# The Market for Retirement Financial Advice

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Chapter 12

# When, Why, and How Do Mutual Fund Investors Use Financial Advisers?

*Sarah A. Holden*

More than four in ten US households owned mutual funds in May 2011, and about half of mutual fund-owning households indicated they have ongoing advisory relationships (Bogdan et al., 2011). Almost four in ten US households owned Individual Retirement Accounts (IRAs), with nearly six in ten IRA-owning households holding mutual funds in their IRAs.[1] About half of US households owned defined contribution (DC) plan accounts, with more than half of DC account-owning households holding mutual funds in their DC accounts.[2] These investing households held their mutual funds using a variety of channels, in many instances seeking the assistance of financial professionals when investing. Using survey information on mutual fund-owning households, this chapter explores when, why, and how mutual fund investors use financial advisers; the interactions of the investors with their advisers; and whether certain mutual fund-owning households are more likely than others to seek financial advice.

In what follows, the first section briefly summarizes prior research on the role of financial advice and financial literacy. The next section highlights key results from an in-depth survey of mutual fund investors regarding their interactions with financial advisers, along with results from other surveys on the use of financial advisers for specific retirement-related decisions. Subsequently, interactions between the investor and the adviser are explored, because this relationship is complex and collaborative, involving give and take in the decision-making process. Another set of recent survey results explore whether mutual fund-owning households with ongoing advisory relationships differ in significant demographic and financial ways from mutual fund-owning households without these relationships. Conclusions follow.

## A brief overview of prior research on the role of financial advice

Two strands of literature discuss investors and the factors that influence investor portfolios, apart from risk preferences. One focuses on the role of financial literacy (and financial education) in influencing household investing experiences. A key finding from that literature is that households with higher levels of financial literacy tend to be more engaged in the stock market. For example, van Rooij et al. (2011) find that individuals with low financial literacy are significantly less likely to invest in stocks. In addition, Collins (2010) reports that customers with lower levels of financial literacy are less likely to obtain advice.[3]

A second research strand focuses on the role of financial advisers, seeking to quantify the impact of financial advice, determine what types of investors seek financial advice, and measure the impact of investment advice on their portfolios. For example, Hung and Yoong (2013) provide experimental evidence that individuals who choose to receive advice improve their investment performance. They also conclude that individuals with lower financial literacy are more likely to take advantage of financial advice programs offered by employers. Hackethal and Inderst (2013) argue that financial advice is key to improving investment outcomes, particularly among less-knowledgeable investors. However, they caution that the functioning of the market for financial advice needs to be improved. Another study analyzes data from a German retail bank and finds that 'financial advice enhances portfolio diversification' and 'makes investor portfolios more congruent with predefined model portfolios' (Bluethgen et al., 2008: 2 and abstract). This literature examines rates of return, conflicts of interest, and whether the provision of advice makes the investor better off.

One difficulty with these exercises is that the adviser–investor relationship is complex. In addition, there are many qualitative and non-quantifiable factors that come into play, which might not be captured by a rate of return analysis. In what follows, we extend the second research strand by exploring what types of mutual fund investors obtain financial advice and what they gain from it.

## When, why, and how mutual fund investors seek financial advice?

In 2006, the Investment Company Institute (ICI) undertook a household survey to explore in detail when, why, and how mutual fund-owning households engage or do not engage with professional financial advisers.[4]

This telephone survey asked individuals owning mutual funds outside of employer-sponsored retirement plans whether they had ongoing relationships with professional financial advisers. Respondents with such relationships were then asked detailed questions about the timing of seeking financial advice, their reasons for seeking financial advice, and the multiple services obtained. Respondents without such relationships were asked why they did not obtain financial advice.

## When mutual fund investors seek financial advice?

Mutual fund investors tend to first seek professional financial advice during their prime earning and saving years (i.e., in their late 20s to early 50s). As shown in Figure 12.1, almost one-third of mutual fund shareholders with ongoing advisory relationships indicated they first sought financial investment advice between the ages of 25 and 34, and one-quarter indicated they did so between the ages of 35 and 44. About one-fifth first sought financial

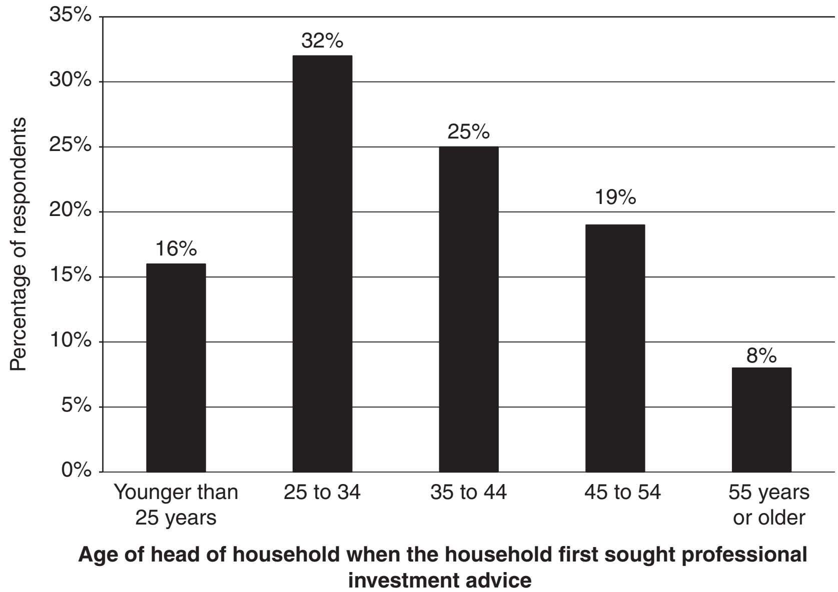


Figure 12.1 Majority of mutual fund investors initially seek professional investment advice during their peak earning and saving years

*Notes*: The sample is 602 US households owning mutual funds outside workplace retirement plans and with ongoing relationships with professional financial advisers. The survey was conducted between late July 2006 and September 2006.

*Source*: ICI Mutual Fund Shareholder Financial Advice Survey; see Schrass and Bogdan (2012).

advice between the ages of 45 and 54. Thus, it appears that changing needs and goals along the lifecycle often prompt mutual fund investors to seek financial advice.

In addition, a particular event can trigger mutual fund investors to seek professional investment advice, as shown in Table 12.1. For some shareholders (27 percent), the trigger event is an inheritance or a lump-sum distribution from a workplace retirement plan. Also, 46 percent of shareholders who first sought advice when they were in their mid-50s or older indicated they had received lump sums, compared with about one-fifth of those who were in their late 20s through their early 40s when they initially sought advice.

