Dollar for dollar: Consumers willing to pay more for financial advisers with designations

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Whether it's buying a car, purchasing a home, or preparing to start a family, consumers are faced with many financial decisions throughout their lives. They turn towards advisers to help manage and guide their finances. But how do consumers decide which planner to trust?

A new study from the University of Illinois investigates the value consumers place on financial advisers based on their credentials. Craig Lemoine, associate professor in the Department of Agricultural and Consumer Economics at the U of I, director of the department's financial planning program, and a co-author of the study explains the theory that people typically pay more for more qualified consultants. But the notion has never been backed up by data.

"In financial planning, we teach the idea that you should be certified in the area you plan on practicing," Lemoine says. "It's the standard of practice the industry has been following since the late 1970s, but do consumers find an actual value?"

Participants in the study were arranged by income, age, and investable assets, and were also required to work with a Financial Service Professional (FSP). These advisers were then grouped based on their professional designation or lack thereof.

In a survey, consumers were asked if they value financial services differently when they receive them from financial professionals holding certifications/designations versus those who do not. Based on the results, consumers who made more money in their jobs were willing to pay more for a FSP with credentials.

"That's very important because we look at compensation models and how we charge people," Lemoine explains. "Financial planners typically charge a fee based on the amount of investments we manage, charge flat fees, or earn a commission on the sale of a product. It's great to see that consumers understand the relationship between complexity and compensation."

Another result from the study was based on age—younger individuals were willing to pay more for advisers with credentials than their older cohorts.

"The conclusion we came to in this article was that younger consumers need more help because they might not have the same financial literacy than an older consumer," Lemoine explains. "You might just see a willingness to pay for service in today's generation that you didn't see in the past."

So should financial advisers work to attain credentials?

Sterling Raskie, lecturer of finance in Gies College of Business and leading author of the study, says credentials would be beneficial not only for the consumer but the financial adviser as well.

"From a financial standpoint, consumers who value designations have higher incomes and investable assets which may lead to increased compensation for advisers. Additionally, financial service professionals can use this study as a way to highlight their skills as augmented by their designations."

Lemoine agrees, "Consumers report they are more satisfied with the individuals that are certified than if they are not. If you want to make more money and you want happier clients, there's definitely a march towards certification."

The study, "The value of financial designations: a consumer perspective," is published in the Journal of Financial Planning. Co-authors include Sterling Raskie, Jason Martin, Craig Lemoine, and Benjamin Cummings.

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