What it's worth

Revisiting the value of financial advice

Finance and wealth
Welfare
Investments
GDP
Financial planning
Advice
Education
Social care
Pensions
Productivity

About the ILC

The International Longevity Centre UK (ILC) is the UK's specialist think tank on the impact of longevity on society. The ILC was established in 1997, as one of the founder members of the International Longevity Centre Global Alliance, an international network on longevity.

We have unrivalled expertise in demographic change, ageing and longevity. We use this expertise to highlight the impact of ageing on society, working with experts, policy makers and practitioners to provoke conversations and pioneer solutions for a society where everyone can thrive, regardless of age.

An ILC report produced with the support of Royal London.

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Summary

In 2017 ILC published its report, *The Value of Financial Advice,* which quantified, for the first time, the value of taking financial advice for people's overall financial outcomes.

In an ageing society, it is vital that people are able to plan for their financial security in retirement. *The Value of Financial Advice* demonstrated that expert advice provided by professionals delivers real value in improving people's finances.

This report presents updated analysis, using an additional wave of data from the Wealth and Assets Survey and considering a number of additional questions. We have found:

- Receiving professional financial advice between 2001 and 2006 resulted in a total boost to wealth (in pensions and financial assets) of **£47,706** in 2014/16.
- The **benefits of financial advice are potentially greater for those we term "just getting by"** than for those we consider "affluent": the former would have seen a a 24% boost to their pension wealth compared to 11% for more affluent groups (those most likely to be advised).
- Evidence also suggests that fostering **an ongoing relationship with a financial advisor leads to better financial outcomes**. Those who reported receiving advice at both time points in our analysis had nearly 50% higher average pension wealth than those only advised at the start.

When it comes to sources of advice and the ways in which people purchase financial products, our analysis shows that technology and the internet already play an important role in information-seeking behaviour among consumers. There is huge potential for technology to support improved access to financial advice – and significant scope for innovation in this field.

Introduction

Across the developed world, there is widespread evidence of people failing to plan and save for retirement, failing to participate in the stock market, failing to diversify their investments appropriately, and failing to shop around for the best financial products.[1] The UK is no exception in this regard. As a result of poor decision-making as well as inertia in the face of complex financial decisions, many attain a standard of living in retirement that is significantly lower than it could have been had they invested and planned better.

Over the years, several potential solutions have been proposed to try to prevent consumers making investment mistakes. These include providing more extensive financial education and using nudges towards optimal behaviours.[2] Others have argued that simplification and regulation are the best way to avoid people making financial mistakes.[3] Another strongly held view is that relying on expert advice provided by industry professionals is the best way to achieve optimal outcomes.[4]

To uncover more about the relative value of financial advice as a driver of better financial planning for later life, ILC published a report in 2017, *The Value of Financial Advice*. Using robust statistical methods to control for a range of factors likely to determine the demand for advice, including income, wealth, and behavioural traits, our analysis demonstrated that those who take advice are more likely to accumulate greater financial and pension wealth, have a higher probability of saving and investing in equity assets, and receive higher income in retirement. Our conclusion was that financial advice delivers real value for those who access it and has the potential to benefit a far wider groups of individuals were they to be persuaded to take it up.

This report provides an update to the empirical evidence presented in our previous report, investigating how the benefit of financial advice has changed by including an additional two years. This draws on an additional wave of data collection for the Wealth and Assets Survey (WAS), the largest representative survey of individual and household assets in Great Britain.

[1] Lusardi & Mitchell (2006, 2007)
[2] Lusardi & Mitchell (2006, 2007); Thaler & Sunstein (2010)
[3] Willis (2008)
[4] Hung & Yoong (2010); OECD Pensions Outlook (2016)

What did we do?

In our analysis, financial advice is defined in line with the questions asked in the Wealth and Assets Survey. The precise wording of the questions used altered between waves of the survey, but consistent features of the definition were references to expert professionals offering advice on personal finances.

Our analysis draws on data from Wave 1 (2006/08) and Wave 5 (2014/16) of WAS. In our analysis, we looked at the financial outcomes of those who received advice and those who did not. We then used these two groups as the basis for a more advanced analysis in which we drew on the set of characteristics that separated these two groups; we refer to these groups as "affluent" and "just getting by".