Another event triggering demand for advice is retirement; that is, many consult professional advisers when they contemplate the distribution decisions for their DC plan assets. Sabelhaus et al. (2008) find that, among retiring DC account-owning households with distribution choices in their DC plans, 42 percent consulted professional financial advisers obtained on

Table 12.1 Achieving specific financial goals often prompts mutual fund investors to seek professional investment advice

| Percentage of respondents with ongoing advisory relationships indicating each reason | | | | | | |
|---|---|---|---|---|---|---|
| | Allrespondents with ongoingadvisory relationships | Age at which respondent initially sought professional investment advice | | | | |
| | | Younger than 25 years | 25–34 | 35–44 | 45–54 | 55 years or older |
| Had a trigger event | 48 | 53 | 46 | 40 | 56 | 57 |
| Received a lump sum through an inheritance, retirement, or job change | 27 | 38 | 18 | 21 | 37 | 46 |
| Had a change in household composition, such as a change in marital status, birth of a child, and death of a spouse or partner | 21 | 15 | 28 | 19 | 19 | 11 |
| Wanted to address a specific financial goal, such as saving to pay for retirement or education | 40 | 33 | 42 | 50 | 34 | 26 |
| Some other reason[a] | 12 | 14 | 12 | 10 | 10 | 17 |

*Notes*: The sample is 602 US households owning mutual funds outside workplace retirement plans and with ongoing relationships with professional financial advisers. The survey was conducted between late July 2006 and September 2006. [a] Other reasons include seemed like a good idea, family or friends suggested it, and wanted to purchase stocks.

*Source*: ICI Mutual Fund Shareholder Financial Advice Survey; see Schrass and Bogdan (2012).

their own, and 13 percent consulted with professional financial advisers provided by their employers.[5] In addition, Holden and Schrass (2011), using the 2011 ICI IRA Owners Survey, find that 52 percent of traditional IRA-owning households taking withdrawals from their traditional IRAs consulted a financial adviser to calculate the distribution amount.[6] Furthermore, they find that 62 percent of traditional IRA-owning households who had a strategy to manage income and assets in retirement indicated a professional financial adviser helped them form the strategy.

In addition to inheritances and lump-sum distributions, another trigger event that often causes individuals to seek financial advice is a change in the composition of their household, such as getting married, having a child, or losing a spouse or partner. Twenty-one percent of mutual fund investors with ongoing advisory relationships indicated that a change in the makeup of their households triggered the need for professional financial advice (see Table 12.1). Finally, 40 percent of mutual fund investors with ongoing advisory relationships first sought professional investment advice to address a specific financial goal, rather than in response to a trigger event. Those who first sought financial advice in their late 30s to early 40s were most likely to do so to address a specific financial goal. Among this age group, half indicated they initially obtained professional financial advice because they wanted to begin saving for retirement, their children's education, or some other specific goal.

## Why mutual fund investors obtain financial advice?

Mutual fund investors turn to advisers for financial expertise on multiple topics. For example, nearly three-quarters of mutual fund investors with ongoing advisory relationships indicated they wanted help with asset allocation (see Figure 12.2). Nearly three-quarters indicated they wanted a financial professional to explain various investment options to them. In addition, as Leonard-Chambers and Bogdan (2007) report, 38 percent of mutual fund investors with ongoing advisory relationships indicated they did not want to make their own investment decisions, and 44 percent indicated they did not have time to make their own investment decisions. By contrast, the majority of mutual fund investors lacking ongoing advisory relationships indicated they were more 'hands-on' with respect to asset allocation; 66 percent indicated they wanted to be in control of their own investments and 64 percent indicated they had access to all of the resources needed to invest on their own (see Figure 12.2). In addition, among those not using financial advisers, 56 percent said they knew enough to make their own investment decisions, and 44 percent indicated they enjoyed investing on their own (Leonard-Chambers and Bogdan, 2007).

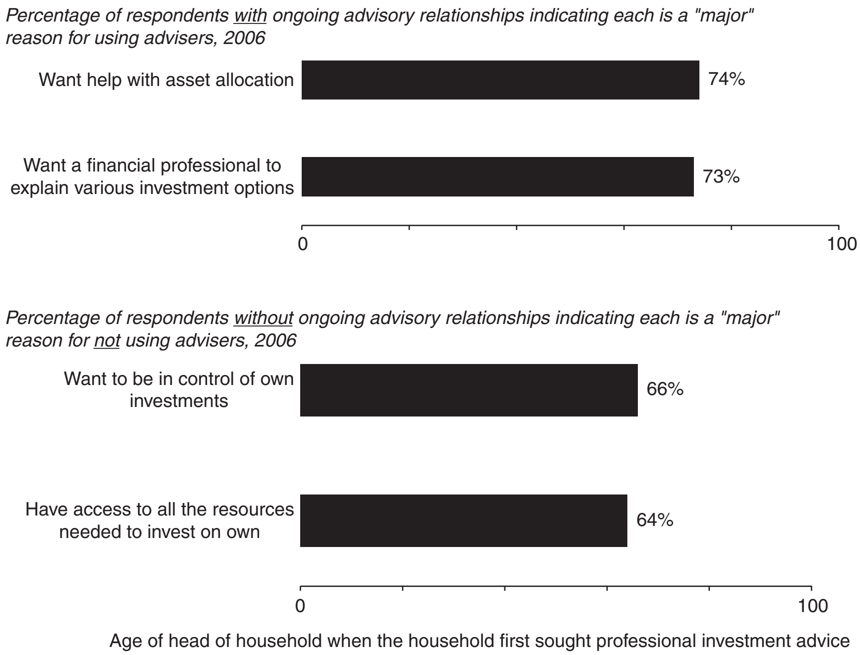


Figure 12.2 Mutual fund investors and help with asset allocation

*Notes*: The sample is 1,003 US households owning mutual funds outside workplace retirement plans, of which 602 had ongoing relationships with professional financial advisers and 401 were without ongoing advisory relationships. The survey was conducted between late July 2006 and September 2006. Multiple responses are included.

*Source*: ICI Mutual Fund Shareholder Financial Advice Survey; see Schrass and Bogdan (2012).

