

GetIndependent
FinancialAdvice ✓

The Value of Taking Financial Advice

The research which shows how advice
makes a difference to people's
financial wellbeing



Introduction

Across the world, individuals, couples and families face similar choices when it comes to the best way to manage their finances.

Should they go it alone, make their own decisions and do everything for themselves? Or should they get expert help and financial advice?

This short guide aims to provide an answer, by looking at research conducted in different countries on whether or not it pays to take advice.

The results are consistent and conclusive.

Research from the UK

Published in July 2017, a research report (1) from the International Longevity Centre – UK (ILC) examined the impact of financial advice on two groups, the 'affluent' and the 'just getting by'.

The 'affluent' group was formed of a wealthier subset of people who are also more likely to have degrees, be part of a couple, and be homeowners.

The 'just getting by' group was formed of a less wealthy subset who are more likely to have lower levels of educational attainment, be single, divorced or widowed and be renting.

Their findings included:

The 'affluent but advised' accumulated on average £12,363 (or 17%) more in liquid financial assets than the affluent and non-advised group, and £30,882 (or 16%) more in pension wealth (total £43,245).

The report also found that financial advice led to greater levels of saving and investment in the equity market.

- The 'affluent but advised' group were 6.7% more likely to save and 9.7% more likely to invest in the equity market than the equivalent non-advised group.
- The 'just getting by but advised' group were 9.7% more likely to save and 10.8% more likely to invest in the equity market than the equivalent non-advised group.
- The 'affluent but advised' group earned £880 (or 16%) more per year than the equivalent non-advised group. The 'just getting by but advised' group earn £713 (or 19%) more per year than the equivalent non-advised group.
- The report found that 9 in 10 people are satisfied with the advice received, with the clear majority deciding to go with their adviser's recommendation.

Further updates to the findings were produced in September 2020 and reported on by the financial website Unbiased (2), this showed a significant wealth boost from one-off advice, it also revealed the greater benefits of additional or ongoing advice.

It compared those who had taken advice only once (at the start of the decade) with those who had also received advice two years before the decade's end. Those who had taken the additional advice were found to be an average 61 per cent better off overall.

Research from the US and Canada

In the USA, one of the most comprehensive studies of individuals financial literacy comes from the National Financial Capability Study (3) which finds very low levels of understanding about basic financial matters and great difficulties in making financial decisions.

When the financial literacy improves - financial outcomes for participants are better. The use of an adviser raises the prospect of greater understanding and better decision making.

Another study from the US, the Morning Consult Survey (4) found in late 2019 many Americans worried by a possible pending recession with 55 percent of adults believing a recession would occur in the next year.

However, those who had enlisted the help of a financial adviser, and had a written financial plan, felt more confident that they could weather any economic storm.

The Investment Funds Institute of Canada (5) has found that the value of advice is compounded over time, with advised households having a net worth 2.73 times greater than non-advised households after 15 years.

Also, from Canada the 2019 Canadian Financial Capability Survey (6) conclusions included:

- Many Canadians are acting to improve their financial literacy and financial well-being, but there are also emerging signs of financial stress for some Canadians. For example, about one third of Canadians feel they have too much debt, and a growing number are having trouble making bill, rent/mortgage and other payments on time.
- About 4 in 10 Canadians found ways to increase their financial knowledge, skills and confidence
- Findings from the survey support evidence that financial literacy, resources and tools are helping Canadians manage their money. For example, those who have a budget have greater financial well-being based on a number of indicators, such as managing cash flow, making bill payments and paying down debt.
- Those with a financial plan to save are more likely to feel better prepared and more confident about their retirement.



