive associations with education and income, and here again males are less likely to use this form of advice. Notably, African American respondents are more likely to use insurance advice, perhaps due to the role of targeted insurance brokering and marketing to this group. Having more children increases the likelihood of receiving insurance advice, as does greater financial knowledge scores and self-reported financial literacy. There is a positive relationship between seeking advice on insurance and experiencing an unexpected drop in income. Tax planning advice follows the same income and education patterns as savings/investment and insurance advice. An unexpected drop in income is associated with a higher likelihood of using tax advice, as is having higher self-reported financial literacy. Here the Hispanic/Latino race indicator suggests a lower rate of tax advice take-up among Hispanics. Overall, the take-up of any form of advice indicates that males and Hispanics are modestly less

[3] Correlation of financial literacy score with self report score=0.207

likely to take-up advice. Homeownership, income, education, and financial literacy are generally associated with increases in the use of financial advice across the six regression outputs.

Table 2 here

Table 3 displays the regression outputs concerning clients' attitudes and behaviors surrounding financial advising. Regarding clients' trust in financial advisors, males, people who had experienced a large drop in income, and homeowners were less likely to agree that they trust financial advisors. Advisors were perceived as being too expensive by Asian respondents controlling for other factors. There are clear income effects. As income rises the likelihood of agreeing that advisors are too expensive drops significantly, and people with higher incomes are more likely to report meeting with multiple advisors. Meanwhile, individuals struggling to pay their bills are more likely to think advisors are too expensive and difficult to find. Individuals with higher self-reported financial knowledge were more likely to check advisors' backgrounds and to meet with multiple advisors, but actual financial literacy scores were non-significant across all of the models.

Table 3 here

Overall, these findings suggest strong income and education effects such that the use of advice is more likely among individuals with higher incomes and higher educational attainment.[4] There are modest race effects, as minorities are less likely to receive some services. Controlling for other factors age did not have strong effects. A recent drop in income is associated with higher take-up of services. Gender has effects in several models. Prior studies suggest that young and male investors seek relatively less advice since they are more likely to be subject to overconfidence bias (Odean 1999).

[4] Post regression tests of coefficients suggests significantly different beta estimates at higher education and income levels relative to lower levels as well.

These results suggest advice—with the exception of the relatively infrequently used debt advice—is a complement to financial capacity or capability. As income, education and financial literacy increase, the use of advice services might be predicted to also increase according to these findings. Of course, this might also suggest that lower-functional literacy consumers—the people who may most need advice to avoid negative financial outcomes—are among the least likely to take it up. While advice should be most valuable to people with lower education levels, both because they may have higher information acquisition and cognition costs as well as because they are more likely to make errors, these results do not support such a conclusion. These data suggest higher income people consume more advice, perhaps due to the potential of larger perceived marginal benefits, greater willingness/ability to pay, or the mix of investment products which may be more closely tied to advisor-sales networks

Policy Implications and Conclusions

This paper summarizes the wide range of studies addressing various advice models. The literature was perhaps richer in some respects than expected but lacking in terms of critical areas such as evidence of impact. There are theoretical constructs or rationales that can be used to support various forms of advice models, although the role of technical financial advisors is the only areas to have been formally modeled in the literature.

One contribution of this paper is the development of a model to categorize advice models within a larger financial capacity building field, and then to develop sub categories within the advice models. The distinctions between technical expert advisors, transactional advisors, counselors and coaches are admittedly arbitrary in some regards, but do reflect legitimate differences in practices across the field. While not intended as a comparative analysis, this paper also provides a useful summary of each model of advice. Give the new nature of financial coaching this proved to be the least well studied area, although this model benefits from a growing literature in psychology. Expert financial advisors are among the more widely studied models, especially by economists. Yet despite the development of theoretical models, evidence of impact is lacking in the literature. Financial counseling presents the opposite; many applied studies on impact but little theoretical work from any field suggesting the mechanisms of counseling. The transactional agents literature is also well developed, but given the recent shifts in regulations for brokers/advisors this is an area for more study.

Regarding take up, the empirical results are illustrative that (1) a majority of respondents say they have used some form of financial advice (2) low-literacy people are less likely to obtain advice (3) factors correlated with low financial capability also suggest lower use of advice. Thus it appears advice is an important part of the landscape for consumers. If broadening access to advice is a policy goal more efforts might be needed to increase the availability of low-cost, objective, quality advice for lower educated and lower income households. There is a high correlation between advice seeking and financial literacy. As such advisors may gain more demand for services as financial literacy levels increase. Financial coaching holds promise but remains the least well developed of the four models.

Overall more research is needed to better define, quantify and measure the impact of each of the advice models presented. Issues of causal effects will require new data or even programmatic experiments. Such evidence can help inform policy decisions and guide consumers regarding the value of paying for professional advice.

