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Financial Advisor Fee Trends and the Fee Compression Mirage

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The 2020 Kitces Research survey examined both how and how much financial advisors are charging for financial planning services and found little evidence of fee compression among advisors overall. Advisors in the registered investment advisor (RIA) channel charge higher median fees than those in the broker-dealer channel, and advisors with CFP® designations generally charge higher fees than those who are not CFP professionals. Solo advisors appear to charge lower standalone fees than other team structures. For financial plans completed on an hourly basis, silo teams had the highest median fees and solo advisors the lowest. The opposite trend was observed for retainer fees, with solo advisors charging the highest median fees and silo teams the lowest.

Analysis of the survey data shows that advisors who are compensated by assets under management (AUM) fees overall are generating revenue at rates that imply hourly fees of \$350-\$800; this contrasts with the implied hourly fees of \$100-\$300 generated by advisors operating on an hourly basis. Top-earning AUM advisors, however, are generating implied hourly fees of \$950-\$1,600. These results indicate that advisor fees are trending upward and that financial planning fee compression may be largely a mirage.

INTRODUCTION

More financial advisors are shifting from being compensated for financial planning through product commissions to being compensated by fees. As a result, financial advisors need information about what level of fees is reasonable and competitive

Table
1

FINANCIAL ADVISOR PRICING DATA, 2018 VS. 2020

	2018	2020
Compensation for Implementation Models		
AUM-only	18.0%	19.7%
Commission-only	0.7%	1.1%
AUM and Commission	12.6%	15.8%
Total Compensation for Implementation	31.3%	36.6%
Fee-for-Service Models		
Standalone Fee (project or hourly)	1.8%	2.5%
Retainer/Subscription Fee	4.1%	3.3%
Combination of Standalone and Retainer	0.0%	0.4%
Total Fee-for-Service	5.9%	6.2%
Blended Compensation Models (Fee-for-Service and Implementation)		
AUM and Planning Fee	28.5%	25.0%
Commission and Planning Fee	3.1%	2.5%
Mix of AUM/Commission/Fees	6.6%	9.8%
Total Blended Compensation	38.2%	37.5%

Source: 2020 Kitces Research Study on Advisor Pricing, Vol. 1, August 2020

in the marketplace, so they can figure out what fees they should charge.

Early research on financial advisor pricing has provided some insight into how much advisors charge for financial planning. But there's still a lot to learn about how advisors charge for financial planning services, including how advisor pricing is changing over time (King 2012; Kitces 2017; Lurtz 2019).

To explore this topic, we conducted a study in 2020 with more than 800 financial advisors who provided detailed information about their practices and how they deliver and price financial planning services (Kitces 2020a).

The first challenge in characterizing the compensation of financial advisors is

the myriad ways that financial advisors are compensated for financial planning.

Advisor compensation can be classified into the following three broad segments:

Compensation for implementation, e.g., (AUM) fees for a portfolio, commissions for the sale of a product, or some combination thereof;

Fee-for-service, e.g., standalone planning fees, retainer fees, subscription fees, etc.;

Blended, i.e., a combination of fee-for-service and implementation.

Overall, AUM-only and AUM combined with other planning fees such as retainer, hourly, or project fees remain the most

