

Professional Financial Advice, Self-Control, and Saving Behavior

Fen Liu, The Ohio State University¹
Tansel Yilmazer, The Ohio State University²
Caezilia Loibl, The Ohio State University³
Catherine Montalto, The Ohio State University⁴

Abstract

The purpose of this study is to examine the effects of professional financial advice (PFA) and self-control ability on saving behavior, as well as the interaction of PFA and self-control on saving behavior. Professional financial advisors can use their financial expertise to help households make better informed financial decisions. Also, professional financial advisors may help households achieve better self-control in implementing financial plans, such as recommending commitment devices, arrangements that restrict the future choice set by setting plans or even penalties. We extend the dual-self model of impulse control (Fudenberg & Levine, 2006) and derive three hypotheses: (a) people with higher levels of self-control save more than those with lower levels of self-control, (b) professional financial advice has a positive effect on saving behavior, and (c) people with lower levels of self-control benefit more from getting PFA than those with higher levels of self-control. We use a German household panel dataset SAVE, which was collected annually from 2005 to 2009. Respondents are asked whether they have discussed financial matters with financial advisors in banks, insurance companies or financial service providers. Using a number of behavioral proxies of self-control, we create an aggregate measure of self-control through factor analysis. We estimate a fixed-effects model to identify the effects of PFA and self-control on saving behavior. Empirical results show that both PFA and self-control have a significant positive relationship with financial assets and emergency funds. The interaction term for PFA and self-control has a significant effect on financial assets and emergency funds.

References

Fudenberg, D., & Levine, D. K. (2006). A dual-self model of impulse control. *The American Economic Review*, 96(5), 1449-1476. doi:10.2307/30034982

¹ Ph.D., Department of Human Sciences, Ohio State University, 1787 Neil Avenue, 265L Campbell Hall, Columbus, OH 43210, USA. Phone: 614-284-4519. Email: liu.869@osu.edu.

² Assistant Professor, Department of Human Sciences, Ohio State University, 1787 Neil Avenue, 115-C Campbell Hall, Columbus, OH 43210, USA. Phone: 614-292-4546. Email: yilmazer.2@osu.edu.

³ Associate Professor, Department of Human Sciences, Ohio State University, 1787 Neil Avenue, 265K Campbell Hall, Columbus, OH 43210, USA. Phone: 614-292-4226. Email: loibl.3@osu.edu.

⁴ Associate Professor, Department of Human Sciences, Ohio State University, 1787 Neil Avenue, 115-F Campbell Hall, Columbus, OH 43210, USA. Phone: 614-292-4571. Email: montalto.2@osu.edu.