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Quantifying the Economic Benefits of Personal Financial Planning

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Abstract

To estimate the monetary value of ideal financial planning advice, we address three types of benefits that planners provide: increasing wealth, preventing loss, and smoothing consumption. We discuss, then reject the possibility of using survey data to obtain valid estimates of the benefit of financial planning advice. We instead use theoretical examples based on comparisons of optimal decisions to naive alternatives. We find that the value of advice varies with a client's risk aversion and the percentage of wealth that could be gained or lost. In general, the most risk averse households should place the highest value on comprehensive financial planning advice. Financial planners can use our results to better articulate the value of advice.

Keywords: personal financial planning, household finance, intertemporal choice, portfolio allocation, risk tolerance

JEL Classification: D12, D14, D81, D91, G11

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