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Is It Time To Go Fee-Only? The New Considerations

Here's what you need to take into account before taking the leap

More than ever, advisors are reassessing how they charge for their services. Driven by the rising demand for plans – and everything from the commoditization of investment management to better technology – many are starting to separate financial planning from managing assets and charging for that service. Some are asking for an annual recurring or hourly fee, while others are experimenting with subscription services, usually paid monthly.

For most advisors, the expectation isn't to replace the AUM fee completely. Rather it's a way to increase revenue and, in the case of subscription models, attract younger clients who lack the assets for an AUM arrangement.

Still, charging for planning isn't as profitable as the AUM model. Advisors who have success with it say efficient workflows and technology platforms are imperative.

When you're just starting an RIA, two of the hardest questions to answer are, "What kind of costs will we incur?" and "What should I charge?" In the end, you need to think about the needs and current financial situations of the clients you want to attract for the long-term.

The articles in this eBook are designed to take the mystery out of going fee-only by providing tips for setting fees and examining how successful advisors charge for planning services.

Are You Really Ready to Be a Fee-Only Advisor?

By Erin Esposito
Commonwealth Financial Network®

If you've thought about dropping your FINRA license to go fee-only, you're probably motivated by the idea of having more control over things like fees, compliance, and marketing. But as you begin to weigh your options, you should be aware of some of the challenges you'll face as well.

Before you jump in, explore what it means to run a fee-only business, so you have a clear understanding of what to expect if you decide it's the right path for you. Whether you're considering an IAR-only approach or running your own independent RIA, being prepared for what's ahead will make for a much smoother transition.

Fee-Only Doesn't Mean Fee-Mostly

When you become a fee-only advisor, it means exactly that—you must be fee-only. Regardless of whether you choose an IAR-only or RIA-only affiliation model, it means dropping your FINRA securities registrations, at which point you may no longer sell FINRA commission products or receive legacy FINRA trail revenue.

For some advisors, the idea that they can't sell certain products they feel are right for their clients doesn't sit well. They may also want the option to sell commissionable products in the future or to continue receiving trail commissions. But advisors who have made the change—and are acting in a true fiduciary capacity and seeing different growth opportunities—often don't look back.

What to Do with Commissions and Trails

When considering a move to fee-only, a good rule of thumb is that at least 90 percent of your book should be advisory business. If you have legacy commission accounts or trail revenue, you may be wondering what to do with them.

This may be an opportunity to streamline your book of business. For some legacy commission accounts, it may make sense to convert those assets to a fee-based account or a fee-only variable annuity (but remember that any conversion must be in the best interest of your client). In other cases, it may be the right time to part ways with certain clients. This is a chance to refine or prune your book to ensure that your relationships are aligned with your growth goals and business direction. (For more on this, see our article, Options for Legacy Commission Accounts as a Fee-Only Advisor.)

Dos and Don'ts of Marketing

As a fee-only advisor, you're probably excited by the thought of greater freedom and the

possibilities for marketing yourself. Keep in mind that to market yourself as fee-only, your revenues must come entirely from advisory business—none of your compensation can come from the sale of commission products or from trail revenue.

There are some instances where you can work as a fee-only advisor and still receive other types of revenue. If you have an insurance license, for example, you can still earn commissions on insurance and fixed annuity sales, in addition to receiving trail commissions on insurance products sold previously. And, as a CERTIFIED FINANCIAL PLANNER™ professional, you or your firm may receive sales-related compensation. In both instances, however, you may not market yourself as fee-only.

That doesn't mean you can't adapt your marketing strategy as a fee-only advisor, even if you can't use the term "fee-only." Some advisors highlight their role as a fiduciary, emphasizing that they put their clients' best interests above their own. This message can be even more powerful than simply stating you are fee-only.

Compliance Considerations

If you opt to run your fee-only business as an IAR, compliance oversight will be handled by the RIA you affiliate with. If you're thinking about becoming an RIA-only advisor, however, you'll be responsible for running your own compliance program. Although this creates the potential for greater compliance flexibility, it comes with significant regulatory, risk, and compliance responsibilities that require a notable investment of time and resources.

As an RIA-only advisor, you're responsible for creating, managing, and testing—and the associated costs—to ensure that your organization meets its regulatory requirements. Plus, RIAs must designate a chief compliance officer (CCO) to take responsibility for the firm's compliance program. The enormity of managing your own compliance can seem like a full-time job, but you may find that the benefits of an RIA-only affiliation outweigh the extra effort.

Planning Ahead Makes All the Difference

The appeal to go fee-only may be strong, but if you are considering it, be sure to do your research first. Knowing what's involved ahead of time—and finding the right firm partner to support you along the way—can make a huge difference. Being prepared can pave the way for a smooth transition, allow you to optimize the benefits of being a fee-only advisor, and ensure your future growth and success.

This post originally appeared on The Independent Advisor, a blog authored by subject-matter experts at Commonwealth Financial Network®, Member FINRA/SIPC, a Registered Investment Adviser.

The appeal to go fee-only may be strong, but if you are considering it, be sure to do your research first.

How Advisors Charge for Planning

More advisors are separating fees for financial planning from investment management, but what's the right price tag?

By Anne Field
WealthManagement.com

About a month or so ago, Christopher Lyman and Grant Holdren launched an experiment.

Holdren recently bought Allied Financial Advisors, a 30-plus-year-old firm in Newtown, Pa., that for years charged clients the usual 1% AUM fee.

But he discovered that the price tag was scaring away younger prospects, so the two advisors decided it was time to test out a new arrangement: a flat, monthly charge for financial planning and an AUM fee of 0.5%; a more-expensive flat planning fee with no asset management services or charges; and the regular 1% of assets managed.

“We started to get younger clients who were really balking at that fee and looking for alternative ways to compensate us,” says Lyman, whose firm has about $200 million in assets. Clients choose from the three levels of service for planning, with a slight discount for paying the entire year upfront.