Acknowledgements
Stephanie Chase, Collin O'Rourke, and John Rehbeck provided invaluable research assistance.

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Tables and Figures

Table 1: Descriptive Statistics of 2009 National Financial Capability Survey

	Mean	SD	N	Min	Max
Seen advisor: Debt (1=Yes)	0.080	0.272	1485	0	1
Seen advisor: Investing (1=Yes)	0.333	0.472	1485	0	1
Seen advisor: Loan (1=Yes)	0.235	0.424	1486	0	1
Seen advisor: Insurance (1=Yes)	0.337	0.473	1485	0	1
Seen advisor: Tax planning (1=Yes)	0.209	0.406	1481	0	1
Received any advice	0.567	0.496	1488	0	1
Trust advisor (1=Strongly disagree, 7=Strongly Agree)	3.950	1.769	1468	1	7
Advisors too expensive (1=Strongly disagree, 7=Strongly Agree)	4.323	2.021	1456	1	7
Difficult to find advisor(1=Strongly disagree, 7=Strongly Agree)	3.930	1.936	1452	1	7
Met multiple advisors (1=Yes)	0.566	0.496	828	0	1
Checked advisor background (1=Yes)	0.144	0.351	840	0	1
Gender (Male=1)	0.484	0.500	1488	0	1
Age 18-34 yrs (Constant)	0.306	0.461	1488	0	1
Age 35-54 yrs	0.374	0.484	1488	0	1
Age 55+ yrs	0.320	0.467	1488	0	1
Caucasian (Constant)	0.640	0.480	1488	0	1
African American	0.124	0.329	1488	0	1
Hispanic	0.102	0.303	1488	0	1
Asian	0.101	0.301	1488	0	1
Other Race	0.034	0.180	1488	0	1
No high school (Constant)	0.102	0.303	1488	0	1
High school	0.276	0.447	1488	0	1
Some college	0.496	0.500	1488	0	1
Graduate degree	0.126	0.332	1488	0	1
Income under 25k (Constant)	0.307	0.461	1488	0	1
Income 25-50k	0.241	0.428	1488	0	1
Income 50-100k	0.284	0.451	1488	0	1
Income above 100k	0.168	0.374	1488	0	1
# of children (0=No children, 4=4 or more children)	0.962	1.194	1488	0	4
Home owner (1=Yes)	0.618	0.486	1483	0	1
Financial literacy score (0=Low, 5=High)	2.783	1.398	1488	0	5
Self report financial knowledge (1=Very low, 7=Very high)	5.022	1.505	1481	1	7
Difficult to pay bills and expenses (1=Yes)	0.467	0.499	1485	0	1
Large drop in income (1=Yes)	0.324	0.468	1481	0	1

