Household Factors Related to Decisions to Retain Financial Planning Services While Recovering from the Great Recession

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Abstract

This study examines factors related to the retention of financial planners' services by households after the Great Recession. Financial planning services are a kind of credence services that are hard to evaluate by clients in the short term. It is, therefore, of importance for financial planners to be aware of the factors that influence clients' decisions during shorter time spans and significant market fluctuations.

Introduction

This study uses the *Survey of Consumer Finances* 2007-2009 panel data to examine factors related to the decision of the households to seek the financial planners' service after 2009, based on their experiences with the Great Recession of 2008 and with the recovery that began in 2009. 29% respondents of the 2007 survey and 27% of the 2009 panel survey reported use of financial planning services. The respondents of the 2009 panel answered a set of wrap-up questions based on their experiences with the Great Recession. The responses including decisions to use financial planning services in the future, which is of primary interest. This study tries to find the association of these decisions to various factors including the dynamic use (continuous use, deferred use, and a break in the use) of financial planning services from 2007 to 2009, while controlling for various financial, behavioral, situational, and demographic factors. The financial factors included in this study were natural log of income, various equity and non-equity financial assets, financial ratios and non-financial assets. The behavioral factors included were related to saving and spending, paying on time, credit revolving, shopping for advice, risk aversion, fear of rejection of loan application, and the attitude towards borrowing. The situational factors included were related to emergency back-up, need for pay-day loans, and health. The demographic variables included were race, education, and age.

Data and Methodology

The *Survey of Consumer Finances* is a nationally representative triennial cross-sectional survey of U.S. families on balance sheets, income, and other financial, behavioral, and demographic characteristics conducted by the *Federal Reserve*. The survey has panel element only over two periods.

1983-1986-1989 and 2007-2009. There are 3857 respondents in the 2007-2009 panel survey who were surveyed in the triennial cross-sectional survey and responded again in the 2009 re-interview. The purpose of the 2009 re-interview was to capture the effects of the 2008 housing market recession. The analysis was done with logistic regression using a STATA command called *SCFCombo* that combines all imputations and uses the replicate weights file provided by the fed to bootstrap the standard errors for beginning of the time. It increases the accuracy of the estimates applying the repeated imputation inference (RII) technique.

Results

Financial Planning is a long-term process, and it is very difficult to evaluate its merits in the short term, esp. in the times of market shocks such as the Great Recession of 2008. Our study found that those who went shopping for investment and saving products and those who were not risk averse were among the ones who had planners in 2007 and 2009. Other important factors included higher non-equity assets, higher debt ratio, and good health of spouse. Credit card revolvers were less likely to get planners in 2009, while savers, spenders, and on-time payers were more likely to seek help. The people who retained the services of the planners in both years were most likely to continue with the services beyond 2009. These were also the people who expected to make changes the way they treated ways of money. The odds of getting planners beyond 2009 increased with income and non-equity assets

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