Table 2

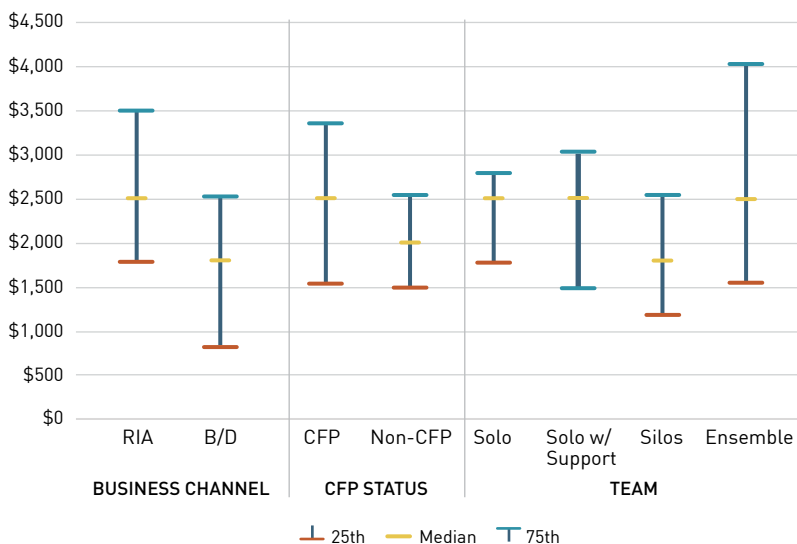
PRICING ACROSS COMPENSATION MODELS HAS REMAINED STABLE FROM 2018 TO 2020

	2018			2020			2018–2020 Change in Percentage		
	10th	Median	90th	10th	Median	90th	10th	Median	90th
AUM (\$1 million)	\$7,500	\$10,000	\$11,500	\$8,100	\$10,000	\$12,500	8.0%	0.0%	8.7%
Retainer	\$1,033	\$3,200	\$10,000	\$1,210	\$4,000	\$8,000	17.1%	25.0%	–20.0%
Standalone	\$750	\$2,225	\$5,000	\$1,000	\$2,500	\$4,820	33.3%	12.4%	–3.6%
Hourly Plan Full Cost	\$638	\$1,800	\$3,486	\$640	\$1,800	\$3,520	0.3%	0.0%	1.0%
Hourly Rates	\$150	\$200	\$300	\$150	\$250	\$350	0.0%	25.0%	16.75%

Source: 2020 Kitces Research Study on Advisor Pricing, Vol. 1, August 2020

Figure 1

STANDALONE PLANNING FEE PERCENTILES BY BUSINESS CHANNEL, CFP STATUS, AND TEAM STRUCTURE



Source: 2020 Kitces Research Study on Advisor Pricing, Vol. 1, August 2020

popular compensation models among the financial advisors in our sample. Commission compensation remains a secondary form of compensation, if advisors receive it all; only 1.1 percent of advisors in our sample were compensated entirely by commissions (see table 1).

PRICING OF AUM AND OTHER COMPENSATION MODELS HAS REMAINED RELATIVELY STABLE

The 2020 study repeated our 2018 study, giving us an opportunity to examine trends in compensation (see table 2).

Overall, we do not see much evidence of fee compression. In fact, the median standalone financial planning fee was up 12 percent from 2018, the median retainer fee was up 25 percent, and the

median hourly fee was up 25 percent. In addition, 10th-percentile fees, i.e., what advisors tend to charge on the low end, also increased—33 percent for standalone fees and 17 percent for retainer fees. The only evidence of any fee compression was at the very top of the range, where the highest fees that advisors charge came down slightly.

The range of advice fees decreased top to bottom, but the minimum and median fees that advisors charged were up significantly from 2018 to 2020.

Our findings contrast with claims that fee compression is coming for financial advisors (Waggoner 2018). Nearly 10 years into the robo-advisor trend, and despite the continued growth of lower-cost advisory platforms, there is little evidence of fees declining. In fact, as

financial advisors bolster their value proposition beyond the portfolio alone, advice fees—both minimum and median—appear to be on the rise.

TYPICAL STANDALONE FEES FOR FINANCIAL PLANNING

Advisors charge for financial plans in several different ways. Perhaps the simplest and most direct way to charge for a comprehensive plan is a quoted standalone fee—e.g., a project-based fee for the creation and delivery of a client’s financial plan.

Overall, roughly 25 percent of advisors who completed our survey reported that they produce and charge for standalone financial plans for clients.

In addition to the 2018 and 2020 studies on advisor pricing, we also have released studies on advisor marketing and well-being (Kitces 2019a, 2020b). By examining the results from all these studies, we’ve started to see some consistent dimensions over which advisor fees vary. Although there was little variation in standalone planning fees in general, we found that fees did vary based on certain advisor characteristics.