It’s hardly a secret that more advisors like

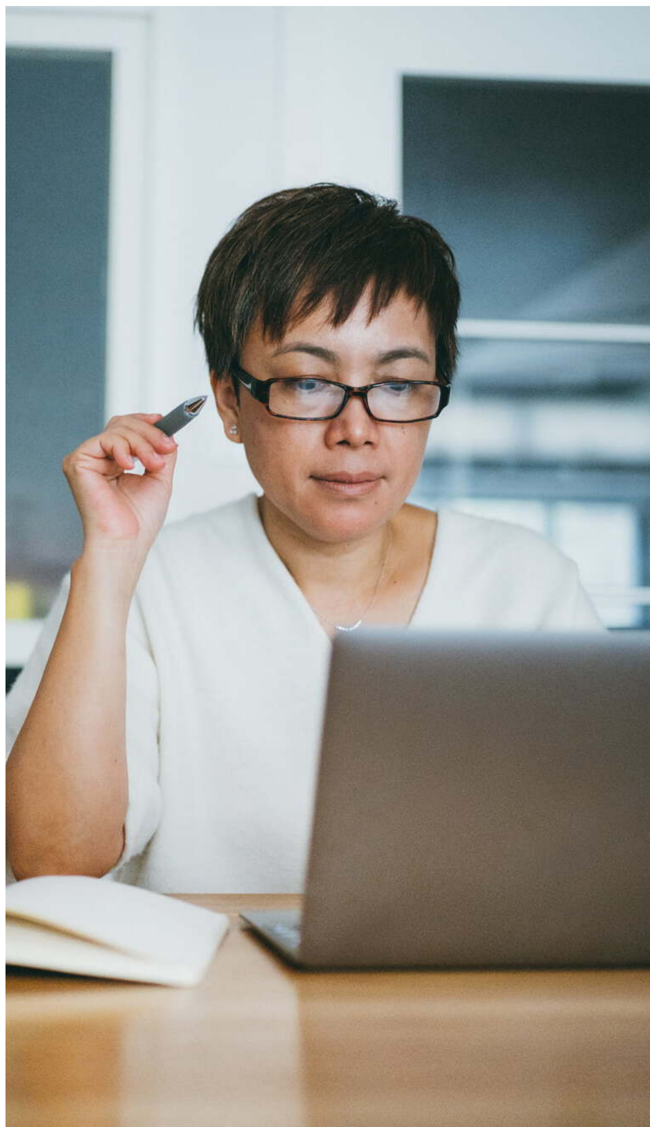
Lyman are reassessing how they charge for their services. Driven by everything from the commoditization of investment management to better technology, many are starting to separate financial planning from managing assets and charging for that service. Some are asking for an annual recurring or hourly fee, while others are experimenting with subscription services, usually paid monthly.

Certainly, demand for plans—and advisors’ ability to charge for them—is on the rise. In 2020, 55% of clients had a financial plan, up from 48% in 2015, according to a survey by Envestnet-MoneyGuidePro. During that time flat fees increased by about 50%, averaging $2,482, and hourly fees went up almost 25%, to $257. That’s in contrast to the AUM model where the rate has pretty much stayed the same, around 1%, for quite a while.

For most advisors, the expectation isn’t to replace the AUM fee completely. Rather it’s a way to increase revenue and, in the case of subscription models, attract younger clients who lack the assets for an AUM arrangement.

“They aren’t going back to their existing clients and replacing them all,” says George Karris, head of strategy and advisor experience at Cetera Financial Group. “They’re getting access to people they wouldn’t have worked with before.”

For example, Brian Colvert, president and CEO of Bonfire Financial in Colorado Springs, Co., added a monthly subscription service in 2019. Now, about 7% to 10% of revenues are from subscriptions, with the rest from AUM fees,



according to Colvert; he thinks he could get that to as much as 25% in five years. “For clients in their 20s to 40s—that market is underserved,” says Colvert, whose firm has about $130 million in assets. “Why not be there for them, when no one else is.”

To be sure, many advisors won’t accept just any younger clients. The key deciding factor is their potential to increase their wealth down the line. Take Stephen Brubaker, wealth management advisor at ERSI Wealth Management in Centennial, Colo. About three years ago, his firm adopted a new model: As usual, accounts with over $1 million in AUM wouldn’t pay extra for planning. Everyone else would be charged a recurring annual fee of about $1,500. But at the same time, “We won’t take someone we don’t think could become a $1 million client in the future,” says Brubaker. “Over time we know they’ll grow if they listen to us.”

Technology, Staffing and Pinpointing the Right Fee

Still, charging for planning isn’t as profitable as the AUM model. Advisors who have success with it say efficient workflows and technology platforms are imperative. “Advisors need a repeatable, standardized process and a tech platform that makes it possible,” says Shannon Spotswood, president of RFG Advisory. Most advisors point to software that makes billing multiple clients relatively small amounts frequently as the most important tool. Others also cite better financial planning software, as well as programs that let clients input financial information easily and then display it on one page.

For Jamie Lima, who launched his solo firm Woodson Wealth Management just last summer, that capability is particularly useful for getting a look at all of a client’s assets and where they’re held. “Clients have to tell you where all the bodies are buried,” he says.

There’s also the matter of having the right expertise on staff. Financial planning is a different skill set than managing money. When he started experimenting with subscriptions, Colvert, for one, hired an advisor who focuses entirely on planning. Brubaker bought a firm

three years ago specifically to acquire its financial planning expertise and processes.

Charging the right fee is also important. No one is going to build a thriving business around that average $2,400 one-time planning fee. Instead, many advisors use a retainer model. That means one of two approaches. First is targeting high-net-worth clients who need highly complex plans and charging a retainer of $10,000 to $30,000 and up.

The other is to charge a subscription—a fee for a plan and a monthly retainer after that. The holy grail for that model is reaching clients with high income but low assets—doctors, executives and others who earn hefty salaries but don't have much wealth to manage. There, advisors typically charge $100 to $300 a month, but that also depends on the complexity. Lima, for example, charges $250 monthly for a basic plan and services, but $8,000 or more annually for a highly complex plan. "If you have businesses, real estate properties and significant tax needs, you pay more," he says.

"Advisors need to determine how they are going to deliver a quantifiable experience every month,"
-Shannon Spotswood, president of RFG Advisory

David Johnston, managing partner at Amwell Ridge Wealth Management in Flemington, N.J., has had luck with a different approach. About four years ago, Johnston, whose firm has about $150 million in assets, started charging separately for planning so that, he says, "Clients have a better appreciation for what they're getting." To that end, he offers a choice of paying an AUM fee only with no financial planning or an investment management fee based on AUM plus a monthly subscription rate.