Mutual fund investors also seek advice regarding their financial planning beyond asset allocation or specific investment decisions. For example, as Figure 12.3 highlights, 71 percent of mutual fund investors with ongoing advisory relationships said they seek help making sense of their total financial picture. Seventy-one percent indicated they wanted to be sure they were saving enough to reach their financial goals, and 65 percent indicated their advisers helped to make sure their estates were in order.

## How mutual fund investors interact with financial advisers?

The relationship between the investor and the financial adviser involves some give and take, as well as trust. Indeed, as Table 12.2 indicates, one-quarter of mutual fund investors with ongoing advisory relationships always conducted their own research to evaluate or confirm the investment advice they received from their (primary) adviser, and an additional 43 percent

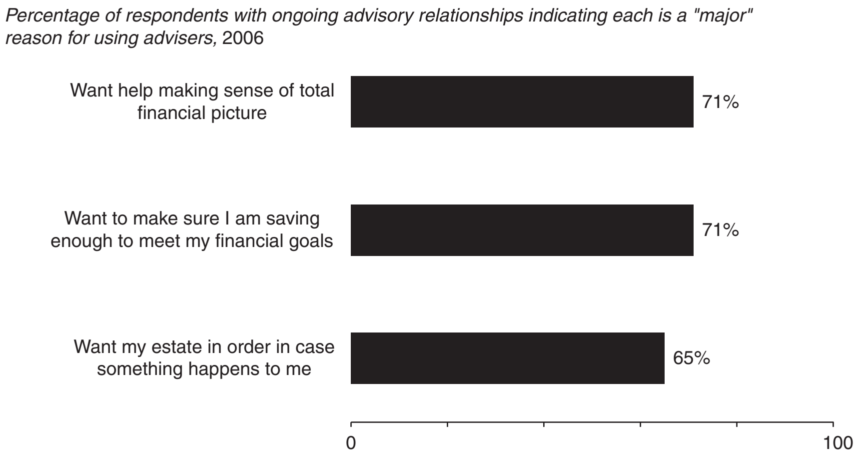


Figure 12.3 Mutual fund investors and help with financial planning

*Notes*: The sample is 602 US households owning mutual funds outside workplace retirement plans and with ongoing relationships with professional financial advisers. The survey was conducted between late July 2006 and September 2006. Multiple responses are included.

*Source*: ICI Mutual Fund Shareholder Financial Advice Survey; see Schrass and Bogdan (2012).

indicated that they 'sometimes' conducted their own research. Another 22 percent said that they rarely conducted their own research, and only 10 percent never conducted their own research. When it comes to following the investment advice, 36 percent indicated they always followed the investment advice from their (primary) adviser, and another 60 percent indicated they sometimes followed the advice.

Mutual fund investors with ongoing advisory relationships are roughly evenly split into three camps of investors: delegators, collaborators, and leaders. Thirty-eight percent indicated they delegated all decision-making to the financial adviser or the financial adviser took the lead in decision-making (see Table 12.3). Another 34 percent indicated that the investor and adviser usually made decisions together, while another 29 percent indicated the investor usually took the lead in investment decision-making. These groups do differ somewhat by demographic and financial characteristics. For example, investors with a high school degree or less were much more likely to delegate decision-making or let the adviser take the lead, compared with those with more education. Investor-lead decision-making tends to fall with age: 36 percent of mutual fund investors younger than 35 and with ongoing advisory relationships indicated they took the lead in investment decision-making, while only 22 percent of those 65 or older indicated they took the lead. Lower-income mutual fund investors also were more likely to delegate, while those with higher-income were more

Table 12.2 Mutual fund investors and research and investment advice

| Respondents with ongoing advisory relationships; percentage in each row | | How often do you conduct your own investment research to evaluate or confirm the investment advice you receive from your (primary) investment adviser? | | | | |
|---|---|---|---|---|---|---|
| | | Always (row %) | Sometimes (row %) | Rarely (row %) | Never (row %) | All |
| How often do you follow the investment advice you receive from your (primary) investment adviser? | Always | 19 | 37 | 26 | 18 | 100 |
| | Sometimes | 28 | 49 | 20 | 3 | 100 |
| | Rarely[a] | 40 | 20 | 25 | 15 | 100 |
| | Never[a] | 17 | 33 | 0 | 50 | 100 |
| | All | 25 | 43 | 22 | 10 | 100 |

| Respondents with ongoing advisory relationships; percentage of total | | How often do you conduct your own investment research to evaluate or confirm the investment advice you receive from your (primary) investment adviser? | | | | |
|---|---|---|---|---|---|---|
| | | Always | Sometimes | Rarely | Never | All |
| How often do you follow the investment advice you receive from your (primary) investment adviser? | Always | 7 | 13 | 9 | 7 | 36 |
| | Sometimes | 17 | 29 | 12 | 2 | 60 |
| | Rarely[a] | 1 | 1 | 1 | 1 | 3 |
| | Never[a] | <0.5 | <0.5 | 0 | 1 | 1 |
| | All | 25 | 43 | 22 | 10 | 100 |

[a] There is an extremely small sample size in this row.

*Notes*: The sample is 602 US households owning mutual funds outside workplace retirement plans and with ongoing relationships with professional financial advisers. The survey was conducted between late July 2006 and September 2006.

*Source*: ICI Mutual Fund Shareholder Financial Advice Survey.

likely to take the lead. Mutual fund investors willing to take substantial financial risk were most likely to say they took the lead in decision-making, while those willing to take below-average risk were least likely.

## Which mutual fund-owning households tend to use financial advisers?

Each spring, ICI's Annual Mutual Fund Shareholder Tracking Survey asks mutual fund-owning households about their interactions with financial advisers as part of a battery of questions regarding the household's saving and investing in mutual funds. The May 2011 survey covered 4,216 US households, of which, 44 percent, or 1,859 held mutual funds.[7] This