The analysis then applied a matching technique to predict what these groups' financial outcomes would have been had they been in the other group. This tells us, for example, what the outcomes would have been for the unadvised "just getting by" group if they had received advice.

The financial outcomes we considered were:

- Accumulated pension wealth: the value held by individuals across all types of pensions, including those in payment and those expected from a spouse/partner.
- Net financial wealth: all financial assets, including current and savings accounts, ISAs, bonds, shares, national savings products, and life insurance products.
- Occupational pension income: the net annual income received from occupational pensions or annuities, including those from overseas or spouse/partner pensions.
- The probability of saving any income between 2014 and 2016.
- The probability of owning any equity assets: these include riskier financial products like investment trusts, shares and share options.

More information on our methods and some important caveats can be found in the Annex.

What have we found?

The value of financial advice

Our analysis shows the following:

- The benefit of financial advice for the accumulation of **pension wealth** is now £30,991 compared to £28,598 in our previous study. The benefit is lower for the "affluent" group but much higher for the "just getting by".
- In terms of **financial assets**, the benefit of financial advice is now £16,715 in 2014/16 compared to £13,888 in 2012/14, with a greater impact for the "affluent" group.
- The benefit from financial advice for **occupational pension income** increased from £799 in the previous analysis to £1155. Both groups saw a similar benefit between 2012/14 and 2014/16, though there was a slightly bigger effect for the "affluent" group, who experienced about a 50% increase compared to a 40% increase for the "just getting by" group.
- Financial advice increases the **probability of having savings by 4.1 percentage points** – we found a smaller impact in the new analysis than the earlier figures, where the impact was 8.6 pp.
- Financial advice also increases the **probability of having risky assets by 7.5 pp.** (i.e. stocks) – a slightly lower impact than previously observed (10.4 pp).

Taking the pension and financial wealth figures together, we previously found that receiving advice provided an average total wealth boost of £42,486 in 2015 terms. Our new analysis has found that **the total value of financial advice is £47,706**.

It is important to note that this increase may in part be due to the two additional years that the new analysis covers. Given the nature of our analysis, we cannot say with certainty if the difference between our previous and current figures reflects either a positive or negative trend in accumulation over these additional two years. Nonetheless, the trajectory across our wealth outcomes continues in the desired direction, in that the benefit from financial advice reflects higher returns when these additional years are included.

Having applied the same approach as before, updated figures across our outcomes of interest are displayed in Table 1.

Table 1: Results for 2014/16

	Probability of saving in 2014/16	Average financial assets (2014/16)	Average pension wealth (2014/16)	Occupational / private pension income	Probability of having risky assets
Baseline (all groups)	57.4%	£64,251	£184,192	£5,443	25.4%
Affluent & advised	65.0%	£98,266	£249,243	£7,411	36.5%
Affluent & non-advised	62.6%	£79,179	£224,978	£6,030	28.0%
Average impact on the affluent	2.4pp	£19,087	£24,266	£1,381	8.5pp
In percentage terms		24%	11%	23%	
Just getting by & advised	57.9%	£58,929	£179,951	£5,271	25.4%
Just getting by & non-advised	52.7%	£43,651	£144,897	£4,252	18.5%
Average impact on just getting by	5.2pp	£15,278	£35,054	£1,019	6.9pp
In percentage terms		35%	24%	24%	
All advised	60.6%	£73,766	£206,046	£6,078	29.6%
All non-advised	56.5%	£57,051	£175,054	£4,922	22.1%
Average effect on all	4.1pp	£16,715	£30,991	£1,155	7.5pp

As with the previous report, we see **a net benefit from financial advice across our five outcomes of interest**. To put these into context, we have reproduced the table for 2012/14 outcomes, adjusting the figures previously reported for inflation using a 3.3% inflator to reflect the difference between 2013 and 2015.