But he also includes the option of what he calls "Pick Two," through which clients pay for short-term work in two areas, like student debt reduction or insurance needs analysis, at a cost of $1,750. It's been more popular than the subscription option, according to Johnston.

Advisors also don't always get it right the first time around. Brubaker charged $1,000 until it was clear the price wasn't cost-effective and he raised it by $500. When Amy Braun-Bostich, CEO of Braun-Bostich & Associates in Canonsburg, Pa, started experimenting with new approaches to charging separately for financial planning two years ago, she charged her first client a $12,000 flat planning fee. Since that was a $4 million account, she soon realized she'd woefully undercharged. Now Braun-Bostich, whose firm has about $200 million in assets, is tracking her time with a software program to see just how long the process takes and will set fees accordingly.

Spelling Out Value

Ultimately, advisors need to be able to show clients they can create enough value to make the expenditure worth it. That means being

specific—presenting clients and prospects with a structured calendar, laying out what services will be provided and when. “Advisors need to determine how they are going to deliver a quantifiable experience every month,” says Spotswood—say, two video calls and one face-to-face meeting a year, a monthly email, a financial plan and monthly plan review.

Johnston displays his menu of services on his website, organized according to four life-stage categories, such as “young accumulators” and “pre-retirees/retirees.” Then, under each grouping, there’s the payment schedule for different types of fees, plus detailed services, like the number of initial, complimentary and in-person meetings a client can expect, newsletters per year they’ll receive, and resources such as a cashflow and household budgeting tool.

There’s a big question mark looming over these efforts, however: further downward price pressures on planning. For example, last summer, Charles Schwab introduced Schwab Plan, a free-for-clients self-guided digital financial planning tool. Should fees for planning drop and digitization of planning services increase, will clients eventually come to see cheap—or free—financial advice, delivered digitally, as the norm?

“If people have spent 20 years managing their finances through technology, they’re not going to all of a sudden decide they need to pay a ton of money for that advice just because they’re older,” says Samantha Russell, chief marketing and business development officer at Twenty Over Ten. “That’s a shift I think people need to be thinking about.”

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The Pros and Cons of Going Fee-Only

By Nikki Dillon
Commonwealth Financial Network®

More and more, advisors who want greater flexibility to serve their clients and run their business are opting to go fee-only. But dropping your FINRA licenses and shifting to a fully fee-based business model isn't a decision you should take lightly. So, how can you know whether making a move is the right choice for you? Consider the following pros and cons—and remember, when and how you transition can make all the difference.

The Pros

There are clear advantages for you, your clients, and your prospective clients when taking the fee-only route.

1) Presenting yourself as a fiduciary. There is a huge benefit to promoting yourself to clients and prospects as a pure fiduciary. It's a clear acknowledgment that you act in your clients' best interests and provide them with objective advice—something clients increasingly expect as they become better versed in the various financial advice models available to them.

2) Transparent fee structure. Unlike the commission world of registered representatives, the compensation structure for fee-only advisors is aligned with client interests. Clients pay a flat fee (based on total assets) for services received, so they know where their money is going.

3) Fewer regulatory restrictions. Depending on your business model, you're subject to SEC and/or state regulations, not to FINRA. Dropping your FINRA license means fewer continuing education requirements. In addition, you generally benefit from shorter disclosures and a less-frequent audit cycle.

4) Marketing flexibility. When going fee-only, you're not subject to the same restrictions in how you present yourself to prospective clients. And, as a fiduciary, you're able to promote yourself as someone who puts client interests ahead of your own.

5) Succession opportunities. Being a fee-only firm can provide new opportunities for mergers, acquisitions, and succession planning. RIAs looking to sell their businesses are more likely to engage with another RIA than a firm affiliated with a broker/dealer.

The Cons

On the flip side, you'll face added challenges as well. (To learn more about what to expect when going fee-only, see our article, Are You Really Ready to Be a Fee-Only Advisor?)

1) Infrastructure investment. If you plan to open your own RIA, you'll need to consider added costs that may include building out infrastructure, vetting technology, and hiring service providers.

2) Compliance risks. As an independent RIA, you'll also assume the responsibility (and risk) of running your own compliance team. This includes drafting advisory agreements, completing regulatory filings, and hiring the proper legal help. As an IAR-only advisor, you receive compliance oversight from the RIA you affiliate with.

Finding the right partner to affiliate with can also have a huge impact on the future of your practice.

3) Loss of commissions and trails. The ability to choose the right products for your clients is one advantage of operating as a fee-only advisor. There are certain products, however, such as most variable annuities and some alternative investments, you're no longer able to offer because they're commission based. In addition, when dropping your FINRA licenses, you also give up the ability to retain any upfront or trail commission compensation.

4) Difficult decisions. It's possible you may also have to end relationships with some of your commission-based clients if they're not good candidates for an advisory account solution. However, this could present an opportunity to streamline your book and focus only on clients who align with where your business is headed.

When and How to Make the Move

If you still think transitioning to fee-only is the right move for you and your clients, the next step is to decide when. Take a look at your current book of business. In general, firms that are best suited for a fee-only business model:

- No longer sell commission products
- Have at least 90 percent of their current book in advisory business
- Have low trail revenue (10 percent or less recurring nonadvisory revenue over the previous year)

Finding the right partner to affiliate with can also have a huge impact on the future of your practice. You'll want to ensure that the service and support your partner offers—whether technology, marketing, practice management, or research—will give you what you need today and as you grow. It's also important to find a firm whose values and culture align with your own. That way, you'll know you have the backing of a partner that can stand by you for the long term, so you can focus on your clients and where you want to take your business.

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Are You Charging Enough?

Deciding what to charge when starting out or as an advisor re-evaluating your pricing can be difficult; here are some things to consider.

By Andrew Ladwig
WealthManagement.com

When you're just starting an RIA, one of the hardest questions to answer is, "What should I charge?" Since we get asked this a lot at Advyzon, I wanted to put together a guide to help firms who are just starting out figure out their pricing, and to help established firms assess if they're charging enough.

How Much Does it Cost to Run my Business?