TABLE 12.3 Investor/adviser split of decision-making

Mutual fund investors with ongoing advisory relationships; percentage of row agreeing with the statement

| | Delegate all decision-making or adviser takes the lead | You and your adviser usually make decisions together | You usually take the lead in investment decision-making |
|---|---|---|---|
| *Marital status* | | | |
| Married or living with a partner | 36 | 33 | 31 |
| Single | 33 | 37 | 31 |
| Divorced or separated | 43 | 28 | 29 |
| Widowed | 48 | 39 | 13 |
| *Education level* | | | |
| High school graduate or less | 49 | 34 | 17 |
| Some college or associate's degree | 44 | 28 | 28 |
| Completed four years of college | 33 | 40 | 27 |
| Some graduate school | 42 | 19 | 39 |
| Completed graduate school | 33 | 36 | 31 |
| *Respondent age* | | | |
| Younger than 35[a] | 31 | 33 | 36 |
| 35–44 | 34 | 32 | 34 |
| 45–54 | 38 | 29 | 32 |
| 55–64 | 42 | 31 | 27 |
| 65 or older | 36 | 41 | 22 |
| *Retirement status* | | | |
| Retired from lifetime occupation | 41 | 38 | 21 |
| Not retired | 36 | 32 | 33 |
| *Employment status* | | | |
| Employed full-time | 33 | 33 | 33 |
| Employed part-time | 39 | 33 | 28 |
| Not currently employed | 45 | 35 | 21 |
| *Total household income before taxes in 2005* | | | |
| Less than $50,000 | 52 | 33 | 15 |
| $50,000–$99,999 | 44 | 31 | 26 |
| $100,000–$249,999 | 31 | 36 | 33 |
| $250,000 or more | 39 | 27 | 34 |
| *Sex* | | | |
| Male | 33 | 37 | 31 |
| Female | 41 | 32 | 27 |

(*Continued*)

Table 12.3 Continued

| Mutual fund investors with ongoing advisory relationships; percentage of row agreeing with the statement | Delegate all decision-making or adviser takes the lead | You and your adviser usually make decisions together | You usually take the lead in investment decision-making |
|---|---|---|---|
| *Type of decision-maker* | | | |
| Married/partner female sole decision-maker | 42 | 24 | 35 |
| Married/partner female co-decision-maker | 39 | 32 | 30 |
| Married/partner male sole decision-maker | 33 | 28 | 39 |
| Married/partner male co-decision-maker | 32 | 46 | 21 |
| Single female | 33 | 33 | 33 |
| Single male | 30 | 50 | 20 |
| Divorced/separated/ widowed female | 48 | 37 | 16 |
| Divorced/separated/ widowed male | 37 | 21 | 42 |
| *Willingness to take financial risk* | | | |
| Not willing to take any financial risk | 36 | 32 | 32 |
| Willing to take below-average financial risk | 58 | 23 | 20 |
| Willing to take average financial risk | 37 | 37 | 26 |
| Willing to take above-average financial risk | 34 | 34 | 32 |
| Willing to take substantial financial risk | 29 | 26 | 45 |
| *All* | 38 | 34 | 29 |

[a] There is an extremely small sample size in this row.

*Notes*: The sample is 602 US households owning mutual funds outside workplace retirement plans and with ongoing relationships with professional financial advisers. The survey was conducted between late July 2006 and September 2006. Row percentages may not add to 100 percent because of rounding.

*Source*: ICI Mutual Fund Shareholder Financial Advice Survey; see Schrass and Bogdan (2012).

section first summarizes the channels through which mutual fund-owning households own mutual funds, and then presents tabulations to discern demographic and financial differences between mutual fund-owning households who have ongoing advisory relationships and those who do not. Finally, multivariate analysis explores which variables appear to be related to ongoing financial adviser use.

## *Mutual fund investors purchase funds through a variety of channels*

Of the 52.3 million US households owning mutual funds in 2011, half indicated they had ongoing advisory relationships with investment professionals. As Figure 12.4 demonstrates, 69 percent of mutual fund-owning households held mutual funds through their employer-sponsored retirement plans, 68 percent held mutual funds outside of employer-sponsored retirement plans, and 37 percent held mutual funds both inside and outside such plans (Schrass and Bogdan, 2012). Mutual funds purchased outside employer-sponsored retirement plans usually are obtained through

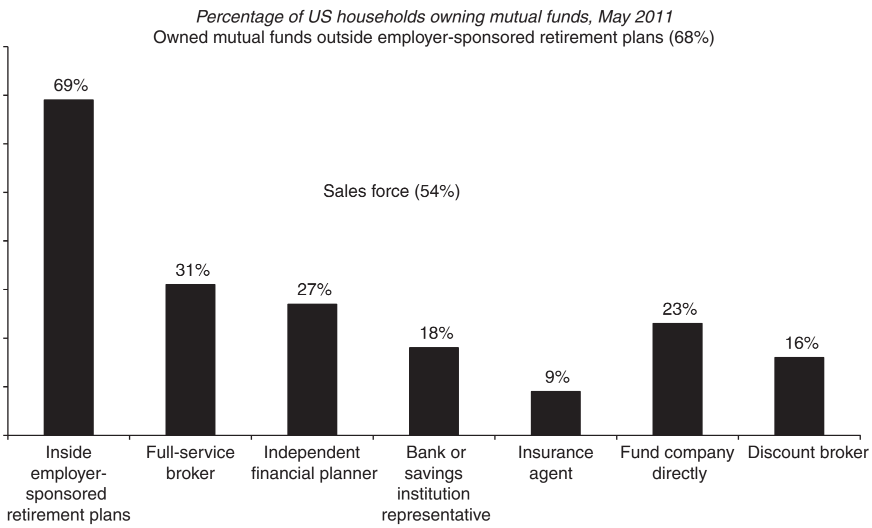


Figure 12.4 Sources used by mutual fund investors to purchase mutual funds

*Notes*: Multiple responses are included. The sample is 1,859 US households owning mutual funds in May 2011.

*Source*: 2011 ICI Annual Mutual Fund Shareholder Tracking Survey; see Schrass and Bogdan (2012).

two channels: the sales force and the direct market approach. Fifty-four percent of mutual fund-owning households purchased them through the sales force channel, which includes registered investment advisers, full-service brokers, independent financial planners, bank or savings institution representatives, and insurance agents. About one-third (32 percent) owned funds purchased from the fund company directly or through a discount broker (the direct market channel). About half (52 percent) of mutual fund-owning households held funds purchased through one source type, about one-third (35 percent) owned funds through two source types, and the remaining 13 percent held funds through all three source types (see Figure 12.5).[8] Nevertheless, nearly one-third of (32 percent) mutual fund-owning households owned funds only through employer-sponsored

