

**Why do Individuals Seek Financial Advice?**

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### **Abstract**

Economists over time have looked at what factors drive individuals to make certain decisions and what influences their behaviors. Financial decisions are every so often complicated and individuals tend to make detrimental mistakes when deciding what financial actions to take. This paper explores the characteristics of individuals who seek financial advice from financial planners and examine the link between financial advice, financial market participation, income, age, gender, race, education and some financial indicators. Using data from the Survey of Consumer Finances, we try to determine what factors motivate individuals to seek financial advice from professional financial planners. We find that there are gender, race and age differences in the characteristics of individuals that seek financial advice from professionals.

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## 1. INTRODUCTION

Economists over time have looked at what factors drive individuals to make certain decisions and what influences their behaviors. Numerous studies have looked at how the behavior of individuals can be affected by the incomplete information and thus leads them to make irrational decisions. For instance, a few studies find that individuals often underestimate the costs of borrowing or are inadequately educated regarding their own pension or social security benefits. We also see this as Viscusi (1990) finds that people exaggerate the dangers of lung disease from smoking, and that these misperceptions really lessen smoking conduct. Gibson and McKenzie (2007) show a case where potential emigrants underestimate the returns to migration because they have access to incomplete information.

Financial decisions are every so often complicated and individuals tend to make detrimental mistakes when deciding what financial actions to take. Regardless of what the decision involves, there can be extremely complex technicalities which require a nuanced understanding of various financial terms that a majority of individuals may not possess. In any case, there are not a lot of studies that have examined whether providing information in these settings can actually change behavior (Cole, Paulson and Shastry 2014).

There is some evidence that supports the hypothesis that cognitive ability is important when it comes to financial decisions. Chevalier and Ellison (1997) find that mutual fund managers who graduated from schools with high average SAT scores do better in making financial decisions than those who graduated from less selective schools. The mortgage decision for households is an extremely important one that individuals often get into without some sort of financial education and this can cause unfavorable decisions.

Seeking advice from professionals, however, is normal practice. Individuals tend to turn to professionals most especially in situations where there is serious uncertainty like an economic recession. During such occasions, individuals may feel unfit to foresee the outcomes of their decisions and may look for the insight of specialists to decrease the enhanced perception of risk.

For example, when settling on speculation choices in a market downturn, individuals frequently ask a specialist, or an educated partner or companion for guidance into where to invest their money.

Some studies have shown that most individuals do not have a vast knowledge of basic financial principles, formulas and products. Consequently, these individuals might not be sufficiently informed to make sound financial decisions without professional help. What's more, past research has shown that financial literacy has significant implications about an individual's financial behaviour. For example, Jappelli and Padula (2015) demonstrated that individuals that are highly financially literate tend to prepare better for retirement and tend to be wealthier. Individuals who are financially literate tend to participate in financial markets more often and are also "better at making sound portfolio choices, which leads to a gradual increase in their wealth" (van Rooji, Lusardi and Alessie 2011).

In this paper, we explore the characteristics of individuals who seek financial advice from financial planners and examine the link between financial advice, financial market participation, income, age, gender, race, education and some financial indicators. Using data from the Survey of Consumer Finances, we try to determine what factors motivate individuals to seek financial advice from professional financial planners. This study looks at demographic factors like age, race, education etc. that could motivate individuals to seek advice from professionals. We also look at financial factors such as annual interest rates on loans, mortgages, financial riskiness etc. that lead individuals to seek advice from professionals.

The results show that individuals aged 65 and above are 5.7% more likely to seek financial advice from financial planners. This is line with previous empirical studies that note that retired individuals are more likely to seek out advice from professionals than younger individuals. The results also show that women are 2.7% more likely to seek financial advice from professionals while being White increases the possibility of seeking advice by 5.8%. We also see the effects that individuals' perceptions of how the economy will perform over time has on the possibility of seeking financial advice from planners.

The rest of the paper is structured as follows: Section 2 provides a review of the theoretical and empirical literature focusing on the links between financial advice, gender, cognitive ability and

market participation. Section 3 describes the data and empirical methodology used in this paper along with the econometric model and its various specifications. Section 4 provides the empirical results. Section 5 presents the robustness checks and sensitivity analysis and finally Section 6 concludes the paper.

## **2. LITERATURE REVIEW AND THEORETICAL FRAMEWORK**

### **2.1. Nature of financial advice**

Financial advice can fit into an assortment of spaces, which could include tax, investments, estate planning, insurance and retirement planning. What's more, as a general rule, financial advice can also supplement other professional services such as account services, brokerage services, etc. Before financial advisors suggest action plans, they usually help the clients to devise financial goals based on the individuals risk tolerance and financial goals. Once the goals have been identified, the advisor develops a plan that includes precise strategies designed to attain the individual's financial goals and objectives which, as a rule, can be summed up as expansion of wealth which is contingent on a predetermined tolerance of risk. Financial advisors also tend to provide advice on an on-going basis as opposed to just one time. This builds a relationship between the individual and the advisor where the advisor provides advice as needed. Some conspicuous reasons why consumers seek advice from financial professionals are the information, experience, and knowledge that the advisors have. Consumers are eager to pay for advice they think originates from master, proficient judgment.