Many of the public debates around fee structures focus on whether to use fee-based or AUM-based pricing, what billing frequency to use, which tier structure is best, and other technicalities. But when you're trying to figure out pricing, or if you're re-evaluating whether your current price structure is working, start with expenses.

It's the same advice you'd give your clients. You know the expenses you need to cover, both from a business and a personal standpoint, with your firm's revenue. How you price your services needs to hit that revenue target. It's the most important number to have in mind.

Start With Time

Think about how much time you spend on each client you work with. Price out both new clients and existing clients, and be sure to consider crafting their financial plan, annual meetings, quarterly reports and billing, and impromptu calls throughout the year. How many hours do you spend per client?

This should give you a sense of how many clients you can serve per year, both existing and new. (As you think through this, make sure you set aside time to manage any non-client related tasks you aren't outsourcing.)

Once you have an idea of the number of clients you can manage, as well as your target revenue, you can start to feel out what you need to charge per client to run your firm successfully.

Start to Run the Numbers

If you're just starting out, the most important thing is to come up with is a pricing plan, period. According to XYPN, 100% of new advisors update their fee structure after launch. So don't expect to get everything perfect your first go around. (It's worth noting that the majority of new advisors increased their fees after one year in business.)

Still, there are some things you can do to improve your chances of success. If you know your target revenue and how many clients you can take on, the next thing to think about is the type of client you work with.

If you start out with a book of business, you can test out different approaches to pricing using your typical client as a model. Would 1% AUM work? What about a tiered approach, starting with 2% and working down to 1%? Or, perhaps

you could stick with 1% and supplement your investment management services with a flat, service-based planning fee.

If you're starting from scratch and need to build a book of business, these numbers can help you find your niche. If you know you need to charge each client $X per year in order to make a living, you can determine the type of client you want to target. This can also help you say no to the wrong clients, which is easier than having to fire them later.

Think Beyond the Amount

It's not just how much you charge clients, but how you charge them. If you're starting an RIA after working at a larger firm, you're probably used to a monthly salary. That schedule tends to work well for cash flow, since most expenses are monthly.

If you start your own RIA and bill clients quarterly, it can be challenging to plan a monthly salary. This is particularly hard if your quarterly revenue fluctuates significantly with the market, as it may if you're charging a percentage of AUM. (Using average daily balance instead of a starting or ending balance can help with this.)

On the other hand, billing clients monthly can feel nontraditional, particularly if you have older clients who are used to the status quo.

You also need to consider how you talk about your fees and services. Or, better put, how you talk about your value. If your services feel indispensable to a client, the numbers start to matter less. Think through how you'll discuss your offerings in a way that resonates with clients, and how you'll continue to demonstrate and market that value in an ongoing way.

Don't Be Afraid to Adjust

I often talk to advisors who are scared to change their pricing model because they don't want to ruffle clients' feathers. But, working for a fee that doesn't feel fair, or that doesn't serve you and your business, is a recipe for disaster.

Instead, consider changing your fees, but plan ahead to do it in a way that feels like you're

helping clients versus inconveniencing them. Start several months out by emphasizing your value in a way that sets up your new pricing model. For instance, if you want to start calculating your fee using an average daily balance, you might begin talking about the ways you manage volatility in your practice.

Next, explain the new fees and why you're implementing them. People know that businesses need to make adjustments to pricing, and transparency often goes a long way. Plus, doing this in advance of the change gives the client time to get used to the idea and ask questions or voice concerns.

If clients do have concerns, make sure to listen and take notes. Thinking through feedback may help you in conversations with other clients, and it may help you better position how you pitch your services in the future.

If clients do have concerns, make sure to listen and take notes.

An open mind may actually be the most important thing when it comes to figuring out your prices as an advisor. After all, your business runs on revenue and profit, but it also runs on people.

It's also important to remember you don't have to come up with your pricing in isolation. Organizations, like XYPN, the National Association of Personal Financial Advisors (NAPFA), and the Financial Planning Association (FPA), are all resources to consider if you need help with pricing. Your custodian may have ideas, as well.

Five Tips for Setting Fees—What You Need to Know

Think about the needs and current financial situations of the clients you want to attract for the long-term.

By Scott MacKillop
WealthManagement.com

In setting fees, there are five issues advisors need to consider.

Fee Type. You have lots of choices. They include, AUM fees, flat fees, hourly fees, project-based fees, a percentage of net worth or income, commissions and performance-based fees.

You may also have heard the term “subscription fee.” Subscription fees are the same as flat fees. Both terms refer to a fixed fee that covers services provided over a set period. "Subscription fee" tends to describe fees that are billed more frequently, like monthly.

Most advisors still charge some form of AUM-based fee. The Investment Adviser Association’s 2021 Industry Snapshot, which covers the practices of SEC registered advisors in 2020, says that 95.5% of all advisors charge an AUM-based fee. The 2020 Inside Information Fee Report says that 86.17% of advisors charge an AUM fee. The difference is explained by the differences in the types of advisors sampled in those surveys.

The next most frequent fee type in the IAA Industry Snapshot is fixed fees at 44.9%. The Inside Information Fee Report says that 13.98% of advisors use fixed fees as the revenue model for the “majority of their best clients”—second most frequent after AUM fees, at 72.9%.

If you are interested in performance-based fees, consult a compliance expert. They involve special regulatory considerations. The IAA Industry Snapshot says 36.6% of SEC registered advisors charge performance fees, but this figure is misleading. It includes many asset managers who are not front-line advisors.

The next most frequent fee type in the IAA Industry Snapshot is fixed fees at 44.9%.

Performance fees are rare among advisors.

Commissions are also relatively rare and becoming rarer among advisors. The IAA Industry Snapshot says 2.6% of advisors charge commissions, down 8.3% from the prior year. The Inside Information Fee Report says only 1.06% of advisors use commissions for their best clients.

Fee Combinations. Very few advisors offer only one type of fee. The IAA's Industry Snapshot says that 17.4% of SEC registered advisors charge only an AUM based fee. The Inside Information Fee Report says that 37.01% of advisors charge only an AUM based fee.

Most advisors use multiple fee types. The Inside Information Fee Report data shows that 58.8% of advisors employ a combination of fee types in their practice.