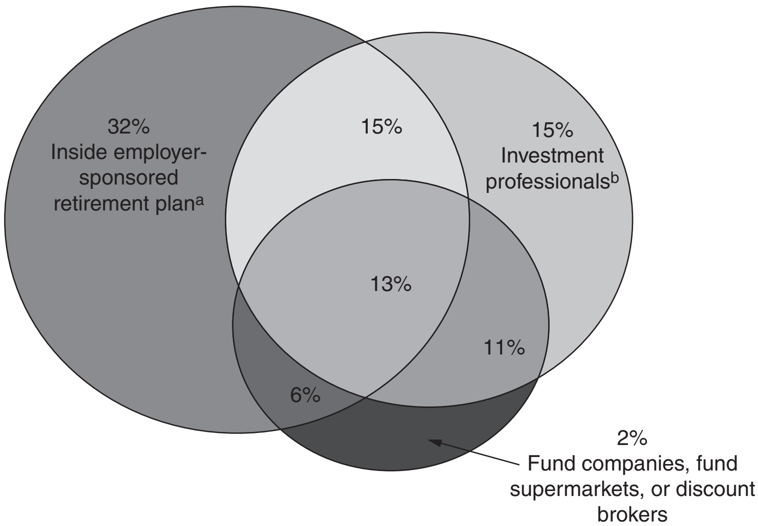


Figure 12.5 Nearly half of mutual fund-owning households held shares through multiple sources

*Notes*: Figure does not add to 100 percent because 6 percent of households owning mutual funds outside of employer-sponsored retirement plans did not indicate which source was used to purchase funds. Of this 6 percent, 3 percent owned funds both inside and outside employer-sponsored retirement plans and 3 percent owned funds only outside of employer-sponsored retirement plans. The sample is 1,859 US households owning mutual funds in May 2011. [a]Employer-sponsored retirement plans include DC plans (401(k), 403(b), or 457 plans, Keoghs, and other DC plans without 401(k) features) and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs). [b]Investment professionals include registered investment advisers, full-service brokers, independent financial planners, bank and savings institution representatives, insurance agents, and accountants.

*Source*: 2011 ICI Annual Mutual Fund Shareholder Tracking Survey; see Schrass and Bogdan (2012).

retirement plans, and 15 percent owned funds only through investment professionals outside of such plans.

Ownership patterns by purchase source vary with household age. Younger households were more likely to indicate that employer-sponsored retirement plans were the only channel through which they held mutual funds: indeed, 42 percent of those under age 50 indicated they held mutual funds only inside employer-sponsored retirement plans.[9] By contrast, households aged 50 or older were more likely to indicate mutual fund ownership outside of those plans, with 39 percent owning mutual funds only outside of such plans.[10] The differential pattern of mutual fund ownership outside employer-sponsored retirement plans among older households is in part due to the lifecycle progression through work, employer-sponsored retirement plan accumulations, change of job and retirement, and rollover of retirement plan assets to traditional IRAs, which fall into the 'outside' category.[11]

## Characteristics of mutual fund-owning households by ongoing advisory relationship status

This section explores which mutual fund-owning households are more likely to have ongoing relationships with financial advisers, using the 2011 ICI Mutual Fund Shareholder Tracking Survey. Both cross tabulations and multivariate analysis are used to determine which demographic and financial characteristics appear to be correlated with ongoing advisory relationships.

About half of mutual fund-owning households indicated that they had ongoing advisory relationships in May 2011. Mutual fund-owning households with ongoing advisory relationships tended to be headed by slightly older individuals, with a median age of head of household of 53, compared with a median age of 47 among households without ongoing advisory relationships; they also were more likely to be married or widowed (see Table 12.4). Those with advisory relationships were more likely to be non-working retired and less likely to be employed, compared with households without advisory relationships.[12] Nevertheless, incomes between the two groups were very similar. Educational distributions also were similar between the two groups.

Conventional wisdom suggests that households with more financial assets would be more likely to use financial advisers than those with fewer assets, a supposition which is confirmed in the survey data. Median household financial assets for mutual fund-owning households with advisory relationships ($285,000) were more than double that of their peers without advisory relationships ($130,000; see Table 12.4). Mutual fund-owning

TABLE 12.4 Mutual fund investor head of household characteristics

Percentage of US households owning mutual funds by advisory relationship status, May 2011

| | All mutual fund-owning households | With an ongoing relationship with adviser | Without an ongoing relationship with adviser |
|---|---|---|---|
| *Age of household sole or co-decision-maker for saving and investing* | | | |
| Younger than 35 | 16 | 10 | 20 |
| 35–44 | 21 | 18 | 24 |
| 45–54 | 24 | 24 | 26 |
| 55–64 | 21 | 26 | 16 |
| 65 or older | 18 | 22 | 14 |
| Median (years) | 50 | 53 | 47 |
| Mean (years) | 50 | 53 | 48 |
| *Education level* | | | |
| High school graduate or less | 24 | 24 | 22 |
| Some college or associate's degree | 29 | 28 | 30 |
| Completed four years of college | 23 | 23 | 23 |
| Some graduate school | 6 | 6 | 6 |
| Completed graduate school | 18 | 19 | 19 |
| *Marital status* | | | |
| Married or living with a partner | 74 | 76 | 72 |
| Single | 10 | 9 | 12 |
| Divorced or separated | 9 | 7 | 12 |
| Widowed | 7 | 8 | 4 |
| *Household investment decision-maker* | | | |
| Male is sole decision-maker | 19 | 16 | 23 |
| Female is sole decision-maker | 19 | 17 | 21 |
| Co-decision-makers | 62 | 67 | 56 |
| *Memo: Household financial assets* | | | |
| Total household financial assets (median) | \$200,000 | \$285,000 | \$130,000 |
| Mutual fund assets (median) | \$120,000 | \$170,000 | \$85,000 |
| Number of responding households | 1,859 | 890 | 874 |

*Source*: 2011 ICI Annual Mutual Fund Shareholder Tracking Survey; see Schrass and Bogdan (2012).

households with ongoing advisory relationships also were more likely to have non-mutual fund investments.[13]

Ownership of employer-sponsored DC plan accounts was higher among mutual fund-owning households without advisory relationships, which would be expected given the limited role that advice plays in such plans and the fact that these households were more likely to indicate they held mutual funds only through such plans.[14] These ownership patterns likely

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also reflect their slightly younger age profile and the work-lifecycle phenomenon that does not yet have them to the rollover stage. In a similar vein, mutual fund-owning households with advisory relationships were more likely to report IRA ownership compared with those without advisory relationships.[15]

The median household mutual fund assets among mutual fund-owning households with advisory relationships ($170,000) were double that for mutual fund-owning households without advisory relationships ($85,000; see Table 12.4). They also tended to own more mutual funds and expressed higher confidence that mutual funds could help them meet their financial goals. The 2006 ICI Mutual Fund Shareholder Financial Advice Survey shows that mutual fund investors using professional financial advisers were less engaged with the Internet than those not obtaining financial advice.[16] Similarly, in May 2011, the ICI Annual Mutual Fund Shareholder Tracking Survey data show that, although mutual fund-owning households with advisory relationships were roughly similar to households without advisory relationships in terms of much of their Internet access and activity, they differed in at least one significant dimension: only 14 percent of mutual fund-owning households with Internet access and ongoing advisory relationships had bought or sold investments online, compared with 24 percent of those with Internet access but no ongoing advisory relationships.