Table 2: OLS Results of Financial Advice Obtained from Advisor

	Seen advisor: Debt	Seen advisor: Investing	Seen advisor: Loans	Seen advisor: Insurance	Seen advisor: Tax planning	Received any advice
Gender (Male=1)	-0.0099	-0.0486*	-0.0441*	-0.0680**	-0.0186	-0.0495*
	(0.0145)	(0.0237)	(0.0223)	(0.0246)	(0.0206)	(0.0246)
Age 35-54 yrs	0.0213	-0.0175	-0.0291	0.0221	-0.0188	-0.0090
	(0.0199)	(0.0307)	(0.0304)	(0.0319)	(0.0265)	(0.0323)
Age 55+ yrs	0.0216	0.0226	-0.1492**	-0.0473	-0.0089	-0.0464
	(0.0205)	(0.0329)	(0.0318)	(0.0344)	(0.0293)	(0.0355)
African American	0.0292	-0.0317	-0.0281	0.0862*	-0.0182	0.0124
	(0.0252)	(0.0348)	(0.0312)	(0.0383)	(0.0291)	(0.0381)
Hispanic	0.0178	-0.0357	0.0109	-0.0324	-0.0599+	-0.0779+
	(0.0272)	(0.0390)	(0.0385)	(0.0399)	(0.0322)	(0.0427)
Asian	0.0087	-0.0982*	-0.0506	-0.0589	-0.0102	-0.0720
	(0.0253)	(0.0434)	(0.0380)	(0.0429)	(0.0408)	(0.0449)
Other Race	0.0110	-0.0374	0.0261	0.0155	0.0094	0.0473
	(0.0425)	(0.0615)	(0.0590)	(0.0658)	(0.0542)	(0.0684)
High school	0.0081	0.0185	-0.0183	-0.0180	-0.0070	0.0204
	(0.0236)	(0.0345)	(0.0349)	(0.0389)	(0.0284)	(0.0451)
Some college	0.0461+	0.1210**	0.0303	0.0868*	0.0386	0.1386**
	(0.0254)	(0.0362)	(0.0363)	(0.0405)	(0.0299)	(0.0452)
Graduate degree	0.0443	0.2384**	0.0679	0.1044+	0.1334**	0.1813**
	(0.0323)	(0.0533)	(0.0512)	(0.0554)	(0.0500)	(0.0566)
Income 25-50k	0.0585**	0.1118**	0.0785**	0.1322**	0.0237	0.1629**
	(0.0226)	(0.0315)	(0.0274)	(0.0332)	(0.0244)	(0.0374)
Income 50-100k	0.0452+	0.2065**	0.1840**	0.2049**	0.1165**	0.2636**
	(0.0233)	(0.0366)	(0.0331)	(0.0369)	(0.0302)	(0.0394)
Income above 100k	0.0527+	0.1986**	0.1811**	0.2170**	0.2476**	0.2366**
	(0.0269)	(0.0471)	(0.0427)	(0.0466)	(0.0419)	(0.0483)
# of children	0.0015	-0.0090	0.0152	0.0230*	0.0079	0.0109
	(0.0070)	(0.0104)	(0.0111)	(0.0114)	(0.0097)	(0.0113)
Home owner (1=Yes)	-0.0398*	0.0510+	0.0752**	0.0254	0.0227	0.0600+
	(0.0197)	(0.0284)	(0.0273)	(0.0296)	(0.0238)	(0.0312)
Financial literacy score	-0.0017	0.0290**	0.0032	0.0202*	0.0157+	0.0304**
	(0.0059)	(0.0095)	(0.0087)	(0.0095)	(0.0086)	(0.0100)
Self report financial knowledge	0.0000	0.0143*	0.0037	0.0173*	0.0143*	0.0269**
	(0.0052)	(0.0071)	(0.0067)	(0.0078)	(0.0067)	(0.0083)
Difficult to pay bills and expenses	0.0882**	-0.0378	0.0440+	0.0441	0.0069	0.0226
	(0.0166)	(0.0270)	(0.0252)	(0.0276)	(0.0224)	(0.0280)
Large drop in income	0.0338*	0.0685**	-0.0240	0.0752**	0.0804**	0.0859**
	(0.0172)	(0.0259)	(0.0238)	(0.0272)	(0.0234)	(0.0268)
Census region: Midwest	0.0301	-0.0353	-0.0101	0.0482	0.0517+	0.0252
	(0.0211)	(0.0358)	(0.0335)	(0.0362)	(0.0314)	(0.0376)
Census region: South	0.0203	0.0007	0.0054	0.0790*	0.0078	0.0492
	(0.0191)	(0.0333)	(0.0309)	(0.0333)	(0.0278)	(0.0343)
Census region: West	0.0398+	-0.0370	0.0115	0.0540	0.0787*	0.0613+
	(0.0216)	(0.0367)	(0.0337)	(0.0360)	(0.0321)	(0.0371)
Constant	-0.0505	-0.0031	0.0981+	-0.0789	-0.0778	0.0267
	(0.0402)	(0.0596)	(0.0561)	(0.0616)	(0.0527)	(0.0656)
Observations	1468	1467	1468	1466	1464	1469
R^2	0.050	0.147	0.101	0.116	0.121	0.165
Mean VIF	1.69	1.69	1.69	1.69	1.69	1.69

Robust standard errors in parentheses

Regressions were run with marriage and employment dummies, but dropped since negligable effects and low significance

$^{+}$ $p < 0.10$, * $p < 0.05$, ** $p < 0.01$

Table 3: OLS Results of Behaviors, Searching for Advisors and Feelings Toward Advisors

