# Wharton Pension Research Council
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Financial Planners: Measuring Performance and Impact

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# Background

- Federal Reserve Pension System
  - Defined Benefit Plan - $8.5 billion
  - Defined Contribution Plan - $5.5 billion
  - 20,000 active participants; 35,000 total participants
- We offer Financial Counseling Service to Active Employees
  - Ayco, a Goldman Sachs company
  - Totally fee-based; voluntary benefit
  - About 15% of employees have utilized the service
  - Positive anecdotal feedback, but have not attempted to judge effectiveness; Privacy is a big issue

# Background: Questions We're Asking

- Who utilizes the service, and why?
- How do we drive higher utilization?
- Do employees value the benefit? Evidence through higher retention/satisfaction?
- Do users make better financial decisions than non-users?
- Do users take actions based on the information they've obtained?

Issue: These questions are difficult to answer with any degree of certainty because individual differences/preferences.

# Common Themes/Issues from the Three Papers

- All financial planners are not the same (credentials, roles, method of compensation)
- Hard to establish absolute rules for “good” and “bad” behaviors
- Need to measure over long periods of time
- Self-selection seems to skew results (motivated/educated individuals more likely to seek the service)
- Other issues skewing results - financial literacy, wealth, demographics, reverse causation

# Takeaways from the Three Papers

- Households that consult financial planners have significantly more financial wealth, a larger percentage of their wealth in equities and greater diversification, but socio-demographic and economic factors account for a significant portion of this effect (Zick and Mayer)

- Consultation with a financial planner leads to a significantly higher proportion of wealth in equities for lower-income households (Zick and Mayer)

# Takeaways from the Three Papers

- Use of a financial planner was correlated to 401(k) contributions, but also linked to a decline in contributions in 2008 vs 2007 (i.e., reverse causation?) (Hung and Yoong)
- Unsolicited advice has no effect on behavior, but participants who affirmatively seek advice are less likely to commit “mistakes” (Hung and Yoong)

# Takeaways from the Three Papers

- While there is some evidence that financial planners help households make better decisions, the outcome is often worse when there are conflicts of interest from compensation incentives (Finke)

# Areas of Further Discussion/Research

- What steps might drive participants to utilize financial planning services when offered?
- Do financial planners help employees to avoid making “wrong” decisions (e.g., cashing out of equities in 2008) in addition to helping them to make “right” decisions?
- Other approaches to measure financial planner effectiveness (e.g., persistency, participant satisfaction, specific deliverables)