## Multivariate analysis

A probit analysis helps confirm that many of the patterns evident in the cross tabulations also are statistically significant in a multivariate analysis. Table 12.5 presents the variables included in the regression analysis and Table 12.6 reports the regression results. The dependent variable is a 0-1 dummy for the ongoing relationship with a financial adviser.

Higher household financial assets tend to be significantly positively related to the probability that the household had ongoing financial advice. For example, mutual fund-owning households with financial assets of $250,000 or more have a significantly higher probability of having an ongoing advisory relationship than those with less than $10,000 in financial assets (see Table 12.6). Those with a head of household who has completed graduate school had a significantly lower probability of having an ongoing advisory relationship than those with high school or less education, although the distribution of educational attainment is similar between the two groups (see Table 12.4). Willingness to take any amount of risk is positively correlated with having an ongoing advisory relationship, although not all risk categories are statistically significant (see Table 12.6).[17] Mutual fund-owning households who use the Internet for financial purposes have a

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Table 12.5 Variables used in probit regression model

| Variable name | Variable description |
|---|---|
| finadv | 1 if respondent has ongoing advisory relationship, 0 if not |
| age | Head of household age |
| age2 | Head of household age squared |
| hh_income1 | Household income < $25,000 (omitted) |
| hh_income2 | $25,000 ≤ household income < $35,000 |
| hh_income3 | $35,000 ≤ household income < $50,000 |
| hh_income4 | $50,000 ≤ household income < $75,000 |
| hh_income5 | $75,000 ≤ household income < $100,000 |
| hh_income6 | $100,000 ≤ household income < $149,000 |
| hh_income7 | $150,000 ≤ household income < $250,000 |
| hh_income8 | Household income ≥ $250,000 |
| hh_finassets1 | Household financial assets < $10,000 (omitted) |
| hh_finassets2 | $10,000 ≤ household financial assets < $30,000 |
| hh_finassets3 | $30,000 ≤ household financial assets < $50,000 |
| hh_finassets4 | $50,000 ≤ household financial assets < $75,000 |
| hh_finassets5 | $75,000 ≤ household financial assets < $100,000 |
| hh_finassets6 | $100,000 ≤ household financial assets < $250,000 |
| hh_finassets7 | Household financial assets ≥ $250,000 |
| education1 | High school graduate or less (omitted) |
| education2 | Some college or associate's degree |
| education3 | Completed four years of college |
| education4 | Some graduate school |
| education5 | Completed graduate school |
| risk1 | Not willing to take any financial risk (omitted) |
| risk2 | Willing to take below-average financial risk |
| risk3 | Willing to take average financial risk |
| risk4 | Willing to take above-average financial risk |
| risk5 | Willing to take substantial financial risk |
| dm_female | 1 if the sole or co-decision-maker is female; 0 if the sole or co-decision-maker is male |
| int_fin | Used Internet for financial purpose |
| own_dc | Own DC account |
| own_ira | Own IRA |
| confidence1 | Not at all confident that mutual funds are an investment that can help the household meet financial goals (omitted) |
| confidence2 | Not very confident that mutual funds are an investment that can help the household meet financial goals |
| confidence3 | Somewhat confident that mutual funds are an investment that can help the household meet financial goals |
| confidence4 | Very confident that mutual funds are an investment that can help the household meet financial goals |

*Source*: 2011 ICI Annual Mutual Fund Shareholder Tracking Survey; see Schrass and Bogdan (2012).

TABLE 12.6 Probability mutual fund investor has ongoing advisory relationship

| | Finadv = | | | | | | Average marginal effects | | |
|---|---|---|---|---|---|---|---|---|---|
| Variable | Estimate | Standard error | $z$ | $P > z$ | Significance | Mean | Coefficient | Standard error | $z$ |
| intercept | −1.8729 | 0.6066 | −3.09 | 0.002 | *** | | | | |
| age | 0.0277 | 0.0186 | 1.49 | 0.135 | | 55.952 | 0.0100 | 0.0067 | 1.5 |
| age2 | −0.0002 | 0.0002 | −1.29 | 0.197 | | 3330.55 | −0.0001 | 0.0001 | −1.29 |
| hh_income2 | 0.0775 | 0.2299 | 0.34 | 0.736 | | 0.0740 | 0.0265 | 0.0784 | 0.34 |
| hh_income3 | 0.1068 | 0.2192 | 0.49 | 0.626 | | 0.1033 | 0.0364 | 0.0746 | 0.49 |
| hh_income4 | 0.0485 | 0.2072 | 0.23 | 0.815 | | 0.2213 | 0.0170 | 0.0724 | 0.23 |
| hh_income5 | 0.1567 | 0.2164 | 0.72 | 0.469 | | 0.1912 | 0.0561 | 0.0771 | 0.73 |
| hh_income6 | 0.0398 | 0.2240 | 0.18 | 0.859 | | 0.1993 | 0.0146 | 0.0820 | 0.18 |
| hh_income7 | 0.0679 | 0.2383 | 0.28 | 0.776 | | 0.1221 | 0.0247 | 0.0866 | 0.29 |
| hh_income8 | 0.1068 | 0.2792 | 0.38 | 0.702 | | 0.0407 | 0.0370 | 0.0961 | 0.39 |
| hh_finassets2 | 0.6217 | 0.3253 | 1.91 | 0.056 | * | 0.0578 | 0.1815 | 0.1093 | 1.66 |
| hh_finassets3 | 0.4116 | 0.3461 | 1.19 | 0.234 | | 0.0423 | 0.1150 | 0.1083 | 1.06 |
| hh_finassets4 | 0.9974 | 0.3247 | 3.07 | 0.002 | *** | 0.0667 | 0.3254 | 0.1172 | 2.78 |
| hh_finassets5 | 0.6053 | 0.3416 | 1.77 | 0.076 | * | 0.0448 | 0.1891 | 0.1210 | 1.56 |
| hh_finassets6 | 0.9341 | 0.3058 | 3.05 | 0.002 | *** | 0.2449 | 0.3129 | 0.1057 | 2.96 |
| hh_finassets7 | 1.1584 | 0.3125 | 3.71 | 0 | *** | 0.5183 | 0.4034 | 0.0985 | 4.1 |
| education2 | −0.1703 | 0.1369 | −1.24 | 0.213 | | 0.2897 | −0.0598 | 0.0481 | −1.24 |
| education3 | −0.1854 | 0.1471 | −1.26 | 0.207 | | 0.2433 | −0.0658 | 0.0524 | −1.26 |
| education4 | −0.2913 | 0.1806 | −1.61 | 0.107 | | 0.0830 | −0.1023 | 0.0637 | −1.61 |
| education5 | −0.2698 | 0.1470 | −1.84 | 0.066 | * | 0.2685 | −0.0968 | 0.0528 | −1.83 |
| risk2 | 0.3456 | 0.1797 | 1.92 | 0.054 | * | 0.0960 | 0.1226 | 0.0629 | 1.95 |
| risk3 | 0.3291 | 0.1456 | 2.26 | 0.024 | ** | 0.4939 | 0.1184 | 0.0520 | 2.28 |