	Trust advisor	Advisors too expensive	Difficult to find advisor	Met multiple advisors	Checked advisor background
Gender (Male=1)	-0.2152*	-0.1546	-0.0583	0.0746*	-0.0269
	(0.0957)	(0.1081)	(0.1067)	(0.0362)	(0.0253)
Age 35-54 yrs	-0.2545*	0.0901	-0.0363	-0.0432	-0.0071
	(0.1221)	(0.1384)	(0.1318)	(0.0446)	(0.0308)
Age 55+ yrs	-0.1348	-0.1247	-0.2850+	-0.1393**	-0.0306
	(0.1377)	(0.1518)	(0.1494)	(0.0521)	(0.0365)
African American	-0.0148	-0.3432+	-0.1484	0.0866	0.0329
	(0.1636)	(0.1860)	(0.1707)	(0.0565)	(0.0411)
Hispanic	0.0486	0.1476	0.0037	0.0080	0.0526
	(0.1547)	(0.1818)	(0.1721)	(0.0644)	(0.0488)
Asian	0.0881	0.6093**	0.3315+	0.0490	0.0619
	(0.1523)	(0.1669)	(0.1764)	(0.0625)	(0.0489)
Other Race	0.2673	0.1733	0.0337	-0.0535	0.0517
	(0.2758)	(0.2780)	(0.2858)	(0.0900)	(0.0697)
High school	-0.0427	0.2400	-0.1392	-0.0510	-0.0018
	(0.1949)	(0.2114)	(0.1997)	(0.0789)	(0.0498)
Some college	0.1159	0.1615	-0.1796	-0.0527	0.0224
	(0.1922)	(0.2077)	(0.2013)	(0.0758)	(0.0492)
Graduate degree	-0.0546	-0.0494	-0.3543	-0.0413	-0.0063
	(0.2252)	(0.2501)	(0.2564)	(0.0880)	(0.0597)
Income 25-50k	-0.1907	-0.1433	-0.2015	0.0487	0.0244
	(0.1411)	(0.1585)	(0.1508)	(0.0563)	(0.0357)
Income 50-100k	0.0234	-0.2706	-0.1885	0.0986+	0.0763+
	(0.1531)	(0.1679)	(0.1642)	(0.0585)	(0.0391)
Income above 100k	-0.0652	-0.6912**	-0.1261	0.1248+	0.0678
	(0.1809)	(0.2087)	(0.2049)	(0.0692)	(0.0475)
# of children	0.0667	0.0739	-0.0482	-0.0178	-0.0245*
	(0.0437)	(0.0497)	(0.0484)	(0.0158)	(0.0112)
Home owner	-0.3248**	-0.0693	0.0309	-0.0634	0.0096
	(0.1243)	(0.1372)	(0.1294)	(0.0449)	(0.0279)
Financial literacy score	0.0269	-0.0138	0.0112	-0.0120	0.0019
	(0.0382)	(0.0447)	(0.0447)	(0.0148)	(0.0112)
Self report financial knowledge	0.0535	0.0083	0.0337	0.0243+	0.0266**
	(0.0369)	(0.0406)	(0.0384)	(0.0141)	(0.0093)
Difficult to pay bills and expenses	-0.0235	0.4081**	0.2783*	0.0901*	-0.0065
	(0.1090)	(0.1224)	(0.1204)	(0.0403)	(0.0279)
Large drop in income	-0.2316*	0.0797	0.1021	0.0570	0.0399
	(0.1089)	(0.1218)	(0.1177)	(0.0389)	(0.0277)
Census region: Midwest	-0.0900	-0.1995	-0.4045*	-0.0275	0.0066
	(0.1448)	(0.1660)	(0.1577)	(0.0554)	(0.0382)
Census region: South	-0.0590	-0.1152	-0.3367*	0.0455	0.0103
	(0.1361)	(0.1500)	(0.1458)	(0.0502)	(0.0352)
Census region: West	-0.0746	-0.1952	-0.1632	0.0066	0.0530
	(0.1427)	(0.1589)	(0.1562)	(0.0536)	(0.0387)
Constant	4.1168**	4.3355**	4.2484**	0.4538**	-0.0643
	(0.2928)	(0.3250)	(0.3056)	(0.1233)	(0.0765)
Observations	1451	1439	1435	820	832
R^2	0.027	0.055	0.026	0.046	0.035
Mean VIF	1.70	1.70	1.71	1.93	1.92

Robust standard errors in parentheses; Observations drop on last two regressions since DV conditional on having an advisor
Regressions were run with marriage and employment dummies, but dropped since negligable effects and low significance
$^{+}$ $p < 0.10$, * $p < 0.05$, ** $p < 0.01$

