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## Most Americans clueless about fees: Hearts & Wallets

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By Editorial Staff      Thu, May 5, 2016

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Most Americans believe they pay nothing—or have no idea what they pay—for their financial products, according to a new study by Hearts & Wallets, a research firm that provides data and insights on retail investors.

The study, “Wants & Pricing: What Investors Buy & Competitive Ratings,” shows that 31% of Americans say they don’t know what they pay for their financial products, an increase of four percentage points in one year, and only 28% are certain they are charged a fee at a retail financial store.

Hearts & Wallets defines financial “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, 72% say they pay nothing for products.

“We have a major problem,” said Laura Varas, founder and CEO of Hearts & Wallets, in a release. “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.”

Only one in five consumers understands the incentives of their providers, the same proportion as last 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.”

Self-service firms, especially Scottrade and TD Ameritrade, outperform other categories in the proportion of customers who “understand how firms earns money.” USAA, E\*Trade, Charles Schwab, and Edward Jones have 25% or more customers who rate their understanding very high.

In the study, over 5,000 U.S. households ranked the ten things they wanted most financial services providers. All lifestyles 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 “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 year-over-year. 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.”

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, Scottrade and USAA are top performers on five or more attributes. Ameriprise Financial, Charles Schwab, T. Rowe Price, TD Ameritrade, Prudential, LPL, Vanguard and Capital One 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.”
- “Has made me money” is one reason why customers go to full-service firms. 65% of

customers of Morgan Stanley, 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.

In the study, Hearts&Wallets analyzed 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.

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