There are different types of Professionals who give financial advice, such as: "financial advisors, financial consultants, brokers, independent brokers, financial analysts, financial partners, investment representatives, money managers, etc." These financial advisors also perform various other jobs, like; educating clients, monitoring investments, communicating regularly with clients, providing research information, developing relationships, etc.

### **2.2. Advice-Seeking as a Risk-Reduction Strategy**

Consumers try to reduce perceived risk in a lot of different ways; "through information search, brand loyalty, price-quality cues, friends' or salespersons' advice, etc." (Greatorex and Mitchell 1994). A good way to reduce risk is to voluntarily transfer decision making powers to other individuals in authority. For instance, some scholars have proposed that appointment of purchasing duty to others is a typical strategy for diminishing uncertainty for consumers. Similarly, Stern, Solomon and Stinerock (1992) posit that consumers depend highly on the expert advice from financial professionals for high-risked decisions. In spite of the fact that there are different variables that impact the decision to choose to task advisors with this decision, they theorize that the inspiration to decrease risk is quite prominent in various consumption situations. Consumers move the responsibilities that are purchase related to other individuals who they think are more competent and this tends to reduce uncertainty and anxiety. In this way, we see that seeking professional advisory services is mostly risk-reducing option for consumers.

“Orthodox theory on financial advice represents individual portfolio choice by maximizing subjective expected utility under a life-time budget constraint” (Campbell and Viceira 2005). Income is seen as stochastic since endowments (labor income) and asset returns are also stochastic. Here, individuals evaluate and create ideal plans for consumption, including leisure time and portfolio composition. The plans created are progressively ideal, for example dependent upon the acknowledgment of different state variables. Aggregating individual decisions across agents and forcing market clearing constraints conveys a standard powerful asset pricing model. There is obviously no role for this model in the determination and study of financial advice.

### **2.3. Human Ecological Model**

In the Human Ecological Model, Bronfrenbrenner portrays individuals as unique actors that influence and are influenced by interaction with and within larger, interdependent systems. There are four basic systems that comprise the ecological environment specifically the microsystem, the mesosystem, the exosystem, and the macrosystem. The microsystem is made up of close family, companions, schoolmates or employees, and members of one's religious community. The mesosystem recognizes that pieces of the microsystem cooperate with one another and with

different frameworks. The exosystem, which is the third framework incorporates gatherings, associations, or elements that impact the microsystem. The last level, the macrosystem, encompasses and influences every other framework. The macrosystem can incorporate political philosophies, social qualities, social conditions and market or economic performance.

Some other studies relate the human ecological model to choices made by families and the proportional interactions of families and conditions to accomplish their various objectives. There is a modified version of Bronfenbrenner's socio-ecological model which incorporates a new ecologically based approach to understanding contextual influencers and introduces five ways new ways to produce a new model known as the eco-sociological model.

#### **2.4. Household Finance**

Household finance is a term that was first proposed by Campbell (2006). Campbell notes that the study of household finance can be divided into positive household finance and normative household finance. He defines positive household finance as the study of what households do to understand why they behave the way they do. On the other hand, normative or prescriptive household finance is defined as that which emphasizes prescriptions such as rules of thumb based on experience and intuition. The economic model of expected utility analysis in finance has stipulated the premise on which a lot of prescriptive recommendations for the way individuals behave financially. Most applications depend on the capacity to make sensible presumptions to limit the conceivable scope of goals and overlook most attitudinal concerns. Financial decisions such as saving behavior, investment portfolio decisions, credit card use, and insurance can be modeled in terms of maximization of expected utility, with utility being a function of overall wealth or consumption. However, there are prescriptions for financial behavior that are not directly based on an expected utility model but are based on analysis of historical financial data. Most financial arranging applications can be depicted as objective coordinated examinations; however, a portion of the suspicions may be reliable with all the more thoroughly got outcomes from utility maximization.

This paper also takes a look at “Behavioral Finance” which is a relatively new field that seeks to combine behavioral and cognitive psychological theory with conventional economics and finance in order to provide explanations for why people make irrational financial decisions. In the same line, the “January Effect” and the “Winner’s curse” also might explain the individual’s financial decisions. (He and He 2011)

## **2.5. Empirical review**

Bluethgen, et al. (2008) suggests that more established people, families with higher total assets, and women are bound to get more access financial advice. On the other hand, many studies find that financial advice has either negative or insignificant effects on individuals’ financial situations. Hackethal, Haliassos and Jappelli (2012) also observe the role of financial investment advisors. They paper controls for the effects of selection, as individuals who utilize financial advisor services are very different from individuals who do not use these services in many ways that would also impact financial outcomes and positions. They also found that these clients who utilized financial advisors’ services turned out to have lower financial returns on average than those who did not. These clients were also more liable to sustain significant losses on their investments. Additionally, there was no correlation with seeking advice from a financial advisor and better market timing or diversification strategies. However, there was a link between increased trading, increased turnover and higher trading costs and seeking financial advice. Accordingly, there was no evidence that financial advice provided benefits that were worth the additional expense.

