Factors Associated with the Use of Financial Planners: Adoption and Termination

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The complex economic environment, frequent changes in income and tax codes, and various new ways to invest money imply that developing an optimal personal financial plan is an extraordinarily complex task. The service provided by professional financial planners plays an important role in improving the financial wellness of individuals. Using the 2007-2009 Survey of Consumer Finances (SCF) panel, this study analyzes factors associated with starting and ending a relationship with a financial planner.

Research on the determinants of using financial planners has seen limited advances in the recent past. Previous studies relied mostly on cross-sectional data and ignored the potential asymmetries in the determinants of starting or terminating a relationship with financial planners. This study addresses the limitations of existing literature by employing longitudinal data to identify and examine the factors related to both decisions. Using the 2007 and 2009 waves of the Survey of Consumer Finances (SCF) panel data, this research explores the impacts that life events and changes in financial situation have on the decision to the use a professional financial planner. More specifically, this study models two types of decisions: (1) starting a relationship with a planner, and (2) ending such a relationship. The results of this study show that the likelihood of adopting a financial planner increases with divorce, unemployment, numbers of children, and decreases with retirement, debt, and financial assets. Terminating the relationship with a financial planner is negatively associated with unemployed and losing a house.

The study makes two important contributions to literature on the use of financial planners. First, while most previous research studied all kinds of financial advice collectively, this study examines the factors associated with use of financial planning services specifically in the area of savings and investment. Second, the use of longitudinal data allows for a more insightful investigation how the use of financial planners changes over time.

The study also provides important implications for the practitioners. Financial planners looking to expand their business could learn new information that will allow them to identify new customers. Also, by learning about the factors that increase the likelihood of separation from a financial planner, planners could improve their value proposition to address the unique needs of individuals experiencing major changes in their lives.

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