(*Continued*)

Table 12.6 Continued

| | Finadv = | | | | | | Average marginal effects | | |
|---|---|---|---|---|---|---|---|---|---|
| Variable | Estimate | Standard error | $z$ | $P > z$ | Significance | Mean | Coefficient | Standard error | $z$ |
| risk4 | 0.1520 | 0.1562 | 0.97 | 0.331 | | 0.2832 | 0.0559 | 0.0575 | 0.97 |
| risk5 | 0.5083 | 0.2332 | 2.18 | 0.029 | ** | 0.0407 | 0.1798 | 0.0799 | 2.25 |
| dm_female | 0.1062 | 0.0782 | 1.36 | 0.174 | | 0.4475 | 0.0383 | 0.0281 | 1.36 |
| int_fin | −0.2919 | 0.1048 | −2.79 | 0.005 | *** | 0.7852 | −0.1047 | 0.0368 | −2.85 |
| own_dc | −0.3169 | 0.0971 | −3.26 | 0.001 | *** | 0.7413 | −0.1144 | 0.0345 | −3.32 |
| own_ira | 0.3330 | 0.0876 | 3.8 | 0 | *** | 0.7217 | 0.1228 | 0.0324 | 3.79 |
| confidence2 | −0.2874 | 0.2055 | −1.4 | 0.162 | | 0.1082 | −0.1020 | 0.0714 | −1.43 |
| confidence3 | 0.1725 | 0.1781 | 0.97 | 0.333 | | 0.6013 | 0.0632 | 0.0651 | 0.97 |
| confidence4 | 0.3127 | 0.1893 | 1.65 | 0.099 | * | 0.2417 | 0.1147 | 0.0682 | 1.68 |

*Notes*: Regression was run on an unweighted sample of 1,229 mutual fund-owning households. Pseudo-$R^2$ is 0.0846.
*Significant at the 90% confidence level;
**significant at the 95% confidence level;
***significant at the 99% confidence level.

*Source*: 2011 ICI Annual Mutual Fund Shareholder Tracking Survey; see Schrass and Bogdan (2012).

lower probability of obtaining ongoing financial advice, consistent with the 2006 advice survey results and the tabulations of the May 2011 survey data.

Also, bearing out the cross tabulations, IRA ownership increases the probability of the mutual fund investor having an ongoing advisory relationship, and DC account ownership decreases the probability of having an ongoing advisory relationship (see Table 12.6). These variables are highly significant and their interaction with ongoing advisory relationships makes intuitive sense: financial advice is more readily available outside of employer-sponsored retirement plans, and rollover activity, which is common throughout people's working lives, generates traditional IRAs, which are considered to be outside employer-sponsored plans.

Finally, mutual fund investors agreeing that they are 'very confident' that mutual funds can help them meet their financial goals have a higher probability of having ongoing advisory relationships than do mutual fund investors who are not at all confident (see Table 12.6). This result is consistent with the 2006 advice survey's finding that mutual fund investors often seek professional financial advice to achieve peace of mind and grow their assets.[18]

## Conclusion

About half of mutual fund-owning households report they have ongoing financial advisory relationships. They seek professional financial advice for a variety of reasons going much beyond the selection and purchase of specific mutual funds. Many seek financial advice as the result of a trigger event, such as the receipt of a lump sum through inheritance, retirement, or job change, or a change in household composition, while others seek financial advice to address a specific financial goal, such as saving for retirement or education. Mutual fund investors typically receive multiple services and choose to work with financial advisers because advisers have expertise in areas they themselves do not.

The advisory relationship is complex and involves a range of give and take in the decision-making process. Mutual fund investors with ongoing advisory relationships were roughly evenly split into three camps of investors with respect to decision-making: delegators or adviser taking the lead (38 percent), collaborators (34 percent), and investors taking the lead (29 percent). Mutual fund-owning households with ongoing advisory relationships tend to have higher household financial assets and higher confidence that mutual funds can help them meet their goals. Use of the Internet for financial purposes—which perhaps indicates a more self-help investor—is negatively correlated with the use of ongoing financial advice.

The author thanks Steven Bass, Michael Bogdan, and Daniel Schrass for their expert research assistance with this chapter.

## Endnotes

1. In May 2011, 38.8 percent of US households owned IRAs and 22.7 percent of US households owned mutual funds in IRAs. See Holden and Schrass (2011) and Bogdan et al. (2011). These statistics are tabulations from the May 2011 ICI Annual Mutual Fund Shareholder Tracking Survey.
2. In May 2011, 51.1 percent of US households owned DC plan accounts and 29.1 percent of US households owned mutual funds in DC plan accounts. These statistics are tabulations from the May 2011 ICI Annual Mutual Fund Shareholder Tracking Survey.
3. Other research concludes from an analysis of a sample of German investors that 'investors who most need the financial advice are least likely to obtain it' (Bhattacharya et al., 2011: 4).
4. The ICI Mutual Fund Shareholder Financial Advice Survey sample consisted of 1,003 households owning mutual funds outside of employer-sponsored retirement plans. Of those households, 60 percent, or 602 respondents, currently had ongoing advisory relationships; 13 percent, or 131 respondents, had used one-time advice; 18 percent, or 176 respondents, had never used advisers; and the remaining 9 percent, or 94 respondents, were currently not using advisers. This telephone survey was fielded from late July 2006 through September 2006 to a random selection of households from telephone exchanges with median household incomes of $75,000 or more. For additional analysis of the ICI Mutual Fund Shareholder Financial Advice Survey, see Leonard-Chambers and Bogdan (2007).
5. Multiple responses are included, and about two-thirds of respondents indicated they consulted multiple sources of information and advice. Fifty-six percent of respondents with a choice of distribution option indicated they consulted with family or peers, and 46 percent consulted employer-provided resources (including professional financial advisers, seminars, workshops, online retirement software, and printed materials). The ICI Defined Contribution Plan Distribution Decision Survey was a phone–mail–phone survey to a random sample from an age-targeted sample and from a retirement-targeted sample, fielded from October 2007 through December 2007. The survey identified 1,187 recently retired individuals with DC accounts, of which 876 agreed to complete the mail survey, of which 659 did the follow-up phone survey. In the final analysis, 608 respondents completed the survey. See Sabelhaus et al. (2008) for additional results from the survey.