Hackethal, Haliassos and Jappelli (2012) note that financial advisors are less likely to work with investors who are younger, who have fewer assets, and who are less financially buoyant. Due to the fact that financial advice has been seen to have negative outcomes, these groups of people would benefit from using financial advice less often. They caution against policies that promote financial advising as a substitute for promoting financial literacy more broadly. Nevertheless, the paper acknowledges that investors may well understand the true costs of financial advising, and that they may value their own time and effort more than the fees and poorer portfolio performance associated with financial advice. Subsequent papers have also concluded that financial advice does not improve investment performance.

Danes and Haberman (2007) break down the impact of high school financial planning curriculum on the financial behavior, financial knowledge, and self-efficacy of a national sample of teenagers using the curriculum. They show that there are statistically significant changes in financial behavior and financial knowledge following three months of a financial education curriculum. Their findings show that generally 50% of the sample demonstrated an increase in financial knowledge, a third of the sample also display improvements in behavior while 40% show an increase in confidence in managing money.

Fernandes, Lynch and Netemeyer (2014) also recommend any clear causation of financial knowledge influencing financial behaviors could be as a result, of for example, characteristics that were precluded from past analyses. They contended that having an affinity to design, trust in data search capacities, a readiness to take reasonable speculation dangers, and numeracy aptitudes might be related with monetary information and drive money related practices. This is in line with a previous finding by Parrotta and Johnson (1998) which shows that financial attitudes take out the effect of financial knowledge when tried together for their relationship to financial behaviors or management. Similarly, both Jorgensen and Savla (2010) and Gudmunson and Danes (2011) contend that the relationship between financial knowledge and practices frequently is powerless aside from when intervened by financial mentalities.

## **2.6. Financial Advice and Market Participation**

Some studies have shown that household participation in financial markets is to some degree restricted. While over 90% of households have transactions accounts, the fraction of families that own bonds (17.6%), stock (20.7%) and other assets is relatively insignificant. While participation has been increasing meaningfully in the course of recent years, this expansion appears to have ended: from 2001 to 2004, the direct ownership of stocks reduced marginally as well as the proportion of households with retirement accounts.

Thomas and Spataro (2018) takes an interesting look at how financial literacy and human capital affect stock market participation. They find that financial literacy has a positive and significant

effect on stock market participation, together with the level of human capital (schooling years) and social interaction. They also find that Country level differences are explained by such institutional factors as the effectiveness of the education system and by the attractiveness of the stock markets. Their results conclude that seeking financial advice increases the probability of participating in the stock market by 6.2%.

Bhamra and Uppal (2019) find that households with commonality inclinations will in general tilt their portfolios toward a couple of risky assets. The subsequent mean-change misfortune from portfolio under broadening is comparable to just an unassuming decrease of about 1% every year in a family unit's portfolio return. In any case, when we consider additionally the impact of familiarity biases on the benefit portion and intertemporal utilization reserve funds choices, the government assistance misfortune is increased by a factor of four. In general equilibrium, the suboptimal choices of households misshape additionally total development, enhancing further the general social government assistance misfortune. They conclude that financial markets are not a unimportant sideshow to the genuine economy and that improving the monetary choices of family units can prompt enormous advantages, for singular families, yet in addition for society.

## **2.7. Financial Advice, Cognitive ability and Education**

Kim, Maurer and Mitchell (2019) look at the effect of two significant variables driving the interest for financial advice in an aging population. They identify two factors; cognitive ability, and financial literacy. They posit that older individuals with substantial savings might be unable to manage financial tasks alone and may likewise be not able to enlist quality financial advisors. Consequently, they note that cognitive ability helps identify the nature of financial advice but does not influence the quantity of advice sought. Their IV analysis infers that a standard deviation increase in the cognitive and financial abilities of individuals expands the odds of seeking out financial advice from professionals, as opposed to family members, by 10.6% percent and 3.4%, respectively. They conclude that all the more subjectively capable respondents will in general doubt money related counsels, recommending that intellectual capacity may shield them from possibly devious financial advice.

Stolpher and Walter (2017) suggest that the potential advantages of financial rely on two significant conditions. They clarify that financial advice itself must be accurate, suitable, and consistent with the customers objectives. While a few studies worried about household finance propose that financial counseling can assist people with growing better financial practices and reduce their debt levels and delinquency rates, the proof regarding whether people's venture choices profit by master budgetary exhortation is fairly controversial. Their estimates suggest that roughly 80% of individual German investors seek out financial advisors for their investment decisions whereas the situation is entirely different in the US.

Collins (2012) finds that individuals with high levels of financial literacy are more likely to seek and use investment, tax and insurance related financial advice. The results show that as individual's financial literacy increases, the probability of seeking out financial advisors, particularly in the area of investing increases. Collins' results show that about 56% of the respondents reported that they use a form of financial advice. Nonetheless, he noted that individuals with "less education, financial literacy and income" were less likely to seek financial advice. He concludes that there exists a "very strong" link between seeking advice and financial literacy.

