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The emotional value of advice for plan participants

Feelings of trust, confidence, and security matter a great deal to investors. A 2021 Vanguard survey of retirement plan participants enrolled in advice found that 45% of the perceived value of advice is associated with the emotional benefits of the relationship. The other 55% is tied to the functional aspects, including portfolio value and financial value.

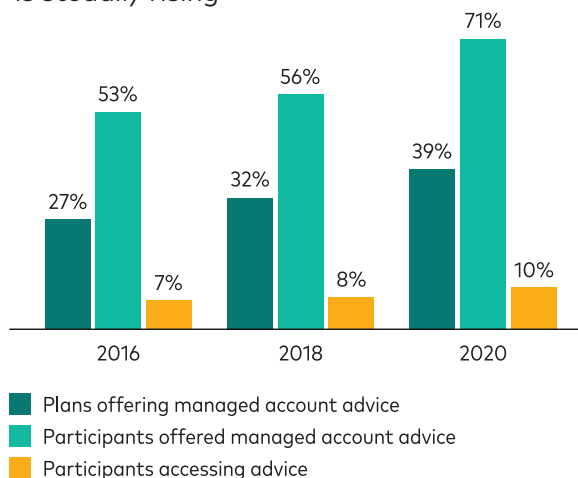
Introduction

Plan sponsors are increasingly choosing to offer in-plan advice services to address participants' needs for assistance with investing, planning, and balancing competing goals. Thirty-nine percent of all retirement plans now offer managed account advice, with more than 7 in 10 larger plans offering these services.¹ Overall, 71% of participants have access to in-plan advice (Figure 1).

As more plans adopt advice, more participants are taking advantage of its benefits—trends we expect will continue. Vanguard research found that advice provides meaningful portfolio, financial, and emotional value to participants, with the emotional component accounting for *nearly half* of total perceived value. Participants cite feeling more confident, more in control of their finances, and more at ease having an expert they can trust among the most important reasons for enrolling in an advice service offered their retirement plan.

71% of participants have access to managed account advice

Figure 1. Access to in-plan advice is steadily rising



Source: Vanguard, 2021.

¹Vanguard, 2021. See Appendix for additional details about advice adoption rates among defined contribution plans.

The value of advice

In 2019, Vanguard introduced a three-part framework for measuring the dimensions of advice's value: portfolio, financial, and emotional. The first two dimensions—portfolio value and financial value—focus on the functional aspects of the advice relationship. The third dimension—emotional value—relates to the more subjective elements, including an investor's perception of financial success and their sense of trust and confidence in their advice provider.²

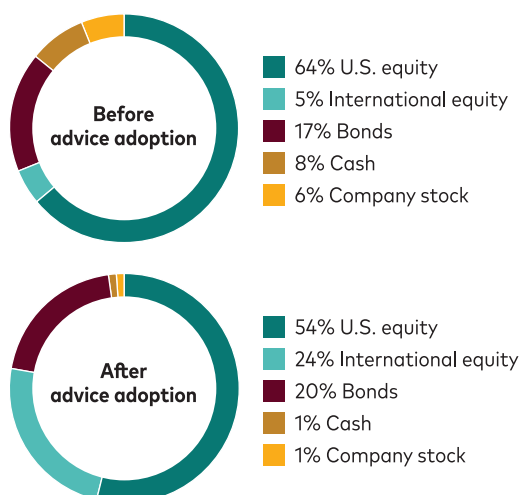
Figure 2. Value of advice framework



Portfolio value

Research shows that advice can lead to meaningful changes in portfolio construction. The 2019 study found that investors enrolled in an advice service experienced material alterations to their asset allocation and improved diversification of their portfolios. For these investors, advice eliminated extreme equity allocations, reduced cash reserves, improved international exposure, and lengthened fixed income duration (Figure 3).

Figure 3. Example of portfolio value. Asset allocation before and after advice adoption



Financial value

There is evidence that advice can help investors prioritize their financial goals—then help improve their chances of reaching them. The 2019 study found that 8 in 10 advised investors with a retirement goal had an 80% or greater probability of achieving their objective.

Emotional value

Building on the 2019 data, the 2021 study explored the importance of emotional value. Vanguard researchers looked at how participants weigh emotional value against the functional elements when determining the overall value of their advice relationships. They developed a list of 24 features, or "value attributes," that could affect how participants perceive the value of advice. These fell into two types: attributes related to advice's functional benefits and those that address an investor's emotional needs. The researchers surveyed 3,400 participants enrolled in a managed account service through their retirement plan. The study was conducted from May through June 2021, when many participants were experiencing the impact of the global pandemic.

²Cynthia Pagliaro and Steve Utkus. *Assessing the Value of Advice*. Vanguard, 2019. Vanguard research, institutional.vanguard.com.