Research from Australia and Asia

An Australian report from Fidelity International (7) shows clear financial advice benefits:

- Seeking financial advice generally has a positive impact on an individual's financial wellbeing.
- Almost three quarters (74.3%) of Australians currently receiving financial advice say their financial wellbeing has improved as a result.
- 88.5% of Australians receiving advice believe it has given them greater peace of mind financially. 86.2% of Australians receiving advice believe it has given them greater control over their financial situation.
- 49.9% of Australians receiving financial advice say their mental health has benefited. 37.8% of Australians receiving financial advice say their family life has improved as a result. 18.1% of Australians receiving financial advice say their health has improved as a result.
- The sense of control gained through financial advice causes people to worry less about money. While just over half (56.1%) of Australians receiving advice say they worry about money at least monthly, the figure jumps to seven in 10 (71.5%) for those who do not receive advice.

In Asia Prudential Corporation (8) report:

- Most people worry a great deal about their future retirement security, and with good reason. Although coverage under state pension systems is rising in most markets, benefits are likely to replace only a small share of pre-retirement income. Meanwhile, most workers do not have sufficient personal savings to maintain pre-retirement living standards.
- The likelihood that workers will seek professional financial advice about how to invest their retirement savings is highly correlated with their level of income and educational attainment. Nevertheless, the vast majority of workers who have received professional financial advice, ranging from 60 per cent in South Korea to 96 per cent in Indonesia, said that they found it useful.

Conclusion

It is logical to think that a well-trained expert who spends their work time immersed in a subject is going to provide value to someone less familiar with that subject.

In the context of the financial sectors sector, which has many complex aspects to it, this is certainly true. And the research conducted backs this up.

The only question that remains following this conclusion is: “is it worth it?”

If it costs to take advice, is the cost worth it? Again, the research findings are clear. “Yes”.

Indeed, the research shows that not taking advice, is where the cost is.

If wealth is demonstrably increased by advice, then the advice pays for itself and some.

There is, in this way of looking at it, no cost.

Only the benefit of advanced outcomes.

Taking advice really is worth it.

Financial Advice and Independent Financial Advice

The position in the UK today (late 2020) requires all Financial Advisers to be qualified, and any firm or individual giving advice must be regulated.

The financial advice sector is both well-trained and heavily regulated.

However, within the sector there is plenty of choice and advisers vary in their skills and even in the way they are described.

Financial Planning, for example is a popular alternative title and this shows how the evolution of the adviser market has embraced ever greater professionalism and variety of services offered to the public.

The Independent Financial Adviser (IFA) title is a further angle, with IFAs uniquely able to work with the whole of the market meaning they are free of ties to the financial products of any one company.

This guide has been produced by Get Independent Financial Advice, an initiative run by Independent Check Ltd to promote the values and benefits of independent financial advice.

It was produced and published in November 2020.

Sources

- (1) [http://www.actuarialpost.co.uk/downloads/cat_1/ILC%20and%20RL%20The%20Value%20of%20Advice%20\(final\)%20Report%20July%202017.pdf](http://www.actuarialpost.co.uk/downloads/cat_1/ILC%20and%20RL%20The%20Value%20of%20Advice%20(final)%20Report%20July%202017.pdf)
- (2) <https://www.unbiased.co.uk/news/financial-adviser/financial-advice-value-over-10-years>
- (3) <https://www.usfinancialcapability.org/results.php?region=US>
- (4) <https://www.prnewswire.com/news-releases/new-research-americans-working-with-a-financial-advisor-are-more-prepared-for-a-recession-300936540.html>
- (5) <https://www.ific.ca/wp-content/uploads/2013/08/New-Evidence-on-the-Value-of-Financial-Advice-November-2012.pdf/1653/>
- (6) <https://www.canada.ca/en/financial-consumer-agency/programs/research/canadian-financial-capability-survey-2019.html>
- (7) <https://www.fidelity.com.au/insights/investment-articles/the-value-of-advice/#:~:text=Receiving%20financial%20advice%20provides%20benefits,their%20mental%20health%20has%20benefited>
- (8) <https://www.prudentialplc.com/analysis/attitudes-to-retirement-in-east-asia>