Figure 1: Models of Financial Capacity Building

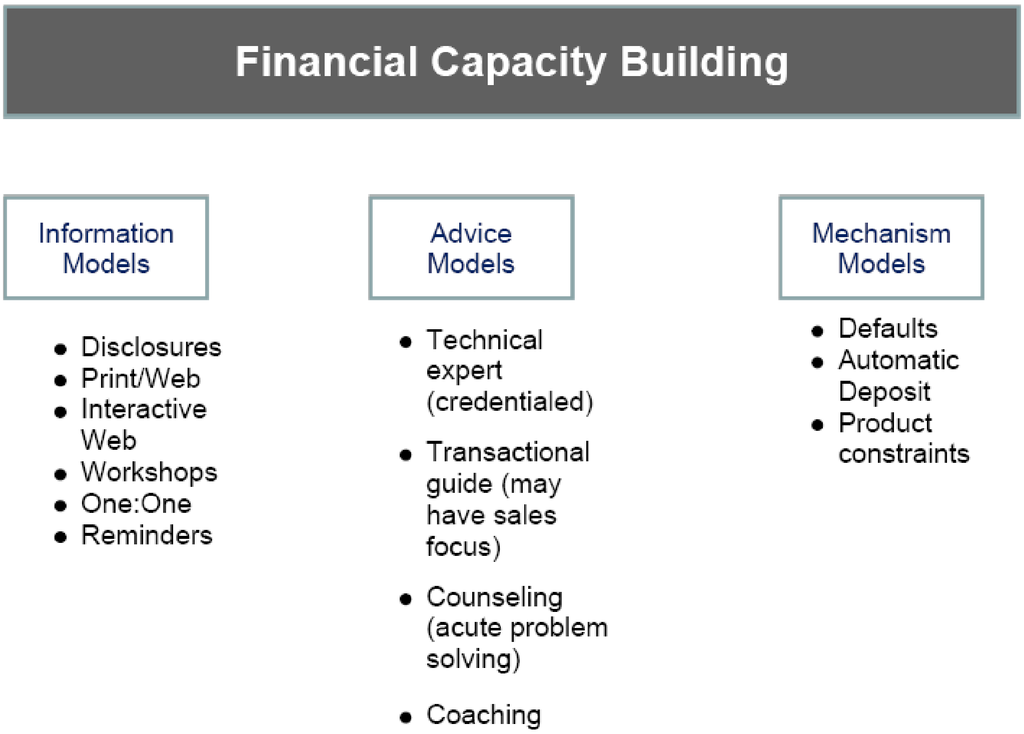


Figure 2: Financial Advisor Certifications

Certification	Certifying Body	Certification Requirements	Maintaining Certification	Number of Individuals Certified
Accredited Financial Counselor (AFC)	Association for Financial Counseling and Planning Education	2 years of financial counseling experience; 2 self-study courses (100 to 150 hours per course); Pass the final exam for each course	30 hours of continuing education every 2 years	Unavailable
Accredited Investment Fiduciary (AIF)	Center for Fiduciary Studies	Complete either a web-based program or a capstone program; Pass final certification exam	6 hours of continuing education every year	3,500 +
Certified Financial Planner (CFP)	Certified Financial Planner Board of Standards	Bachelor's degree; 3 years of full-time personal financial planning experience; Complete a CFP-board registered program or hold one of the following degrees: CPA, ChFC, CLU, CFA, Ph.D. in business or economics, Doctor of Business Administration, or licensed attorney; Pass a CFP certification exam	30 hours of continuing education every 2 years	50,000 +
Certified Public Accountant (CPA)	American Institute for Certified Public Accountants	Accounting degree; Pass the Uniform CPA exam; 1 to 2 years of experience under the supervision of a CPA; Other state requirements (e.g.) passing an ethics exam	40 hours of continuing education every year; Renew state license every 1 to 3 years, depending on the state of licensure	360,000
Chartered Financial Analyst (CFA)	CFA Institute	Undergraduate degree; 4 years of professional investment decision-making experience or 4 years of qualified work experience; Self-study program of 250 hours of study for each of 3 levels; Pass the corresponding exam for each level	No continuing education requirements	97,000 members in 130 countries
Chartered Financial Consultant (ChFC)	The American College	3 years of full-time business experience; Complete 6 core and 2 elective courses; Pass final exams in each course	30 credits of continuing education every 2 years	Unavailable
Chartered Life Underwriter (CLU)	The American College	3 years of full-time business experience; Complete 5 core and 3 elective courses; Pass final exams in each course	30 credits of continuing education every 2 years	Unavailable
Personal Financial Specialist (PFS)	American Institute for Certified Public Accountants	Member of AICPA; hold a CPA license; Earn 100 points under the PFS point system; Business experience in personal financial planning-related services; Pass final exam	Acquire 60 PFS points every 3 years	4,100 +