Stango and Zinman (2009) show that households with generally less cognitive abilities who miscalculate interest rates from information on nominal repayment levels tend to have higher interest rates on their loans, controlling for some individual characteristics (Cole, Paulson and Shastry 2014). Korniotis and Kumar (2011) also take a look at various portfolio choices investors and find that there is a significant drop in stock selection abilities after the age of 64. This generally being when cognitive abilities drop in individuals.

Similarly, Zagorsky (2005) finds a positive correlation between IQ test scores and individuals' income. He also finds that IQ tests scores are also related to measures of financial distress like difficulty paying bills or going bankrupt but factors that are not correlated with wealth. In the same line, Dhar and Zhu (2006) observe that the disposition effect is less common in individuals who are in professional occupations

Recent studies have shown that over the years, several common themes have emerged from research on financial literacy. A significant body of empirical work suggests that due to the limited ability that Americans have in terms of their ability to perform basic numerical tasks, financial literacy levels vary across demographic groups and how this brings about low financial literacy. Furthermore, it's shown that low financial literacy is correlated with various negative financial behaviors. Some researchers propose providing individuals with financial advice can help them develop better financial practices which would improve their long-term financial security. Generally, researchers and policy makers have found that increasing financial literacy is a useful way to improve financial security among individuals' and have continued to push for increased financial literacy.

Moreland's (2018) model, which includes measured financial knowledge shows a positive correlation exists between "perceived financial knowledge and obtaining financial advice in a model that also included measured financial knowledge". The model also showed that there is a negative relationship between obtaining financial advice and measured financial knowledge of individuals. Moreland's finding is also in line with Fernandes, Lynch and Netemeyer (2014) who also argued that benefits from more general purpose financial education are limited in improving financial behaviors. Their study proposed that financial education should be more focused and come at the right time in order for it to be effective.

Nguyen and Rozsa (2019) see in their investigation that that 59.6% of the respondents looked for financial advice regarding retirement investment choices. They found that individuals who had basic financial literacy and advanced financial literacy had higher odds of using services from financial advisors. This impact ended up being generally observable among customers with a higher level of fundamental financial education. Especially, by furnishing one increasingly right response to the inquiry on essential budgetary proficiency, members expanded the likelihood by 48% that they had searched out financial advice. Regarding advanced financial literacy, in any case, there was just a 8% expansion in the probability of looking for advice. Nguyen and Rozsa's results are also in line with the findings of Colcagno and Monticone (2015) and Collins (2012). These results confirm that there seems to be a corresponding relationship between financial literacy and financial advice.

Engelmann, et al. (2009) find that individuals who received expert financial advice showed a significant change in financial behaviour. Similarly, Inderst and Ottaviani (2012) also note that financial advice can play a very important role in improving consumer efficiency despite the fact that their study shows that financial advisors often take advantage of consumers who are less informed by providing inefficient contractual terms and conditions that some with their expert advice.

## **2.8. Financial Advice and Gender**

Gender seems to play a role in almost all aspects of Economics, overlooking the influence and differences caused by gender could lead to serious deficiencies in results. The findings from the COUNTRY Financial Security Index show outstanding contrasts between the manner in which people search out financial advice, with men undeniably bound to search out more financial advice than women. What's more, the findings demonstrated that about a fourth of women (24%) disclosed they had never looked for financial advice, contrasted with just 15% of men revealing the same.

Gendered patterns of wealth accumulation have as of late gotten some extra attention. (Papers such as Schmidt and Sevak 2008) Over the years, there has been an increase in the amount of literature that takes a look into women's access to credit in developing countries thanks to the microfinance bank revolution, most of this literature has not really focused on gender. (Papers such as Berkovec, et al. 1998 and Munnell, et al. 1996). There have been a few studies that have shown that there might be discriminations based on gender when it comes to residential mortgages such as Dymski, Hernandez and Mohanty (2013) however little is thought about whether gender is an issue with regards to access to financial advice services and choices all the more for the most part.

Garmaise (2010) breaks down the patterns in financial well-being across age, gender and income from a group of individuals who are clients of financial advisors. The findings show that for men and women, age matters when it comes to seeking financial advice. For men, older individuals tend to seek more financial advice than their younger counterparts. Women on the other hand had the opposite results where younger women were more likely to seek financial advice than their older counterparts. Then again, Alyousif and Kalenkoski (2017) found that there were no

significant differences among gender groups. They conclude that although there are no gender differences when it comes to advice seeking, the factors that really matter are income and risk tolerance. They posit that these factors are more likely to affect the probability of seeking advice than other variables.

