Exploring the Demand for Financial Advice: The Role of Financial Literacy

Martin Seay, Kansas State University¹
Jodi Letkiewicz, York University²
Kyoung Tae Kim, University of Alabama³
Stuart Heckman, Kansas State University⁴

The objective of this study is to explore the relationship between financial literacy and the use of a financial planner using data from the 2010 and 2012 administrations of the National Longitudinal Survey of Youth 1979 (NLSY79). This study differs from past studies in two key ways. First, we conceptualize financial literacy using Huston’s (2010) model where financial literacy is comprised of knowledge, capability, and confidence. Second, we use a national longitudinal dataset with the question on use of a financial planner asked in two different time periods. This allows us to address some of the endogeneity issues other studies have struggled to overcome. Results show a positive association between the components of financial literacy and financial planner use for retirement planning. Overall, a more nuanced relationship between financial literacy and financial planner use is revealed than was found in previous literature (Collins, 2012; Robb, Babiarz, & Woodyard, 2012).

References


¹Assistant Professor, School of Family Studies and Human Studies, 318 Justin Hall, Kansas State University, Manhattan, KS 66506, USA. Phone: 785-532-1486. Email: mseay@ksu.edu.
²Assistant Professor, School of Administrative Studies, York University, Toronto, ON N3J 1P3, Canada. Phone: 416-736-2100. Email: jodilet@yorku.ca
³Assistant Professor, Department of Consumer Sciences, 312 Adams, University of Alabama, Tuscaloosa, AL 35487, USA. Phone: 205-348-9167. Email: ktkim@ches.ua.edu.
⁴Assistant Professor, School of Family Studies and Human Studies, 319 Justin Hall, Kansas State University, Manhattan, KS 66506, USA. Phone: 785-532-1371. Email: sheckman@ksu.edu.

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