Figure 3: Take-up of Financial Advice Across Demographic Characteristics

Figure 3a

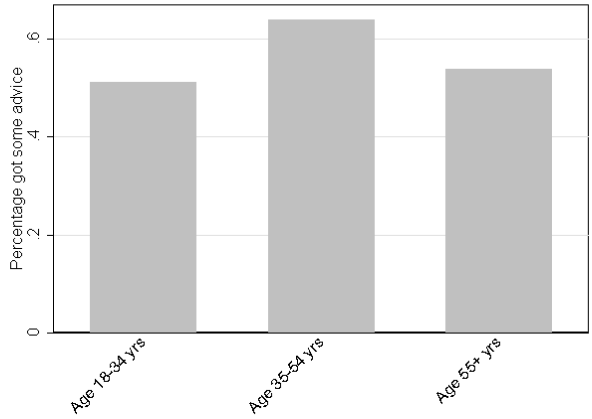


Figure 3b

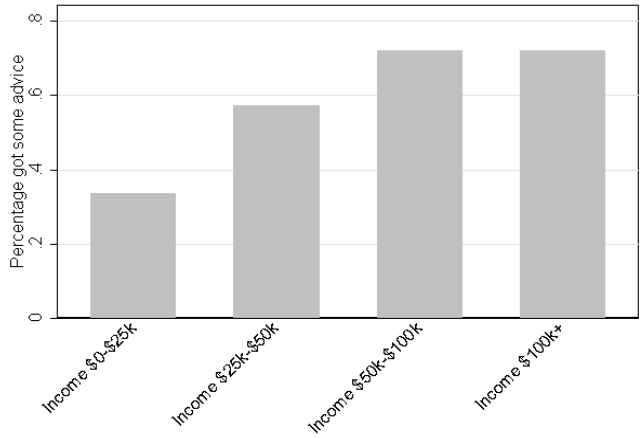


Figure 3c

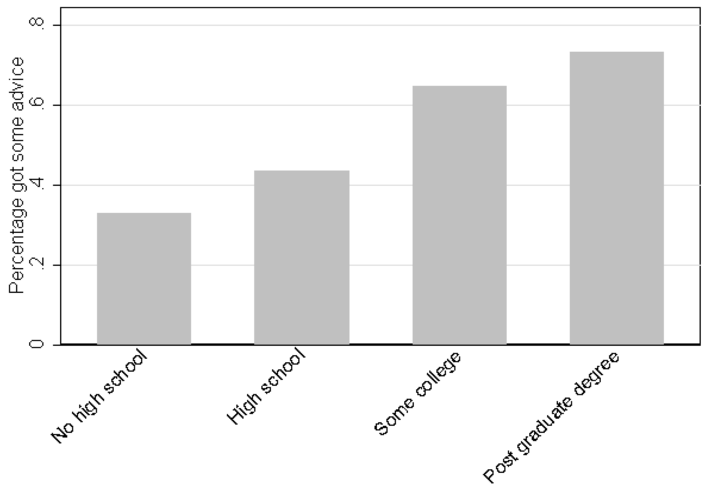


Figure 3d

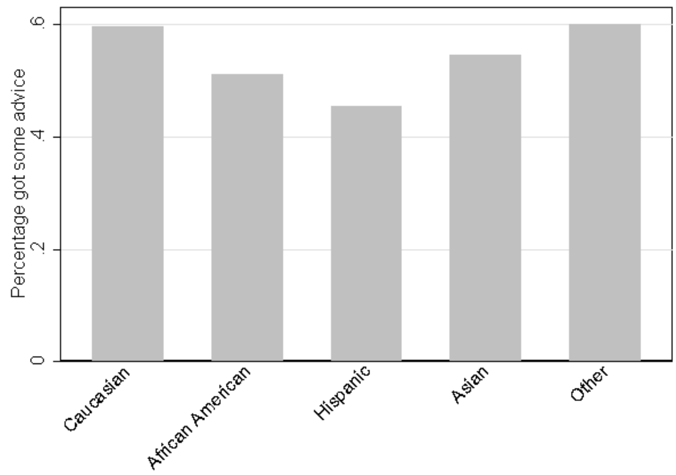


Figure 3e

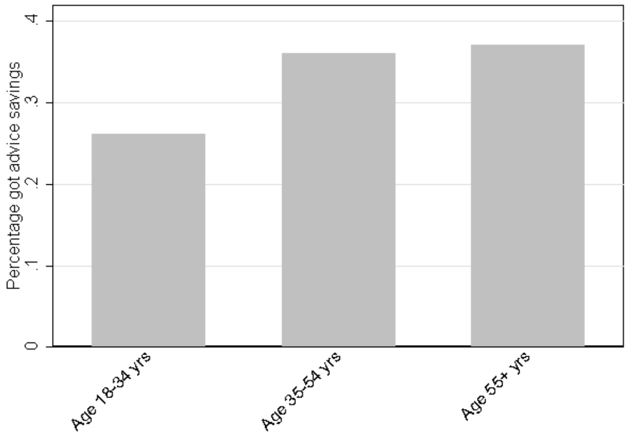


Figure 3f

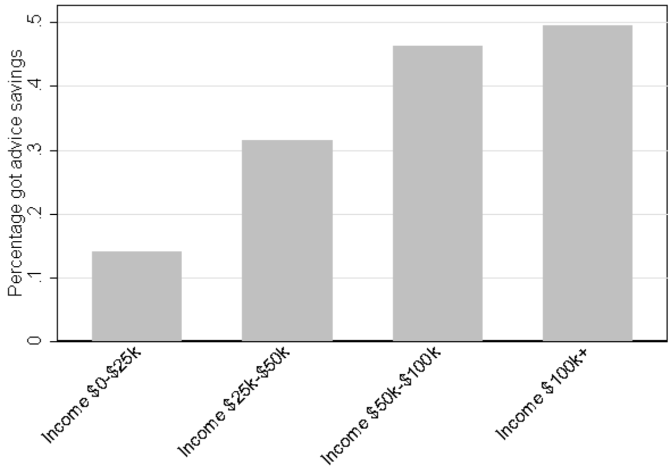


Figure 3g

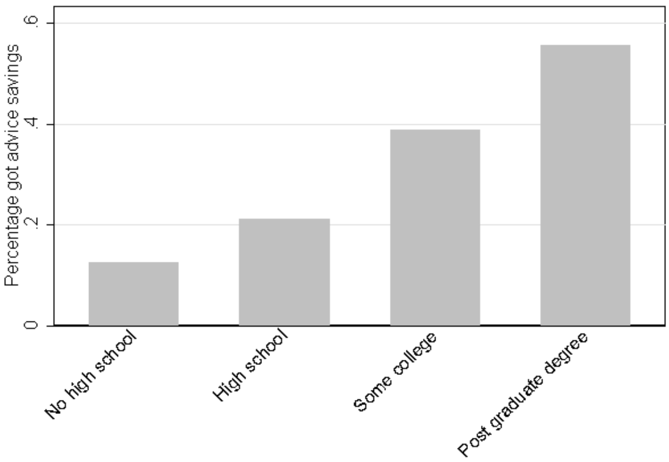
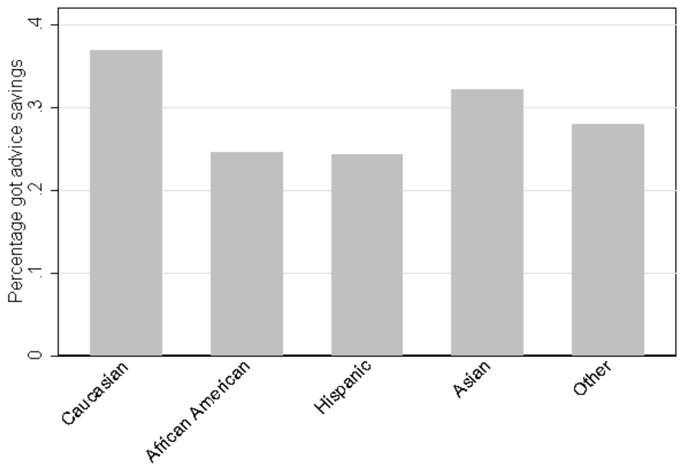


Figure 3h



Appendix I: Technical Advisors and Certifications

Accredited Financial Counselor (AFC)
AFC certification is issued by the Association for Financial Counseling and Planning Education, a nonprofit organization focused on educating, training, and certifying financial counselors and educators. To become certified, an individual must have 2 years of financial counseling experience, complete 2 self-study courses of 100 to 150 hours per course, and pass the final exam for each course. Additionally, to maintain certification, an individual must complete 30 hours of continuing education every 2 years.

Accredited Investment Fiduciary (AIF)
AIF certification is issued by the Center for Fiduciary Studies, which offers training, tools and resources to investment fiduciaries. To become certified, an individual must complete either a web-based program or a capstone program and take a final certification exam. Additionally, to maintain certification, an individual must complete 6 hours of continuing education every year. There are over 3500 individuals with AIF certification.

Certified Financial Planner (CFP)
CFP certification is issued by the Certified Financial Planner Board of Standards. To become certified, an individual must have a bachelor's degree from an accredited college or university, have 3 years of full-time personal financial planning experience and complete either a CFP-board registered program or hold one of the following: CPA, ChFC, CLU, CFA, Ph.D. in business or economics, Doctor of Business Administration or be a licensed attorney. Additionally, individuals must pass a CFP certification exam and complete 30 hours of continuing education every 2 years. Over 50,000 individuals have passed the certification exam.

Certified Public Accountant (CPA)
CPA requirements vary by state, but the CPA certificate is issued by the American Institute for Certified Public Accountants (AICPA). To become certified, an individual must have an accounting degree (most states require 150 semester hours for undergraduate degrees), some states require a graduated degree in accounting. Additionally, an individual must take and pass the Uniform CPA exam with at least 75 percent on each part of the four part test. An individual must also have 1 to 2 years of experience under the supervision of a CPA and meet other state requirements, such as passing an ethics exam, prior to licensure. CPAs must take 40 hours of continuing education every year and renew their state license every 1 to 3 years, depending on the state of licensure. AICPA has more than 360,000 members.