Some common ways financial advisors can be meaningfully segmented include the following:

Industry channel: registered investment advisor versus broker-dealer (B/D)

CFP certification status: CFP professional versus non-CFP professional

Advisor team structure: using a framework similar to Palaveev (2017)

Advisor team structures include the following:

- Solo advisors—professionals working on their own, without support staff
- Solo advisors with support staff—a sole lead advisor who has support staff, such as administrative or para-planner support
- Silo advisors—advisors who share some overhead and expenses as part of a team but manage their clients independently and are responsible for generating their own revenue
- Ensemble advisors—a team of advisors serving clients in an integrated manner

Examining standalone planning fees across these dimensions, as shown in figure 1, we see that advisors solely within the RIA channel reported charging higher median fees than those solely within the B/D channel (\$2,500 versus \$1,800). This gap closed by \$300 from 2018 to 2020, perhaps suggesting that advisors within the B/D channel are increasingly adopting a fee-for-service business model and charging a “full-value” fee for financial planning rather than a discounted financial planning fee that is made up for with subsequent commissions. The gap in financial planning fees between RIAs and the B/D channel remains significant nonetheless.

At the median, CFP professionals reported charging \$500 more for a comprehensive plan than non-CFP professionals (\$2,500 versus \$2,000). Our research shows that advisors who tend to go deeper with their planning also charge more for what is literally a more comprehensive financial plan, so it is not surprising to see CFP professionals charging more than non-CFP professionals.

By contrast, at the median, we don’t see much difference in fees charged by team structure—solo advisors, solo with support, and ensemble advisors all report median fees of \$2,500—although

we do see lower fees charged among silo advisors with a median of \$1,800. The variability of fees is the widest for the largest ensemble RIAs, which at the low end charge similar fees to other team structures but at the high end are commanding the highest financial planning fees at the 75th percentile. Industry research has shown that the largest ensemble advisory firms also tend to disproportionately attract the affluent clients who are most capable of paying the highest advice fees (Kitces 2019b).

Our research also uncovered some variation in standalone planning pricing based on how comprehensive planners really are when creating financial plans. To assess the level of comprehensive planning, we asked advisors to indicate which of the following 16 topics they cover within a comprehensive financial plan:

- College funding
- Student loan analysis
- Cash flow/Budgeting
- Life insurance
- Disability insurance
- Long-term care insurance
- Property and casualty insurance
- Savings/Accumulation analysis
- Retirement spending/Distribution analysis
- Tax planning
- Estate planning
- Investment/Portfolio analysis
- 401(k) analysis
- Employee benefits review
- Stock options/Restricted stock analysis
- Career/Salary benchmarking

Advisors were then classified as follows according to the number of topics they cover:

- Targeted (0–5 topics)
- Planning Lite (6–9 topics)
- Comprehensive (10–12 topics)
- Most Comprehensive (13+ topics)

Advisor representation in each group was fairly consistent between 2018 and

2020. The only change we observed was a slight shift from the most comprehensive group to the comprehensive group, indicating that some firms likely reached a level of diminishing returns where the extra effort fails to command enough additional fee revenue. This is consistent with findings that advisors can command higher fees with planning that is less comprehensive but better focused and more relevant to their target markets (Tharp 2020). Advisors who are creating comprehensive plans are charging more, with the median fee at \$2,500 in both the comprehensive and most comprehensive categories, versus \$1,800 for targeted advisors. Median advice fees are not higher for financial plans that are the most comprehensive, however, which may help to explain this shift.

Because revenue generated from product implementation potentially could complicate this analysis, we further examined differences among strictly fee-only advisors using the 16 topics that could be covered in a plan.

We found virtually no appreciable increase in financial planning fees for the most comprehensive financial plans among financial advisors charging only planning fees. In fact, median planning fees for the most comprehensive plans were typically no higher than for planning lite financial plans that simply covered the most important 6–9 topics for a particular client. This emphasizes that financial planning value is more effectively unlocked by deeply covering a select few topics of greatest relevance and impact for clients rather than trying to be comprehensive.

Table 3 reports 2018 and 2020 standalone planning fee levels across all categories.