This discrepancy reflects the limits of the AUM fee model. It only works for clients who have already accumulated significant assets. For example, it doesn't work well for HENRYs—high

earners, not rich yet—who have significant income, but little in the way of accumulated liquid assets. Of advisors surveyed in the Inside Information Fee Report, 43.81% said they use a combination of fee types so they can serve less wealthy or younger clients.

Identify your target markets and create a fee schedule that is designed to appeal to the various audiences you are already serving and trying to attract. Consider having one fee schedule that covers the bulk of your more mature clients and another to attract new clients.

As you try to appeal to different audiences, keep in mind that clients value simplicity. An overly complex fee matrix can be off-putting and can lead to misunderstandings that can undermine the trust that is at the core of every successful client/advisor relationship.

Levels and Tiers. The most obvious decisions here are where to set your fees and break points for your AUM fee schedule, assuming you use one.

In the Inside Information Fee Report, just over 40% of advisors charged a 1% AUM fee for accounts ranging from $250,000 through $1 million. For a $250,000 account 15.41% of advisors charged less than 1%, 41.99% charged over 1% and 13.11% charged 1.50% or higher.

But you can also get creative. At our firm, (we are a TAMP, not an advisory firm) we charge an AUM fee until a household reaches a certain size. Then we charge a flat fee. Smaller

households pay .35% of AUM until the fee reaches $1,400 per year. Then clients pay a flat annual fee of $1,400. This fee becomes more attractive as the size of the household increases.

You can also create entry-level offerings to get new clients in the door and familiarize them with your firm's capabilities. For example, a project-based or hourly fee to do an initial financial assessment or a one-time financial plan.

Many firms use free financial planning to get clients in the door. The Inside Information Fee Report found that 48.51% of advisors use this approach. While I would not recommend it (I think financial planning is valuable), it's an increasingly popular approach in today's competitive environment.

The key here is to think about the needs and current financial situation of the clients you want to attract for the long-term. Design an offering that will draw them in today. If you wait until they have accumulated enough assets to make your AUM fee viable, you may already have lost them to another firm that was willing to creatively invest in its own future growth.

Minimums. You need to set minimums—either minimum account size or minimum fee requirements. If you don't, you risk drowning in small accounts that you can't profitably service. The exception is if you have incorporated a purely robo offering into your practice.
The levels you set should be determined by the nature of your practice and the level at which you can profitably service a relationship. For example, if you provide only investment management services and no financial planning, you can set your minimums lower than a firm that provides both services. The Inside Information Fee Report found that the median time to produce a financial plan is 10.5 hours and ranges from 2.25 hours to 40 hours. Firms that provide financial planning must set their minimums so they are compensated for that time.

Respondents to the Inside Information survey believed an hour of a senior advisor's time was worth between $25 and $1,500, with a median response of $300. They felt an associate advisor's time was worth between $15 and $800, with a median response of $175. If a senior advisor prepares a financial plan in 10.5 hours (the median response), the advisor should receive just over $3,000, which is the median fee advisors said they charged for a plan.

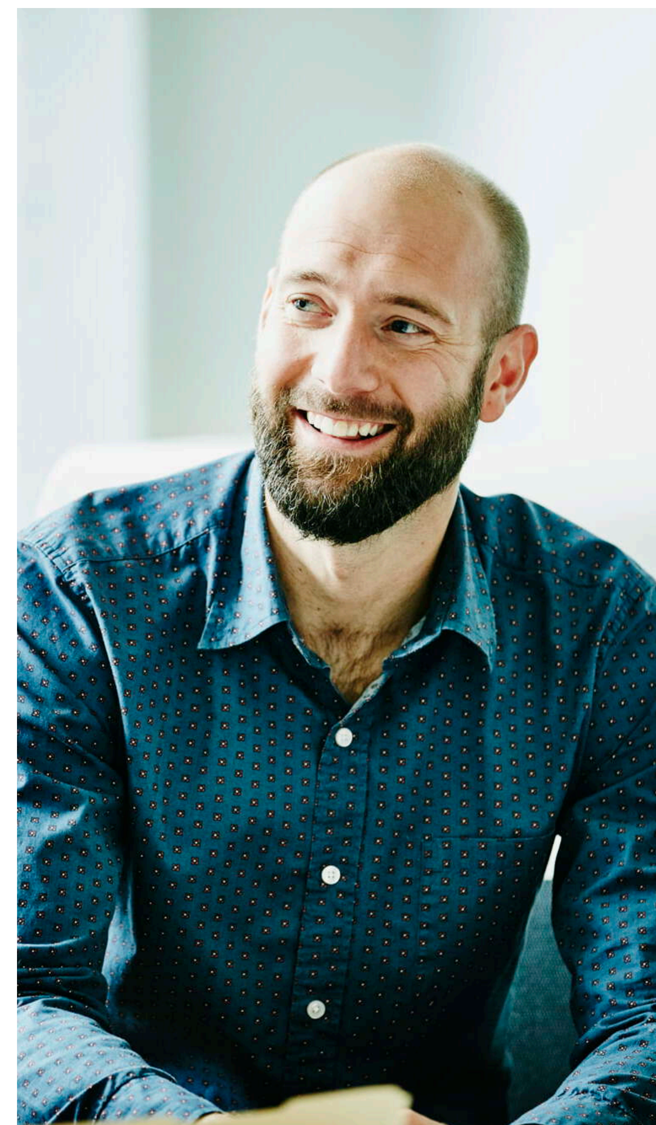
Keep in mind that even large relationships often come with small accounts attached.

Also, keep in mind that even large relationships often come with small accounts attached. A $5 million client may have a $17,000 IRA and a $12,000 UGMA in tow. You risk alienating or even losing that client if you tell the client you won't service their smaller accounts.

Consider setting your minimums based on household size, rather than account size. This approach will allow you to bring smaller accounts into the relationship without having to make an exception to your fee schedule. You could even go farther and extend your minimums to encompass an entire family, rather than just a household. That way you can bring the younger generation into the relationship, even if they are no longer technically part of their parent's household.

Here are some rough guidelines that surfaced in the Inside Information Fee Report: Only 9% of the advisors surveyed would turn down a $250,000 account. Only 3% would turn down a $500,000 account.