### **3. EMPIRICAL METHODOLOGY & DATA**

#### **3.1. Empirical Methodology**

There has been significant work done to understand the correlates of individual and household participation in financial markets. Campbell (2006) takes an in-depth look into the relevant literature that try to establish a link between various factors and individuals' participation and advice behaviours. This paper tries to explore the characteristics of individuals who seek financial advice from financial planners and link between financial advice, financial market participation, income, age, gender, race, education and some financial indicators. The basic methodology of the paper uses Ordinary Least Squares Regression to establish a link between various factors and the financial advice seeking behaviour of individuals.

#### **3.2. Data**

The data source is the Survey of Consumer Finances (SCF) from the Federal Reserve System (FED). The SCF is a triennial cross-sectional survey of the United States' households. The year used for this study is 2013. The data consists of 30,075 observations (individual respondents). The survey contains detailed information on all household assets (including residences, other real estate, businesses, all types of financial assets, pensions, and other assets) and liabilities (including mortgages, installment loans, credit card debt, pension loans, and other debts) along with auxiliary information useful for analyzing the wealth data (income, demographics, marital history, employment history, attitudes, etc.). The survey contains interesting questions about individuals' finances for example, the sources of information that the individuals use to make their financial decisions; if they use the help of a financial planner; if they use any type of computer software to

help them managing their money; the financial institution with which they do business as well as the type of this institution; and how they interact with their financial institution etc.

### **3.3. Summary Statistics**

From table 1, we can see the differences in the means and standard deviations of the variables. We can see that 70.9%, 11.9% and 8.9% of the respondents are White, Black and Hispanic respectively while 4.6% belong to Other races. We see also that the average age that respondents expect to live to is 83.9 years. The table also shows that 45.5% of the respondents have a college degree. With regard to how the individuals expect the economy to perform in the next five years, 25.5% expect the economy to perform better, 15.3% expect the economy to perform worse and 59.1% expect the economy to remain the same. On the other hand, 79.8% of the respondents expect interest rates to get higher, 4.3% expect low interest rates and 15.8% expect interest rates to remain the same over the next year. The table also shows that 39.1% of the respondents have a mortgage while the average annual interest rate on loans is 1.8%. From the table we can also see that 72.3% of the respondents have a credit card and 61.5% have applied for credit in the past year. Finally, 59.1% of the respondents take average to substantial financial risks.

### **3.4. Econometric Model**

#### **Dependent Variable**

We use a measure of financial advice gotten from the SCF 2013 as the independent variable. The SCF questionnaire asks individuals what source they use to make financial decisions about saving and investments. Individuals identify different sources of financial advice such as friends and family, financial planners, magazines, advertisements etc. The independent variable,  $Finadv_i$  is a dummy variable that equals 1 if individual  $i$  received financial advice from a financial planner and 0 otherwise.

The independent variables are divided into two categories; demographic factors and financial factors which are added gradually to the model. The econometric model takes the following form:

$$Finadv_i = \beta_0 + \beta_1 female_i + age_i \beta_2 + race_i \beta_3 + \beta_4 lifexp_i + \beta_5 colledu_i + econexp_i \beta_6 + irexp_i \beta_7 + \beta_8 annir_i + \beta_9 mortgage_i + \beta_{10} appcrdt_i + \beta_{11} credcd_i + \beta_{12} finrisk_i + \varepsilon_i, \quad (1)$$

where my control variables include a female indicator variable and  $age_i$  is a vector of five age dummy variables (25 to 34, 35 to 44, 45 to 54, 55 to 64 and 65 and up), with individuals 18 to 24 as the reference group. I also include  $race_i$  as a vector of race dummy variables;  $White_i$ ,  $Black_i$ ,  $latino_i$ . where  $White_i$  is a binary variable that equals 1 if individual  $i$  is White and 0 otherwise.  $Black_i$  is a binary variable that equals 1 if individual  $i$  is Black/African American and 0 otherwise.  $latino_i$  is a binary variable that equals 1 if individual  $i$  is Latino and 0 otherwise. Individuals belonging to other races were used as the reference group.  $lifexp_i$  is the age individual  $i$  expects to live to be.  $colledu_i$  is a binary variable that equals 1 if individual  $i$  has a college degree and 0 otherwise.

$econexp_i$  is a vector of dummy variables representing how individual  $i$  expects the economy to perform over the next year;  $expbet_i$  is a binary variable that equals 1 if the individual expects the economy to perform better and 0 otherwise.  $expwor_i$  is a binary variable that equals 1 if the individual expects the economy to perform worse and 0 otherwise.  $irexp_i$  is a vector of dummy variables representing what individual  $i$  thinks will happen to interest rates in the next five years;  $expirhi_i$  is a binary variable that equals 1 if the individual expects interest rates to be high and 0 otherwise.  $expirlo_i$  is a binary variable that equals 1 if the individual expects interest rates to be low and 0 otherwise.  $annir_i$  is the annual interest rate on loans taken that individual  $i$  pays.  $mortgage_i$  is a binary variable that equals 1 if individual  $i$  has a mortgage and 0 otherwise.  $appcrdt_i$  is a binary variable that equals 1 if individual  $i$  has applied for credit in the past year and 0 otherwise.  $credcd_i$  is a binary variable that equals 1 if individual  $i$  has a credit card and 0 otherwise.  $finrisk_i$  is a binary variable that equals 1 if individual  $i$  takes average to substantial financial risks and 0 otherwise.