Table 2: Results for 2012/14 (in 2014/16 real terms)

	Probability of saving in 2012-14	Average financial assets (2012/14 in 14/16 real terms)	Average pension wealth (2012/14 in 14/16 real terms)	Occupational /private pension income (2012/14 in 14/16 real terms)	Probability of having risky assets
Baseline (all groups)	56.8%	£56,014	£166,569	£4,817	24.8%
Affluent & advised	67.0%	£89,818	£231,093	£6,606	39.1%
Affluent & non-advised	60.3%	£77,047	£199,192	£5,697	29.3%
Average impact on the affluent	6.7pp	£12,771	£31,901	£909	9.7pp
In percentage terms		17%	16%	16%	
Just getting by & advised	60.8%	£51,565	£156,691	£4,554	27.6%
Just getting by & non-advised	51.1%	£37,066	£129,978	£3,818	16.8%
Average impact on just getting by	9.7pp	£14,499	£26,712	£737	10.8pp
In percentage terms		39%	21%	19%	
All advised	63.0%	£65,305	£183,328	£5,290	31.8%
All non-advised	54.4%	£51,437	£154,758	£4,491	21.3%
Average effect on all	8.6pp	£13,878	£28,577	£799	10.4pp

Does the source of advice matter?

With this update, we wanted to explore the extent to which the source of financial advice might make a difference to how much people benefitted.

For those who received financial advice in the five years prior to 2006/07, respondents could report the source from which they received advice. Because individuals could choose multiple sources, we have selected their response according to the order of categories as shown in Table 3. In this analysis, we find that nearly 9 out of 10 of those who received financial advice obtained it from an Independent Financial Advisor (IFA) or bank. When taking other professionals into consideration, this covers 96.5% of the sample.

Table 3: Primary source of advice among those advised

Independent Financial Advisor	60.7%
Bank	27.5%
Other professionals	8.3%
Free services	0.5%
Work/family	2.1%
Other	1.0%

To assess whether the source of financial advice made an impact on the level of benefit from financial advice, we ran an analysis similar to that used to create the tables in the previous section. However, rather than looking at the difference between those who received advice and those who did not, we looked at the difference between receiving advice from an IFA and receiving advice from any other source. We applied this approach to the pension wealth and financial wealth outcomes. However we found no significant difference in the accumulated amounts for those who received IFA advice versus other forms of advice.

This could be because the next most popular form of advice – advice from banks – is still professional advice. However we know that some people also receive advice from non-professional sources, and we wanted to understand more about whether these patterns had changed between 2006/07 and today. To gain some insight into this, we looked at responses in Wave 5 among those who purchased financial products around the main source of information they say influenced their decision, which was not limited to professional, expert forms of advice.

Table 4: Main information source influencing decisions to purchase financial products (2014/16)

Best buy information/comparison website	33.8%
Financial Advisor (including relatives who are FAs	12.6%
Independent information in the media	6.7%
Information from providers or providers' websites	13.6%
Information received in the post unsolicited or seen/heard in adverts	3.1%
Friends, family or colleagues	7.7%
Employer	0.3%
Free advice agency	0.6%
Other	5.1%
No information/advice collected	16.6%

These results point to the importance of the internet as a source of advice and also demonstrate the relatively high proportions of people who seek no information ahead of purchasing financial products. Just over a third of respondents used a comparison website (33.8%), while 13.6% relied mainly on providers' information and websites. No information was collected by 16.6% of respondents, suggesting there is ample opportunity for providers of financial information, guidance, and advice to further engage consumers to think about their financial decisions.

Moreover, opportunities also exist for those providing financial advice to keep customers engaged over time. From the data, we found that only about one in three of those who were advised in the five years before the start of the time period of our study (2006/7) were also advised in the two years before the end (2014/16). This reflects 9.5% of the total sample. At the same time, over three out of five (61.7%) of the sample was not advised ahead of either wave of data collection.

Table 5: Proportions (not) receiving advice at Waves 1 and 5

	Wave 5		
Wave 1	**Advised**	**Not advised**	**Total**
Advised	9.5%	22.3%	31.8%
Not advised	6.5%	61.7%	68.2%
Total	16.0%	84.0%	100%

However, our analysis suggests that there are benefits to building and maintaining a relationship with a financial advisor over time. We looked at the outcomes of accumulated pension and financial wealth at Wave 5 for those who reported receiving financial advice at Wave 1 only compared to those who reported it at both Waves 1 and 5.