Chartered Financial Analyst (CFA)
CFA certification is issued by the CFA Institute, which is a global nonprofit organization of investment professionals. To become certified, an individual must have an undergraduate degree plus 4 years of professional investment decision-making experience or 4 years of qualified work experience. Additionally, an individual must complete a self-study program consisting of 250 hours of study for each of 3 levels and pass the corresponding exam for each level. There are no continuing education requirements for this certification. The CFA Institute has more than 97,000 members in 130 countries.

Chartered Financial Consultant (ChFC)
ChFC certification is issued by the American College, a nonprofit institution that works with banks, brokerage firms and insurance companies to offer education and certification programs. To become certified, an individual must have 3 years of full-time business experience within the 5 years preceding when the certification is awarded. A person must complete 6 core and 2 elective courses and pass final exams in each course. Additionally, individuals must complete 30 credits of continuing education every 2 years.

Chartered Life Underwriter (CLU)
CLU certification is issued by the American College. To become certified, an individual must have 3 years of full-time business experience within the 5 years preceding when the certification is awarded. A person must complete 5 core and 3 elective courses and pass final exams in each course. Additionally, individuals must complete 30 credits of continuing education every 2 years.

Personal Financial Specialist (PFS)
PFS certification is issued by the American Institute for Certified Public Accountants (AICPA). To become certified, an individual must be a member of AICPA, hold a CPA license, earn 100 points under the PFS point system (points are awarded for hours of experience, passing various exams, continuing education courses), and have business experience in personal financial planning-related services. There is also a final exam to pass prior to certification. In order to maintain certification, an individual must acquire 60 PFS points every 3 years. There are over 4,100 PFS certificate holders.

Source: (American Institute for Certified Public Accountants 2010; Financial Industry Regulatory Authority 2010)

Appendix II:

FINRA Financial Capability Survey: Transformation of Variables for Analysis

Seen advisor: Debt	K1 (All K# questions 15 in form: 'In the LAST 5 YEARS have you asked for any advice from a financial professional about any of the following?') 'Debt counseling'
Seen advisor: Investing	K2 'Savings or investments'
Seen advisor: Loan	K3 'Taking out a mortgage or a loan'
Seen advisor: Insurance	K4 'Insurance of any type'
Seen advisor: Tax planning	K5 'Tax planning'
Received any advice	obtained by summing K15 and setting equal to 1 if sum was >=1
Met multiple advisors	K6 'Typically, when looking for a financial professional, do you meet with or talk to MORE THAN ONE advisor before making a choice?'
Checked advisor background	K7 'Have you ever checked with a state or federal regulator regarding the background, registration, or license of a financial professional?'
Trust advisor	K8a_1 (Questions K8a_# in the form 'How strongly do you agree or disagree with the following statements? Give your answer on a scale from 1
Advisors too expensive	K8a_2 'Financial professionals are too expensive for me'
Difficult to find advisor	K8a_3 'It is hard to find the right financial professional for me'
Gender (Male=1)	A3 'Record gender'
Age (18 34 yrs) (35 54 yrs) (55+ yrs)	Ceated age dummies from the age group variable (a3ar) which roughly distributed the participants into a third of all observations in each group (Actual question which isn't in data set is 'What is your age?')
Caucasian (African American) (Hispanic) (Asian) (Other Race)	Created race dummies from A4 where other race includes 'Native American or Alaska Native' in addition to the group 'Other' ('Which of the following best describes your race or ethnicity')
No high school (High school) (Some college) (Graduate degree)	Created education dummies from A5 where some college includes 'Some college' and 'College graduate' (What was the last year of education that you completed)
Income under 25k (25 50k) (50 100k) (100k+)	Created income dummies from A8 into groups ('What is your/household's approximate annual income, including wages, tips, investment income, public assistance, income from retirement plans, etc.?'
# of children	A11 'How many children do you have who are financially dependent on you or your spouse/partner? Please include children not living at home, and step children'
Home owner	Ea_1 'Do you or your spouse/partner currently own your home?'
Financial literacy score	created by taking the sum of the 5 financial literacy quiz questions (M6 10) where the correct answer to the question was assigned a 1 and all others were assigned a value of 0
Self report financial knowledge	M4 'On a scale from 1 to 7, where 1 means very low and 7 means very high, how would you assess your overall financial knowledge?'
Difficult to pay bills and expenses	J4 was recoded so 'not at all difficult' was 0 and 'somewhat difficult' and 'Very difficult' were 1, 'In a TYPICAL MONTH, how difficult is it for you to cover your expenses and pay all your bills?'
Large drop in income	J10 'In the PAST 12 MONTHS have you/your household experiences a large drop in income which you did not expect?'
All questions were encoded so that 'Don't know' and 'Refused' were changed to missing.	