6. The 2011 ICI IRA Owners Survey was a random digit dial telephone survey, fielded in May 2011, with 2,300 IRA-owning households completing the survey. See Holden and Schrass (2011) for additional detail.
7. The 2011 ICI Annual Mutual Fund Shareholder Tracking Survey was a random digit dial telephone survey fielded in May 2011. See Bogdan et al. (2011) and Schrass and Bogdan (2012) for additional detail and survey results.
8. This statistic counts the number of different source types. Mutual fund-owning households may use multiple firms within a given source type.
9. In May 2011, 42 percent of mutual fund-owning households younger than 50 held mutual funds only inside employer-sponsored retirement plans; 10 percent held mutual funds only through investment professionals; and 2 percent held mutual funds only through fund companies, fund supermarkets, or discount brokers. Fourteen percent held mutual funds inside employer-sponsored retirement plans and through investment professionals; 7 percent held mutual funds through investment professionals and fund companies, fund supermarkets, or discount brokers; and 7 percent held mutual funds inside employer-sponsored retirement plans and through fund companies, fund supermarkets, or discount brokers. Twelve percent owned funds through all three channels. The remaining 6 percent owned mutual funds outside of employer-sponsored retirement plans but did not specify the source. Of this 6 percent, 3 percent owned funds both inside and outside employer-sponsored retirement plans and 3 percent owned funds only outside of employer-sponsored retirement plans. These results are based on a sample 896 mutual fund-owning households headed by an individual younger than 50. Data are from the 2011 ICI Annual Mutual Fund Shareholder Tracking Survey and notes from Figure 12.5 apply.
10. In May 2011, 23 percent of mutual fund-owning households aged 50 or older held mutual funds only inside employer-sponsored retirement plans; 19 percent held mutual funds only through investment professionals; and 3 percent held mutual funds only through fund companies, fund supermarkets, or discount brokers. Seventeen percent held mutual funds inside employer-sponsored retirement plans and through investment professionals; 15 percent held mutual funds through investment professionals and fund companies, fund supermarkets, or discount brokers; and 6 percent held mutual funds inside employer-sponsored retirement plans and through fund companies, fund supermarkets, or discount brokers. Thirteen percent owned funds through all three channels. The remaining 4 percent owned mutual funds outside of employer-sponsored retirement plans but did not specify the source. Of this 4 percent, 2 percent owned funds both inside and outside employer-sponsored retirement plans and 2 percent owned funds only outside of employer-sponsored retirement plans. These results are based on a sample 963 mutual fund-owning households headed by an individual aged 50 or older. Data are from the 2011 ICI Annual Mutual Fund Shareholder Tracking Survey and notes from Figure 12.5 apply.

11. For discussion of the role of rollovers and IRAs in the process of planning for retirement, see Sabelhaus and Schrass (2009), Holden et al. (2010), and Holden and Schrass (2011).
12. Over half (58 percent) of mutual fund-owning households with advisory relationships were employed full-time, compared with 68 percent of households without ongoing advisory relationships. Twenty-six percent of mutual fund-owning households with advisory relationships were non-working retired, compared with 16 percent of households without ongoing advisory relationships. These results are from tabulations of the May 2011 ICI Annual Mutual Fund Shareholder Tracking Survey.
13. This result is from tabulations of the May 2011 ICI Annual Mutual Fund Shareholder Tracking Survey.
14. In May 2011, 82 percent of mutual fund-owning households without advisory relationships had DC plan accounts compared with 73 percent of mutual fund-owning households with advisory relationships. In addition, 42 percent of mutual fund-owning households without advisory relationships held mutual funds only through employer-sponsored retirement plans, compared with 17 percent of mutual fund-owning households with advisory relationships. These results are from tabulations of the May 2011 ICI Annual Mutual Fund Shareholder Tracking Survey.
15. Nearly three-quarters (74 percent) of mutual fund-owning households with advisory relationships owned traditional or Roth IRAs, compared with about half (51 percent) of mutual fund-owning households without advisory relationships. Such IRAs are considered investments outside of employer-sponsored retirement plans, and mutual fund-owning households with advisory relationships were more likely to report mutual fund ownership outside such plans; 38 percent of mutual fund-owning households with ongoing advisory relationships owned mutual funds only outside employer-sponsored retirement plans, compared with 26 percent of those without ongoing advice. In addition, 45 percent of mutual fund-owning households with ongoing advisory relationships owned mutual funds both inside and outside employer-sponsored retirement plans, compared with 32 percent of those without ongoing advice. (Households with advisory relationships also were more likely to report employer-sponsored IRA ownership.) These results are from tabulations of the May 2011 ICI Annual Mutual Fund Shareholder Tracking Survey.
16. Logit analysis of the 2006 advice survey data finds that mutual fund investors who do not go online for investment information are nearly twice as likely to have ongoing advisory relationships compared with those who do go online for investment information (Leonard-Chambers and Bogdan, 2007: 7).
17. Mutual fund-owning households without ongoing advisory relationships were more likely to indicate that they were unwilling to take any financial risk than those with ongoing advisory relationships.

18. In the 2006 advice survey, 76 percent of mutual fund investors with ongoing advisory relationships indicated a major reason for using a professional adviser was to have a better chance of growing their money with the adviser than on their own. Three-quarters agreed 'wanting peace of mind about investments' was a major reason to seek professional advice. For additional information on this survey, see endnote 4 in this chapter and Leonard-Chambers and Bogdan (2007).

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