Table 6: Average wealth outcomes among the advised at Wave 1 according to (non-)receipt of advice at Wave 5

	Financial assets	Pension wealth
Advised at Wave 1 only	£59,736	£201,671
Advised at both Waves 1 & 5	£114,783	£307,674
All advised at Wave 1	£73,766	£206,046

As Table 6 shows, the wealth outcomes for people at Wave 5 differ depending on whether they had an ongoing relationship with financial advice.[5] Those who reported advice at Wave 1 only had a lower average level of financial assets than the overall average for all those advised at Wave 1. They also had close to half the level of financial assets than those who also received advice at Wave 5. Those reporting advice at Wave 1 only also had slightly lower average pension wealth than all those advised, although these two figures are not statistically different.[6] But those reporting advice at both waves demonstrated nearly 50% higher average pension wealth than the overall advised group; in other words, taking advice on an ongoing basis could yield a 50% higher pension pot. This does not, however, take into account the issue of self-selection as with the outcomes comparing the advised and non-advised; there may be underlying differences between those who receive ongoing advice and those who took it up only once that influence the differences in these financial outcomes. Still, this finding suggests that ongoing advice may result in improved financial outcomes, which could be tested further in future research.

[5]By an ongoing relationship, we mean reporting receiving advice at both Waves 1 and 5; we do not assess whether they received advice between these survey points.
[6]That is, the confidence interval for average pension wealth among those reporting advice at Wave 1 only overlaps with the overall average for those advised.

Recommendations

Our findings demonstrate clearly that financial advice from professionals is valuable to individuals and that there is a potential for a far wider group of people to benefit from advice than do so currently.

In our previous report, we made a series of recommendations to support improved access to financial advice – these stand in the light of our fresh analysis. Priorities include:

Ensuring advisors can communicate clearly about the costs *and* benefits of advice: Following the Retail Distribution Review, the costs of taking up financial advice are more transparent for consumers. The sector therefore needs to be able to communicate clearly the value of its work.

Harnessing technology as a route to high quality advice: Consumers are increasingly using technology and the internet to support their decision-making around their finances – this creates an imperative to ensure that these solutions are of high quality and accessible to all. There is huge potential for innovation around ensuring that technology can provide a route to high quality advice.

Ensuring that those who do not receive professional advice can still achieve good outcomes: As individuals take on increasing responsibility around their pensions and savings, it is vital that they are supported to make good decisions. We need to make sure that tools like the pensions dashboard[7] are well-used and to continue to explore how default guidance and products can play a role in supporting good financial decisions.

[7]https://pensionsdashboardproject.uk/saver/about-the-pensions-dashboard/

Annex

Note on methodology

We have followed the same approach as was taken in the previous report, but this time we have used data in Wave 1 (2006/08) and Wave 5 (2014/16) of WAS.[8] Wave 4 (2012/14) was the latest period of data available at the earlier report, and outcomes were drawn from those responses.

The analysis uses a technique called propensity score matching to match respondents across various characteristics, creating two groups that can be used in a similar way to a scientific experiment, i.e. creating treatment (advised) and control (not advised) groups. This then allows us to use observed values across our outcomes of interests to create predicted values for what could be expected, e.g. if the non-advised had received advice.

Since those who take advice are different than those who do not, we also used these differences to frame the analysis with groups previously labelled "affluent" and "just getting by". The labels for these groups reflect the underlying characteristics that separate them, but we should note that some of the "affluent" group are closer to and even below average wealth levels, while some of the "just getting by" group have relatively high levels of wealth and assets.

We should also note that we trimmed the sample of the top 1% in wealth outcomes to remove outliers.

Defining financial advice

As noted above, this report draws on data from the Wealth and Assets Survey. Consequently, financial advice is defined according to the definition used there. Much of the analysis in this report draws on responses around receiving financial advice in Wave 1. In this wave, respondents were asked:

"In the last five years, have you received any professional advice about planning your personal finances? By that I mean things like planning for retirement, tax planning, or invest money. But please do not include any advice related to running a business or mortgages."

[8] We should note that the previous report stated that the analyses controlled for homeownership in terms of either owning outright or with a mortgage. This was not the case, as the analysis in fact controlled for this in terms of outright ownership only; we have maintained this measure for housing tenure here.

Later in the report, we also explore reports of receiving financial advice at Wave 5. The definition in the survey at this wave was slightly different:

"I'd now like to ask you a few questions about any expert financial advice that you may have received in the last two years. By expert financial advice we mean advice from a professional person who advises people looking to make financial decisions. This could include a face-to-face, telephone or an internet consultation where you may have been asked detailed questions about your needs and circumstances, including full details of your income and outgoings."

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Published in December 2019 © ILC-UK 2019
Registered Charity Number: 1080496.