#### 4. EMPIRICAL RESULTS

From the results of the regression in table 2, we see the results when the dependent variable is regressed on the demographic variables; gender, age, race, education and life expectancy. The variables in the model are introduced sequentially to observe the full effect of each variable. From the last column which includes all the variables, we can see that the coefficients for older age groups are positive while the coefficients for the younger age groups are negative. The table shows that being aged 25 to 34, 35 to 44 and 45 to 55 reduces the possibility of seeking financial advice from a financial planner by 4.4%, 4.9%, 0.3% and 0.6% respectively. On the other hand, being aged above 65 increases the possibility of seeking financial advice from a financial planner by 6%. Table 2 also shows that being White increases the possibility of seeking financial advice 6.8%. The possibility of seeking financial advice increases by 6.7% if the individual has a college degree and by 0.8% as the individual's personal life expectancy increases.

Table 3 shows the results when the dependent variable is regressed on the financial variables. The variables in the model are introduced sequentially to observe the full effect of each variable. Unexpectedly, we see a negative effect on seeking financial advice when individuals expect the economy to perform better (-0.5%) and a positive effect when they expect the economy to perform worse (0.1%). The table also shows that there is a negative relationship between individuals' annual interest rate on loans (-0.1%) and the possibility of seeking financial advice. We also see that individuals who own a credit card are 6.7% more likely to seek financial advice than individuals who do not. The table also shows that individuals who have applied for credit in the past year are less likely (-1.7%) to seek financial advice from a financial planner. Lastly, the table shows that there is a positive relationship between the financial riskiness of the individual and the possibility of seeking financial advice. We see that individuals who take average to substantial financial risks are 9.2% more likely to seek financial advice.

Additionally, table 3 shows the full specification of the model with all the variables included. We see that being a woman increases the possibility of seeking financial advice by 2.7%. This finding is expected as numerous studies have found that women are more likely to seek financial advice than men. The table also shows that being aged 25 to 34, 35 to 44 and 45 to 55 reduces the

possibility of seeking financial advice from a financial planner by 2.8%, 5.1%, 0.7% and 1.0% respectively. These results do not seem to be economically significant but could still play a role to help understand the characteristics of individuals who seek advice from financial planners. The table also shows that individuals who are White are 5.8% more likely to seek financial advice while Black and Hispanic are 2.9% and 2.1% more likely respectively. Individuals with a college degree are 3% more likely to seek financial advice from a financial planner. With regard to how individuals expect the economy to perform, as expected there is a positive relationship with how individuals expect the economy to perform and the possibility of seeking financial advice. We see a drop of 0.3% when individuals expect the economy to perform worse and an increase of 0.2% when they expect the economy to do better. This might not be economically significant but could give an idea of how individuals' behaviour changes with their expectations of economic performance. The regression results also show that individuals with higher interest rates on loans they have taken out (-1.4%) and individuals who have applied for credit in the past years (-1.4%) are less likely to seek financial advice from professionals. Owning a credit card increases the possibility of seeking financial advice by 5.2% and individuals who take average to substantial financial risks are 8.3% more likely to seek financial advice from professionals.

## **5. SENSITIVITY ANALYSIS AND GENDER DIFFERENCES**

In order to evaluate the stability of my results, I repeat my regressions (the full specification of the model) exclusively considering men and women in order to observe the heterogenous effects by gender. Tables 5 reports regression results for the OLS model, where we see how the results of the various demographic and financial factors vary by gender.

Table 5 shows that the results for men and women are fairly similar for the first 2 age groups, as we see a negative relationship for both men and women. However, we see that for women, being aged 45 to 55, 55 to 64 and 65 plus increases the possibility of seeking financial advice by 0.5%, 1.2% and 2.3% respectively. For individuals aged 65 and above we see the differences for men and women at 5.6% and 2.3% respectively so men at retirement age tend to seek more financial advice than women at that age. On the other hand, we see that White men are 5.0% more likely to seek advice while White women are 9.1% more likely. We see a significant difference in Black

men and women with men being 1% more likely to seek advice and women are 7.4% more likely. Additionally, we see that women with a college degree are more likely to seek financial advice than men with a college degree at 6.3% and 4.5% respectively. Likewise, the results show us that women who take average to substantial financial risks are 1% more likely to seek financial advice but we see men being 7.4% more likely to seek advice as financial risk takers.

My key findings are consistent across this smaller sample. First, individuals aged 65 and above are more likely to seek financial advice for both genders. Second, there are significant gender differences in age with regard to who seeks financial advice. Although there are slight differences in the characteristics of men who seek financial advice from the women, they are mainly similar. Looking at the results from table 5 and 6, we can see that overall women are more likely to seek financial advice from a planner than men. This is not surprising as other empirical papers have come to this conclusion.