Retain the flexibility to make exceptions to your minimums in your Form ADV or state regulatory forms. No matter how much time you spend designing your fee schedule, you will encounter situations where you want to make an exception. Add catch-all language like "fees are subject to negotiation" to provide the needed wiggle room.



Frequency. How frequently should you bill your clients?

Based on my experience, quarterly billing is by far the most common approach (remember, I come from the TAMP world). But a 2018 AdvicePay blog says that 80% of the advisors using their services (younger financial planning-oriented advisors) bill monthly, and 20% bill quarterly. Billing software provider Smart KX reports that 95% of the advisors who use its software bill on a quarterly basis. They primarily charge AUM fees deducted directly from client accounts.

In determining how frequently you bill, consider client perceptions. Billing too frequently may be annoying to the client, but billing infrequently makes the price tag appear higher.

The answer to this question may depend somewhat on how you bill your clients. If fees are automatically deducted from a client's account, they may be less noticeable to the client than if you invoice the client directly and they are required to write you a check. For this reason, monthly fees may be palatable in the former situation and less so in the latter.

You will also need to decide if you are going to bill in advance or in arrears. Again, in my experience, billing in advance is the more frequent choice, but many advisors bill in

arrears. Remember, if you bill in advance, you will need to rebate any unused portion of the fee if a client leaves mid-month or mid-quarter.

You will also need to determine how you will calculate fees. Will fees be calculated based on quarter-end balances? Month-end balances? Average daily balance? How and when will you bill for partial time periods?

The key is to make sure that your client agreement and your billing practices are consistent. The SEC is always on the lookout for inconsistencies in this area.

One other thing to keep in mind is that if you collect $1,200 or more in fees more than six months in advance, you may be deemed to have custody of client assets and may be required to provide an audited balance sheet along with your Form ADV. Some states have similar requirements. Check with your compliance consultant so you don't run afoul of these requirements.

Ultimately, your firm must be profitable to

survive. Don't be afraid to charge a reasonable fee for the value you provide. Also, consider keeping track of how you spend your time, so you can more accurately assess the profitability of each relationship.

You should consider the competition. Every firm operates within an ecosystem that has characteristics that may differ from those captured in broad, national averages. Understand who you are competing with and price your services in that context. It's OK to charge more or less than your competition, but be prepared to rationalize the differences if clients ask.

How will you raise fees in the future? This is less of an issue with AUM fees because account balances tend to rise over time with growth in the securities markets. But flat fee and hourly fee advisors should consider building fee increases into their client agreements.

Finally, make sure your client agreements and disclosure documents capture the specifics of your fee schedule and keep them updated as relationships change over time. This includes the math behind the fee calculations.

Your billing procedures should be clear and well-documented, so clients know what to expect. There is nothing more detrimental to a client relationship than billing surprises. And you don't want there to be any ambiguity about your billing practices when the regulators show up for their periodic exams.

Options for Legacy Commission Accounts as a Fee-Only Advisor

By Brian Price, AIF
Commonwealth Financial Network®

If your business is mostly fee-based, chances are you've at least entertained the idea of dropping your FINRA license and transitioning to a fee-only model. But, if you have legacy commission accounts, you may not want to lose the trail revenue they provide. Or you may be concerned about giving up the relationships you've built with those clients over the years.

There are pros and cons to making the leap to fee-only. Figuring out what to do with your legacy commission accounts is one challenge you'll face. And, as a fiduciary, you'll need to pursue options that are in the best interest of your clients. Here are a few options to keep in mind.

Trim Your Client Base

If you have clients who aren't profitable or whom you haven't engaged with in some time, this is a great opportunity to reassess these relationships. Breaking up with unprofitable clients may help you trim away some legacy commission accounts and, at the same time, allow you to narrow your focus to clients who align with where you want to take your business.

It's natural to have reservations about this process. You may feel a sense of obligation to retain long-standing clients—especially if you started working with them early in your career. But keep in mind it may be the best road forward for both you and your clients.

Once you've decided to prune, do some networking to identify other advisors in your community—possibly from your local bank, retail investment houses, or other firms—who may be willing to take them on. Then, you can let these clients know that you have changed the focus of your business and, consequently, you need to part ways.

Convert Accounts to Advisory

If some of your legacy commission accounts are part of larger advisory households, you may want to consider converting these to fee-based accounts. For example, converting a direct mutual fund account to a fee-based account or moving a retail variable annuity to a fee-only variable annuity is an avenue that might make sense. Consider whether there's a more economical solution for the client with more investment flexibility, as well as the client's specific needs and objectives. Remember, you'll have to articulate the benefits of moving to the advisory side to your clients—and if you make any changes, they must be in the client's best interest.

Sell Off Legacy Commission Accounts
If clients have commission-based accounts they don't want to convert or you find that moving them is not in the client's best interest, you may want to consider selling them to another advisor. Although you should be able to find someone willing to purchase these legacy commission accounts, this may present some challenges.

If some of those clients are part of your advisory households, for example, you'll want to hold onto the fee-based accounts and keep the relationships intact. But by choosing to sell the nonadvisory accounts, it may create an awkward situation for the client when you introduce a second advisor. Think about the long-term ramifications—you'll want to make sure the buying firm or advisor shares your philosophy of client service and that they won't try to solicit any remaining part of the client relationship that you still manage.

