

Most Americans Are Clueless on Cost of Their Financial Products

Select Group of Financial Services Firms Perform Well on Investor Wants and Pricing Clarity Metrics

(Rye, NY) – Most Americans believe they pay nothing for their financial products – or have no idea what they pay – according to a new study by **Hearts & Wallets**, the source for retail investor data and insights.

Wants & Pricing: What Investors Buy & Competitive Ratings reveals Americans continue to be in the dark about one of the most important aspects of their personal finances. About one-third (31%) say don't know what they pay for their financial products, an increase of four percentage point in one year. Less than one-third (28%) say for certain they are charged a fee by a retail financial “store.” (Hearts & Wallets defines “stores” as retail and defined contribution providers that work directly with investors.) Of the 41% who say they pay their financial store “nothing” and instead pay through actual products, a whopping 72% say they pay nothing for the product.

“Everyone knows nothing is free in life,” Laura Varas, founder and CEO of Hearts & Wallets, said. “When you add together the Americans who say they don't know what they pay for their financial products, and the high number of people who say they pay nothing for products that they obtain through their retail financial stores, we have a major problem. Consumers *should* know what they pay. Some consumers want to pay more for things they want, such as higher service levels, while others do not. The industry has a responsibility to price clearly, and should embrace price clarity enthusiastically by laying out the different choices available to consumers. Regulation has a role, but in the end, there's no substitute for an informed consumer.”

Clear pricing and trust

Pricing is one aspect of trust. Understanding how a firm earns money is the No. 1 trust driver within the control of a financial services firm. Only 1 in 5 consumers has a clear understanding of the incentives of their providers, a figure that has not improved year to year. “Competition will force traditional financial services firms to confront the pricing issue,” Varas said. “Robo-advisors and other new fintech entrants are explaining pricing clearly and pushing others in the marketplace to do the same.”

Among traditional firms, self-service outperforms other categories in customer “understanding how firms earns money,” with **Scottrade** (34% agree or strongly agree) and **TD Ameritrade** (NASDAQ: AMTD), at the top. **USAA**, **E*Trade** (NASDAQ: ETFC), **Charles Schwab** (NASDAQ: SCHW) and **Edward Jones** have 25%+ customers who rate their understanding very high.

Hearts & Wallets/Most Americans Clueless Cost of Financial Products/2

Top 10 “wants”

In the study, over 5,000 U.S. households ranked their top 10 “wants” in their financial services providers. All lifestages and income groups are becoming more demanding. At the national level, the top 3 most important attributes are “fees clear and understandable” (56%), “is unbiased, puts my interests first” (54%), and “explains things in understandable terms” (54%). About half of investors are highly price-sensitive and want providers to have “low fees” (54%) or at least “fees that are reasonable for the service provided” (53%).

Mass market (under \$100,000 in investable assets) and millennials grew more demanding in all dimensions. Post-retirees became more demanding in access and reliability attributes. High net worth clients (\$2 million-plus) are more relaxed, notably on “has Internet account access” and “wide variety of products,” which are becoming must-haves that are no longer competitive differentiators.

“To differentiate services, providers should determine which distinct market segments they want to address,” Varas said. “For example, people close to retirement are more anxious, so the reliability service dimension of ‘is unbiased, puts my interests first’ is much higher than for a millennial.”

Who’s the leader

Consumers identified and ranked the top one or two firms they use on 27 attributes in six service dimensions. The study focuses on the top 24 big banks, brokerages and mutual fund firms most often cited by participants. Edward Jones performs at or near the top of 24 firms on over 10 different attributes. **Wells Fargo Advisors** (part of **Wells Fargo** (NYSE: WFC) Enterprise), Scottrade and USAA are top performers on five or more attributes. **Ameriprise Financial** (NYSE: AMP), Charles Schwab, **T. Rowe Price**, TD Ameritrade, **Prudential** (NYSE: PRU), **LPL** (NASDAQ: LPLA), **Vanguard** and **Capital One** (NYSE: COF) lead in at least one or more attributes.

- On “fees clear and understandable” – Scottrade, Edward Jones and Wells Fargo Advisors are the best performers, each with 60% or more of their customers giving them top marks.
- Edward Jones, USAA, Ameriprise and Wells Fargo Advisors are top performers on “unbiased, puts my interests first” and “explains things in understandable terms.” LPL also does well on “unbiased.”
- Scottrade, in particular, made big improvements this year, notably in “well-trained staff,” “investment ideas are knowledgeable, timely and tactical,” “offers personal financial advice,” and “online tools and research.”

Hearts & Wallets/Most Americans Clueless Cost of Financial Products/3

- “Has made me money” is one reason why customers go to full-service firms. 65% of customers of **Morgan Stanley** (NYSE: MS), LPL and Edward Jones give it high importance, compared to only 39% of E*Trade customers. “Offers personal financial advice” is most important to customers of Edward Jones (54%), but much less so at Vanguard (28%) customers, who focus more on pricing.

About the Hearts & Wallets Study

Methodology

The study *Wants & Pricing: What Investors Buy & Competitive Ratings* analyzes attitudes and behaviors of investor lifestages from age 21 through post-retirement and are drawn from the **Hearts & Wallets Investor Quant™ (IQ) Database**. Results represent a weighted representative cross-section of the U.S. national population based on over 5,000 participants surveyed June 2015. The largest and most detailed U.S. financial dataset, the IQ syndicated research platform serves as the engine for Hearts & Wallets' qualitative, quantitative, market sizing and competitive intelligence research. The IQ database consists of 10,000 sets of consumer feedback on financial services firms for over 35,000 U.S. households over the past six years.

About Hearts & Wallets

Hearts & Wallets is a leading research insight company dedicated to revolutionizing the way retirement and investment solutions are designed and marketed. We size retail consumer markets, identify what motivates consumers, who they are, where they buy and why. Through segmentation and design personas, we help financial services firms create innovative products and solutions that solve the needs of distinct consumer groups. For more information, visit www.heartsandwallets.com.

Media Contact

Lynn Walters lynn@heartsandwallets.com
800-930-0966 ext. 704 office
603-498-1044 mobile

Hearts & Wallets, CEO & Founder

Laura Varas laura@heartsandwallets.com
800-930-0966 ext. 700 office
(781) 741-5200

###