Finally, to get an idea of the type of individuals who own credit cards, we analyze it as the dependent variable using the same demographic and financial factors as before. We find that individuals aged 24 to 35 (-24.8%) and 35 to 44 (-0.3%) and less likely to own a credit card. The results show a positive relationship for individuals aged 45 to 54 (0.7%), 55(3.9%) to 64 and 65 plus (8.2%) and owning a credit card. As expected, individual who have a college degree are 24.5% more likely to own a credit. This could be as a result of financial literacy courses taken in universities. Also as expected, the results show that individuals who are White are 6.0% more likely to own a credit card whereas we see a negative relationship for Black (-21.6%) and Hispanic (-14.1%) individuals. This is economically significant and also statistically significant at the 0.1% significance level. We also see that individuals are more likely to own a credit card when they expect the economy to perform better and when they expect interest rates to go higher.

## **6. CONCLUSION**

Using the SFC 2013 data, I look at two things: first, the characteristics of individuals that seek financial advice from a financial planner and assess what effect various demographic and financial

factors have. Second, I determine if the effects of the different variables on the possibility of seeking financial advice vary by gender.

There are four main conclusions from the paper. First it appears that individuals aged 65 and above tend to seek advice from financial planners more than individuals in other age groups. This is expected as these individuals have more retirement income and are less likely to have the financial literacy for investment and savings decisions. Secondly, we see that individuals' expectations of how the economy will perform and how what interest rates will be, also determines if individuals will seek financial advice or not. This is anticipated of course as the perceived state of the economy is likely to motivate individuals' financial decisions. Additionally, we see that there are gender differences in the various variables that we control for. The results show that White women are more likely to seek financial advice than White whereas Black women are more likely than Black men. We also see that a larger percentage of women with college degrees are more likely to seek financial advice than men with college degrees.

Finally, despite the fact that I have been able to identify significant characteristics of individuals who seek financial advice and also the gender differences in the characteristics, this study has been limited by the fact that there could be other factors that influence individuals' advice seeking behaviours that are not included in the model and also that further data on the financial decisions taken with the advice given is not available. A further step could be to determine the various types of decisions taken by different individuals using the advice from professional planners.

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## APPENDIX

**Table 1: Summary Statistics**

Variables	Mean	SD
Seeking Financial Advice from a Financial Planner	0.129	0.335
Female	0.528	0.419
Age18to24	0.004	0.021
Age25to34	0.010	0.103
Age35to44	0.013	0.115
Age45to54	0.018	0.135
Age55to64	0.021	0.143
Age65plus	0.017	0.131
White	0.709	0.453
Black	0.119	0.324
Hispanic	0.089	0.285
Other Race	0.046	0.209
Life Expectancy	83.927	11.538
College Degree	0.455	0.498
Expect Better Economy	0.255	0.435
Expect Worse Economy	0.153	0.360
Expect Same Economy	0.591	0.491
Expect High Interest Rates	0.798	0.401
Expect Low Interest Rates	0.043	0.204
Expect Same Interest Rates	0.158	0.364
Annual Interest Rate on Loan	1.805	2.516
Mortgage	0.391	0.488
Applied for Credit in the Past Year	0.615	0.486
Owns a Credit Card	0.723	0.447
Financial Riskiness	0.591	0.491
Observations	30,075	30,075

**Table 2: OLS estimation: Demographic factors**

Variable	(I)	(II)	(III)	(IV)
Female		-0.010 (0.004)	-0.001 (0.004)	0.005 (0.004)
Age25to34	-0.055 (0.018)	-0.054 (0.018)	-0.047 (0.018)	-0.044*** (0.018)
Age35to44	-0.058** (0.016)	-0.058 (0.016)	-0.046 (0.016)	-0.049** 0.016
Age45to54	-0.006 (0.014)	-0.006 (0.014)	-0.001 (0.013)	-0.003 (0.013)
Age55to64	0.006*** (0.013)	0.006 (0.013)	0.001 (0.013)	-0.006 (0.013)
Age65plus	0.079 (0.014)	0.078*** (0.014)	0.071 (0.014)	0.060 (0.014)
White			0.062 (0.009)	0.068** (0.009)
Black			-0.009 (0.010)	0.017 (0.010)
Hispanic			-0.028 (0.010)	0.001 (0.010)
Life Expectancy				0.008 (0.001)
College Degree				0.067 (0.004)
Constant	0.129 (0.002)	0.132*** (0.002)	0.086 (0.008)	0.028*** (0.016)
Observations	30,075	30,075	30,075	30,075
R-squared	0.0018	0.0020	0.0113	0.0223

Dependent Variable is Seeking Advice from a Financial Planner. Standard errors in parenthesis. \* - significant at 5% level. \*\* - significant at the 10% level. \*\*\* - significant at the 1% level.