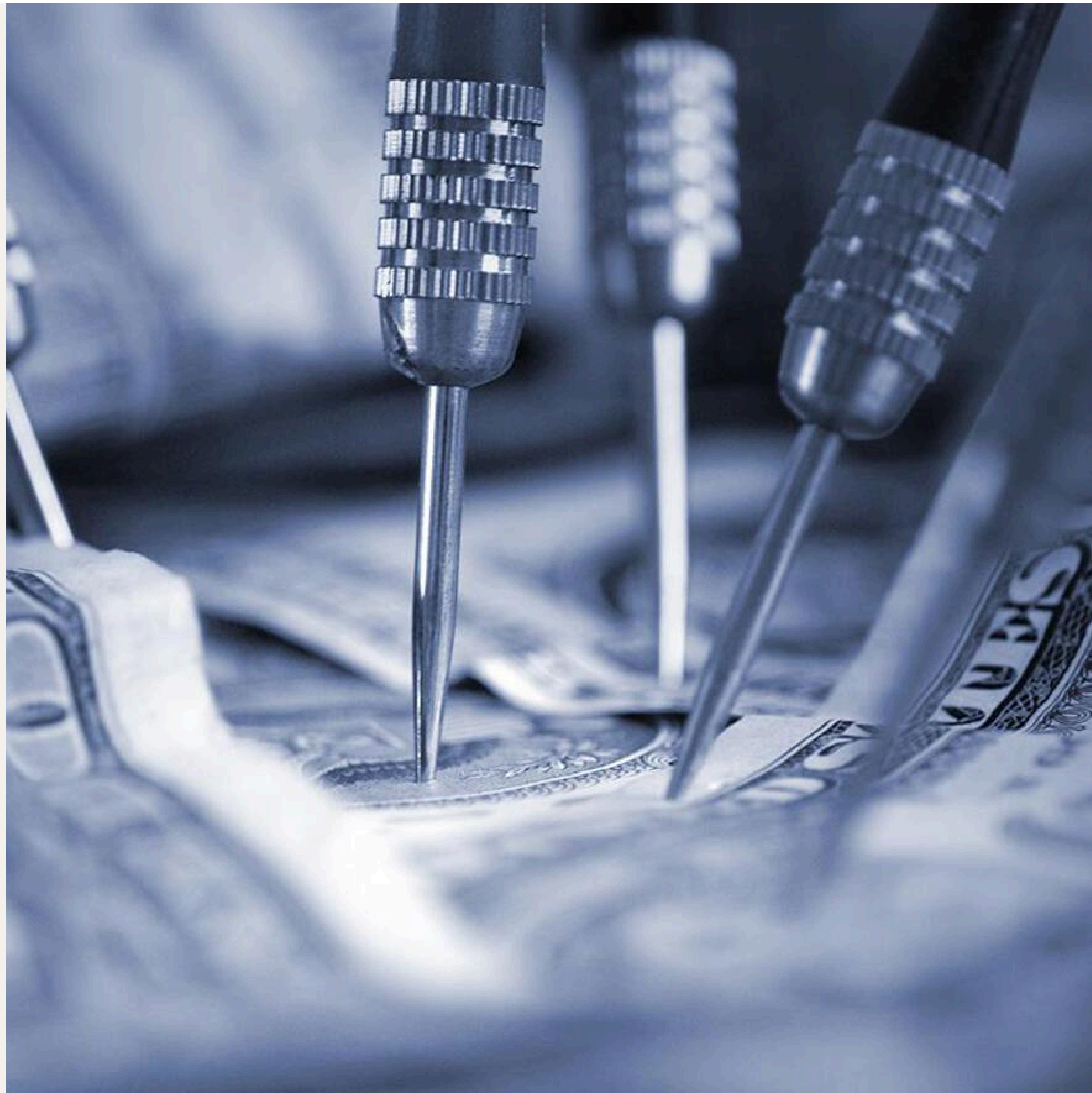
Relationships Are the Heart of Your Business
Going fee-only will mean making tough decisions. That may include breaking up with commission-based clients you've worked with for a long time. Although it may not be easy, it may be what's best for you and them. It should allow them to get the attention you can't give them, while allowing you to deepen relationships with your remaining clients. That will benefit you and those you continue to work with throughout the future of your fee-only business.

This post originally appeared on The Independent Advisor, a blog authored by subject-matter experts at Commonwealth Financial Network®, Member FINRA/SIPC, a Registered Investment Adviser.

Taking the Mystery Out of Going Fee-Only

The biggest threat to the independent broker/dealer space is the number of advisors going fee-only. Here are some of the costs and considerations for advisors taking that step.

By Jon Henschen
WealthManagement.com



There are two mounting threats to the independent broker/dealer (IBD) channel's sustainability. The first is the number of advisors retiring, with too few new advisors entering the field to fill those vacancies. The second threat, and even more concerning to the broker/dealers, is the number of advisors choosing to go fee-only.

As the SEC's adoption of RegBI makes doing transactional business increasingly difficult, numerous broker/dealers are positioning themselves more as RIAs and less as broker/dealers. We've had an increasing volume of discussions with advisors who are at the crossroads of: "When is it appropriate to get my own RIA?" and "What kind of costs will we incur?" so we thought it would be illuminating to elaborate on these and other related questions.

At what AUM does it make sense to get our own RIA?

While we've seen advisors with as little as $10 million of assets launch their own RIA, $100 million is a common threshold. There are a number of companies that help you set up your RIA and help with the ongoing compliance and administration. How much you want them to do is up to you but delegating those tasks will cost around $10,000 to $15,000 annually.

How will my primary advisor costs differ from being with a broker/dealer?

What if I get my own RIA but still have some residual trails and commission business?

Expense	Cost as RIA
E&O Insurance RIA and Life Insurance Coverage $1MM coverage per incident/ $1MM aggregate & 5K deductible	CAL Insurance (rate based on AUM) $100MM AUM = $4,035 annually $50MM AUM= $2,135 Shop the E&O market via insurance brokers such as Starkweather & Shepley. They gave us a quote for the same coverage at $3,500. Realize that risk comes into the picture with compliance disclosures, illiquid investments and complex option strategies, all of which add to coverage costs.
Contact Relationship Manager (CRM)	Redtail, for example, charges $99 monthly, but if assets are custodied through TD, Schwab or IWS your cost is $75 monthly.
Rep-managed advisory billing and performance reporting	For example, Orion billing and performance reporting with $100MM AUM/250 accounts runs $23,000 annually ($92 per account annually) Adryzon billing and performance reporting with $100MM AUM/250 accounts runs $10,000-$15,000 annually ($40-$60 per account annually)

There are broker/dealers that pay 100% on the RIA side and they apply a payout only on trails and commissions. If you are no longer doing commission business and have under $50,000 of trail revenue remaining, it's best to give that up because it is not enough to be worthwhile for these 100% RIA broker/dealers. If you have $50,000-$100,000 of remaining trails, there are options that will keep your expenses low and continue to pay your trails.

What about larger broker/dealers that have the RIA fee-only model

These options will pay 100% on RIA assets; however, you need to custody your assets in their clearing (not TD, Schwab or IWS) and you are subject to their costs such as administrative fees on advisor-directed assets, which run 3-15 bp on client assets, as well as ticket charges on stocks and ETFs (while you would have zero cost at TD, Schwab or IWS).