Table 3 shows that most fee levels were flat or positive. The most notable increases were among solo advisors at the lower end of the market, both with and without support, who lifted fees considerably from 2018.

Table
3

STANDALONE PLANNING FEES BY BUSINESS CHANNEL, CFP STATUS, AND TEAM STRUCTURE

	25th Percentile			50th Percentile			75th Percentile		
	2018	2020	Δ(\$)	2018	2020	Δ(\$)	2018	2020	Δ(\$)
Business Channel									
RIA	\$1,500	\$1,800	\$300	\$2,500	\$2,500	\$0	\$3,500	\$3,500	\$0
B/D	\$900	\$850	-\$50	\$1,500	\$1,800	\$300	\$2,500	\$2,500	\$0
CFP Status									
CFP	\$1,500	\$1,550	\$50	\$2,400	\$2,500	\$100	\$3,000	\$3,500	\$500
Non-CFP	\$1,000	\$1,500	\$500	\$1,850	\$2,000	\$150	\$3,000	\$2,500	-\$500
Team Structure									
Solo	\$1,000	\$1,800	\$800	\$1,500	\$2,500	\$1,000	\$2,500	\$2,750	\$250
Solo w/ Support	\$1,200	\$1,500	\$300	\$2,000	\$2,500	\$500	\$3,000	\$3,000	\$0
Silo	\$1,000	\$1,200	\$200	\$1,500	\$1,800	\$300	\$2,500	\$2,500	\$0
Ensemble	\$1,763	\$1,575	-\$188	\$2,500	\$2,500	\$0	\$3,000	\$4,000	\$500

Source: 2020 Kitces Research Study on Advisor Pricing, Vol. 1, August 2020

AVERAGE HOURLY FINANCIAL PLANNING FEES

Hourly fees are another common way for financial advisors to charge, especially for more ad hoc advice work. Advisors surveyed reported how much they charge per hour as well as metrics such as how many hours they spend working on a typical plan (see table 4).

Again, variation in pricing was observed among various advisor segments. Median hourly rates hovered close to \$250 for all groups except for non-CFP professionals and solo advisors, who tended to charge less, \$225/hour and \$200/hour, respectively. One standout was B/D advisors charging significantly higher at the 75th percentile (\$375/hour) than advisors in the RIA channel at the 75th percentile (\$285/hour). In general, our data showed the largest increases in hourly rates for financial planning among advisors at broker-dealers, whose rates are now substantively in line with RIAs but were consistently lower in the past.

Of course, hourly rate alone does not tell us how much a complete plan would cost, because advisors vary in how much time they spend developing financial plans; an advisor charging \$300/hour and constructing a financial plan in five hours will cost less than an advisor who

charges \$200/hour but takes 10 hours to complete a plan. Accordingly, we multiplied the number of hours an advisor typically bills for an hourly plan by the advisor’s hourly rate to determine an hourly advisor’s typical fee for a financial plan.

This calculation reveals more deviation among categories for the price of a financial plan than was evident by looking at hourly rates alone. For instance, advisors in the B/D channel are charging the same or higher hourly rates as RIAs, but they are spending far fewer hours—six versus 12, respectively—developing those financial plans, and therefore charging less overall. Furthermore, advisors within RIAs were significantly more likely to indicate providing “most comprehensive” plans (37.2 percent versus 25.0 percent) and were significantly less likely to indicate providing targeted plans (6.4 percent versus 13.1 percent).

Consequently, median total fees for completed plans billed on an hourly basis were roughly \$1,000 for B/D advisors versus about \$2,700 for RIAs. Again, solo advisors without support and non-CFP practitioners were charging less than most other advisors. More generally, our research shows that the two factors related to higher financial planning fees are CFP certification and infrastructure, i.e., team structure and

staff support, which enable advisors to produce and deliver more comprehensive financial plans and command higher fees.

Table 4 shows that almost all segments of advisors experienced increases in hourly rates from 2018 to 2020, and that some of the largest hourly rate increases were among advisors within the B/D channel.