**Table 3: OLS estimation: Financial factors**

Variable	(I)	(II)	(III)	(IV)
Expect Better Economy	0.001 (0.004)	0.001*** (0.004)	-0.002 (0.004)	-0.005*** (0.004)
Expect Worse Economy	-0.007 (0.005)	-0.006 (0.005)	-0.006 (0.005)	0.001 (0.005)
Expect High Interest Rates in 5 Years		0.022** (0.005)	0.005 (0.005)	0.005 (0.005)
Expect Low Interest Rates in 5 Years		0.002 (0.010)	0.005 (0.010)	0.008 (0.010)
Annual Interest Rate on Loan Mortgage			-0.007 (0.001)	-0.001** (0.001)
Applied for credit in the Past Year			0.008 (0.004)	0.018*** (0.008)
Owns a Credit Card				-0.017* (0.004)
Financial Riskiness				0.067*** (0.004)
Constant	0.130 (0.002)	0.112 (0.005)	0.097 (0.005)	0.092*** (0.004)
Observations	30,075	30,075	30,075	0.026*** (0.006)
R-squared	0.0001	0.0006	0.0043	0.0223

Dependent Variable is Seeking Advice from a Financial Planner. Standard errors in parenthesis. \* - significant at 5% level. \*\* - significant at the 10% level. \*\*\* - significant at the 1% level.

**Table 4: OLS estimation**

Variable	(I)	(II)	(III)
Female	0.006 (0.004)	0.006 (0.004)	0.027** (0.004)
Age25to34	-0.044*** (0.018)	-0.045 (0.018)	-0.028*** (0.018)
Age35to44	-0.049 (0.016)	-0.049 (0.016)	-0.051** 0.016
Age45to54	-0.003 (0.013)	-0.003 (0.013)	-0.007 (0.137)
Age55to64	-0.009 (0.013)	-0.001 (0.013)	-0.010 (0.012)
Age65plus	0.060*** (0.014)	0.060 (0.014)	0.057*** (0.014)
White	0.068 (0.009)	0.068 (0.009)	0.058*** (0.009)
Black	0.016** (0.010)	0.016 (0.010)	0.029** (0.010)
Hispanic	0.008 (0.010)	0.007 (0.010)	0.021 (0.010)
Life Expectancy	0.008 (0.001)	0.008 (0.001)	0.004*** (0.001)
College Degree	0.067 (0.004)	0.066 (0.004)	0.030*** (0.004)
Expect Better	0.001 (0.004)	0.001 (0.004)	0.002*** (0.004)
Economy			
Expect Worse	-0.009 (0.005)	-0.009 (0.005)	-0.003 (0.005)
Economy			
Variable	(I)	(II)	(IV)

Expect High		0.009	0.003
Interest Rates in 5 Years		(0.005)	(0.005)
Expect Low		0.009	0.010
Interest Rates in 5 Years		(0.010)	(0.010)
Annual Interest Rate on Loan Mortgage			-0.008 (0.001)
Applied for credit in the Past Year			0.010* (0.008)
Owns a Credit Card			-0.014 (0.004)
Financial Riskiness			0.052*** (0.004)
Constant	-0.026 (0.016)	-0.033 (0.002)	0.083*** (0.004)
Observations	30,075	30,075	30,075
R-squared	0.0224	0.0020	0.0223

Dependent Variable is Seeking Advice from a Financial Planner. Standard errors in parenthesis. \* - significant at 5% level. \*\* - significant at the 10% level. \*\*\* - significant at the 1% level.

**Table 5: OLS estimation results for males and females**

Variable	Males	Females
	(I)	(II)
Age25to34	-0.086* (0.025)	-0.095*** (0.038)
Age35to44	-0.033*** (0.018)	-0.125 (0.034)
Age45to54	-0.005 (0.015)	0.005 (0.029)
Age55to64	-0.009 (0.015)	0.012 (0.028)
Age65plus	0.056 (0.015)	0.023*** (0.037)
White	0.060*** (0.010)	0.091*** (0.020)
Black	0.010*** (0.012)	0.074 (0.021)
Hispanic	-0.007** (0.012)	0.074 (0.023)
Life Expectancy	0.003*** (0.001)	0.001 (0.003)
College Degree	0.045*** (0.004)	0.063*** (0.008)
Expect Better Economy	0.022*** (0.004)	0.011*** (0.008)
Expect Worse Economy	0.002 (0.006)	-0.012 (0.010)
Expect High Interest Rates in 5 Years	-0.011*** (0.006)	0.059 (0.009)
Expect Low Interest Rates in 5 Years	0.006* (0.012)	0.042 (0.017)

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Annual Interest Rate on Loan	-0.002	-0.002
	(0.001)	(0.003)
Mortgage	0.019*	0.040*
	(0.009)	(0.020)
Applied for credit in the Past Year	-0.007	-0.008
	(0.005)	(0.007)
Owns a Credit Card	0.058***	0.071***
	(0.006)	(0.008)
Financial Riskiness	0.074	0.010***
	(0.010)	(0.022)
Constant	0.085***	0.020
	(0.019)	(0.034)
Observations	30,075	30,075
R-squared	0.0291	0.0522

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Dependent Variable is Seeking Advice from a Financial Planner. Standard errors in parenthesis. \*

- significant at 5% level. \*\* - significant at the 10% level. \*\*\* - significant at the 1% level.