These firms have services such as research, practice management, higher-end services and technology offerings that may outweigh their additional costs, which is something you will need to evaluate based on your particular needs.

What about SMA/UMA account costs as an RIA?

The wirehouses have always had the best pricing on SMA/UMA accounts because they have the most scale and assets concentrated on proprietary platforms, with UMA all-in costs as low as 30 bp, while independent broker/dealer costs can be as high as 90 bp or more. There are a few larger independent broker/dealers that have competitive costs on SMA/UMA accounts because they have brought third-party money managers (TPMM), such as Envestnet, in-house (meaning held on the broker/dealer's clearing platform and to be used by advisors), so they benefit from the scale committed to a single TPMM.

We've seen broker/dealers that are sensitive to maintaining a fiduciary standard on their advisory that have been wooed by Envestnet to bring their platform in-house to gain pricing advantage but turned them down due to conflict-of-interest concerns.

A broker/dealer's motive in bringing Envestnet in-house is to increase profits by having assets concentrated under the one TPMM. This environment frequently shuts out other TPMMs such as Sawtooth Solutions, SEI, Loring Ward and others, thus giving exposure favoritism to Envestnet.

When platforms such as Envestnet are brought in-house, we sometimes receive complaints from advisors who are upset that this also

reduces the selection of managers. From a fiduciary perspective, having the scale with Envestnet usually gets the clients better pricing, but on a choice basis, advisors are being pigeonholed, shutting out other money managers that may be a better fit for a particular advisor than what Envestnet offers.

SMA/UMA costs at TD, Schwab and IWS are less than at many of the independent broker/dealers, but a small amount higher than the wirehouses and large IBDs concentrated to a single TPMM or proprietary platform.

Are IBDs enabling moves to fee-only?
Broker/dealers have been expanding penalty charges for not holding advisory assets in their primary profit centers, with platform fees costing the advisor 10 bp if they hold assets at TD, Schwab or IWS, or 5 bp if they hold assets directly at the TPMM. Many larger firms have also been marking up third-party money manager management fees from 10 bp-25 bp with the rationale that the charge is for the cost of ongoing due diligence on managers, but in reality, it's predominantly a profit center.

Increasingly, broker/dealers are steering assets to their profit center sweet spots, i.e., broker/dealer managed platforms, in-house turnkey asset management platforms like Envestnet and all assets held in brokerage accounts.

Many larger firms have also been marking up third-party money manager management fees from 10 bp-25 bp.

We see a growing clash of interests as advisors want to do what is best for the client while the broker/dealer wants to do what is best for their overall profit. The more broker/dealers impose pressure on advisors to use their primary profit centers, the more we'll see advisors go fee-only and divorce themselves of broker/dealers entirely.

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Compliance Considerations When Going Fee-Only

By Scott Wilkinson, IACCP
Commonwealth Financial Network®

As you weigh the opportunities of becoming a fee-only advisor, it's important to consider the compliance obligations that come with the move. The first thing to be aware of is that you have two business models to choose from: you can operate as an investment adviser representative (IAR) under an established registered investment adviser (RIA) or open your own RIA.

In both cases, by going fee-only, you'll drop your FINRA license. This means you'll no longer have to pay FINRA fees, and your FINRA continuing education requirements will be eliminated. Your compliance obligations under each model, however, will be very different. So, which is right for you?

Operating as an IAR

As an IAR, you operate under the policies and infrastructure of the RIA you're registered with. This can be a big benefit, especially if you work with an RIA that has a strong compliance program. Partnering with a knowledgeable compliance team with the experience to interpret rules and apply them to real-life situations will make your work easier. You'll have more time to do what you do best: building your business and taking care of your clients.

Partnering with a knowledgeable compliance team with the experience to interpret rules and apply them to real-life situations will make your work easier.

There are several additional advantages to affiliating with an established RIA, including:

- Full compliance oversight, including review of communications and marketing materials
- Shared regulatory scrutiny, burden, and liability with your RIA
- Less paperwork; your RIA will file all regulatory notifications on your behalf
- Ability to offer advisory services in any state in which your RIA is registered

In fact, you might not notice much of a difference than when you were registered under FINRA. Many SEC rules governing IARs are substantially similar to those for FINRA-registered representatives, and your partner firm will be responsible for helping you adhere to them.

Running Your Own RIA

When dropping your FINRA registrations to form your own RIA, you have full control over your firm and how it operates. This means you have the freedom to set your fees and flexibility in how you market your practice. Of course, having complete control means you also carry all the burden associated with operating an RIA. This includes:

- Risks and costs associated with compliance oversight
- Responsibility for regulatory filings, recordkeeping, and your Form ADV
- Registering and filing fees in each state in which you wish to do business

• Appointing a chief compliance officer (CCO) to oversee your compliance program

Appointing a qualified individual to the role of CCO is a critical part of establishing and operating as an RIA. Among any number of other tasks, the CCO will be responsible for:
• Ensuring that your compliance program is effectively developed, monitored, and tested on an ongoing basis
• Filing and terminating registrations in a timely manner
• Updating and filing your Form ADV Parts 1 and 2 each year

Ultimately, acting as a CCO is a demanding, full-time job. Creating and managing a compliance program takes significant time and effort. And there is considerable risk involved for RIAs, so the CCO role should not be undertaken by individuals who don't have time to fulfill the required duties. The CCO must also have the proper background to be an effective manager, and that typically includes experience in an investment advisor compliance role. It's unwise to take on the responsibility of operating an RIA without an experienced CCO and seasoned compliance staff.

Making the Choice

The bottom line is that dropping your FINRA registrations to pursue the fee-only path is one of the most important decisions of your career as a financial advisor. And choosing the business model you adopt very much depends on where your business is now and where you want to take it in the future. It's not necessarily an either/or decision; you can drop your FINRA license and operate as an IAR with the intention of transitioning to your own RIA in the future. What's most important is doing what's best for your business and your clients. Taking the time to explore your options carefully will ensure that the choice you make is the right one.

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Thank you for reading

Is It Time To Go Fee-Only? The New Considerations

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