Research insights

While it is not a surprise that the functional values associated with advice were perceived as more important, it is noteworthy that the emotional value was nearly as significant, accounting for 45% of the total perceived value of advice.

FUNCTIONAL VALUE*

55%

EMOTIONAL VALUE

45%

*Includes portfolio and financial value.

Attribute contributions (that is, importance scores) were multiplied by subjective emotional and functional attribute weighting assignments to calculate overall emotional and functional influence. See Appendix for emotional and functional weighting assignments as designed by Vanguard Investment Strategy Group.

Participants gave high scores to many of the emotional elements of their advisor relationships, such as feeling like they've taken charge of their financial future and trusting that their advice service is putting their needs first. They also gave high marks to feeling like they're in control of their finances and reassured that things will be okay, even during market downturns.

ATTRIBUTE	SCORE
Feel like I have taken charge of my financial future	68%
Trust that my financial advice service puts my needs first	66%
Feel like I have control over my financial decisions	65%
Feel reassured that things will be okay, including during financial market downturns	60%

The 2021 study also found that most participants reported having no other advice relationships outside of their retirement plan, and more than half said they lacked confidence in their investment knowledge. For these participants, the nearly equal split between the emotional and functional components of value highlights the important supportive role that in-plan advice plays in helping them navigate their finances and feel confident in their choices.

Overall, the study found that advised participants feel more satisfied, confident, and secure because of their advisory relationships.



Conclusion

The latest research indicates that advised participants realize significant emotional value in being able to turn to Vanguard—an expert they trust to put their interests first. During these uncertain times, sponsors and consultants should consider providing access to in-plan advice solutions for both the functional and emotional benefits. In doing so, they will derive a more holistic assessment of the true value that offering advice can deliver to participants.

Appendix

Emotional and functional weighting assignments

ATTRIBUTE	Score weightings	
	EMOTIONAL	FUNCTIONAL
Balance my spending and saving	0.2	0.8
Completely trust that my financial advice service will put my needs first	0.8	0.2
Expand my knowledge of investments and personal finance	0.2	0.8
Feel a personal connection with my financial advisor	0.8	0.2
Feel completely reassured that things will be okay, including during financial market downturns	0.8	0.2
Feel like I have complete control over all of my financial decisions	0.8	0.2
Feel like I have taken charge of my financial future	0.8	0.2
Feel that I am on track to meet my financial goals	0.5	0.5
Have a financial plan that offers me financial freedom	0.5	0.5
Have a third party to facilitate financial discussions	0.2	0.8
Have access to a financial expert whenever I need it	0.2	0.8
Have an assurance of guaranteed income in retirement (in exchange for a portion of my portfolio)	0.5	0.5
Have complete transparency whenever changes are made to my portfolio	0.5	0.5
Have professional financial help so I can spend my time on other things that matter to me	0.2	0.8
Have regular proactive outreach to keep me updated about my finances	0.2	0.8
Have round-the-clock online access to my account	0.2	0.8
Know exactly how much money I'm paying my financial advice service	0.2	0.8
Know my financial plan is continuously monitored and updated	0.5	0.5
Know that my survivors will have help navigating financial decisions after I am gone	0.5	0.5
Maximize my investment returns, even at the risk of substantial losses in the value of my portfolio	0.2	0.8
Protect my financial well-being in the event my decision-making abilities decline	0.5	0.5
Protect myself against unexpected events that could negatively impact my investments	0.5	0.5
Receive a customized financial plan that covers more than just my investments	0.2	0.8
Receive an expert perspective to guide all of my investment decisions	0.2	0.8

Vanguard defined contribution plans

		Number of participants				
		ALL	<500	500–999	1,000–4,999	5,000+
MANAGED ACCOUNT ADVICE						
Percentage of plans offering managed account advice		39%	19%	45%	60%	72%
Percentage of participants offered managed account advice		71%	24%	44%	62%	78%
Percentage of participants accessing managed account advice		10%	8%	7%	9%	10%

Source: Vanguard, 2021.

References

Value of advice framework

- <https://pressroom.vanguard.com/news/Press-release-Vanguard-introduces-new-framework-for-assessing-the-value-of-financial-advice-092019.html>
- <https://institutional.vanguard.com/VGApp/iip/site/institutional/researchcommentary/article/InvResValueofAdvice#>

How America Saves 2021

- https://institutional.vanguard.com/content/dam/inst/vanguard-has/insights-pdfs/21_CIR_HAS21_HAS_FSreport.pdf
- https://institutional.vanguard.com/content/dam/inst/vanguard-has/insights-pdfs/21_TL_HAS_InsightsToAction_2021.pdf

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