There’s also likely some “stickiness” to various fee thresholds, because advisors appear to disproportionately set their hourly advice fees in \$50 increments. From 2018 to 2020, at the median, there was a shift from fee levels around \$200-\$250. At higher levels, e.g., the 75th percentile, we start to see pricing that approaches the \$300 level.

TYPICAL FINANCIAL ADVISOR RETAINERS AND SUBSCRIPTION FEES

Retainers—annual or quarterly—and monthly subscription fees continue to be a growing form of advisory fees, allowing advisors to provide client services that may have substantive income, i.e., enough to pay a full-fledged advice fee, but few or no portfolio assets to manage. Annual retainer fees ranged tremendously, from \$600 to \$40,000, but the median annual retainer was \$4,000, up from \$3,200 in 2018.

Table
4

HOURLY PLANNING FEES BY BUSINESS MODEL, CFP STATUS, AND TEAM STRUCTURE, 2018 AND 2020

	25th Percentile			50th Percentile			75th Percentile		
	2018	2020	Δ(\$)	2018	2020	Δ(\$)	2018	2020	Δ(\$)
Business Channel									
RIA	\$170	\$200	\$30	\$200	\$245	\$45	\$250	\$285	\$35
B/D*	\$137	\$198	\$61	\$150	\$259	\$109	\$263	\$375	\$113
CFP Status									
CFP	\$174	\$200	\$26	\$200	\$250	\$50	\$250	\$280	\$30
Non-CFP	\$147	\$156	\$9	\$190	\$224	\$34	\$250	\$300	\$50
Team Structure									
Solo	\$154	\$156	\$2	\$200	\$200	\$0	\$250	\$250	\$0
Solo w/ Support	\$200	\$198	-\$2	\$250	\$243	-\$7	\$300	\$300	\$0
Silo*	\$150	\$224	\$74	\$200	\$250	\$50	\$313	\$313	\$73
Ensemble	\$150	\$231	\$81	\$200	\$250	\$50	\$300	\$300	\$50

*Note: These groups had particularly small samples sizes in our 2020 study.

Source: 2020 Kitces Research Study on Advisor Pricing, Vol. 1, August 2020

Looking at retainers by business model, CFP certification status and team structure were relevant factors. CFP professionals charge higher retainers than non-CFP professionals, and advisors on ensemble teams charge the most. Retainers for ensembles, however, were only slightly higher than for solo advisors. Indeed, solo advisors appear to be increasingly successful at finding a focused group of retainer-paying clients and implementing the support infrastructure necessary to provide targeted financial plans efficiently to that niche clientele (Tharp 2020).

However, retainer or subscription models also challenge financial advisors to demonstrate their ongoing value when fees are not tied directly to the management of an investment portfolio.

In practice, one way this pressure is expressed is in the choice of financial planning software among financial advisors. Our research shows some differences in how advisors price their services based on whether they use more-detailed cash-flow-driven financial planning software, e.g., eMoney Advisor, NaviPlan, or MoneyTree, versus goals-based planning software e.g., MoneyGuidePro, RightCapital, or Advizr.

Financial advisors using cash-flow-based financial planning software charge substantially higher retainer or subscription fees—a median of \$4,500/year versus \$3,250/year, respectively. This difference is greatest among advisors using retainer models; hourly advisors charge similarly for both types of software, and advisors using cash-flow-based software charge only slightly more for standalone plans than those using goals-based planning software.

However, there are some notable differences between users of particular software companies within each software category, cash-flow or goals-based. Although the median annual retainer among both eMoney and MoneyTree users is \$4,500, the median among NaviPlan users is only \$1,650. Similarly, the median annual retainer for MoneyGuidePro users was \$3,500 but only \$3,000 for RightCapital users.

AUM FEES

Because AUM fees are the most common way in which advisors are compensated, our survey also examined AUM fees at various levels of account size (see figure 2).

Advisors reported their AUM fee schedules, either tiered or breakpoint. From those fee schedules, we then computed

total AUM fees for clients with different portfolio sizes.

The AUM model often is criticized because clients with twice the assets to manage may pay twice the fee but don't necessarily require twice the work. Our data shows, however, that advisors consistently use graduated fee schedules with breakpoints, i.e., lower AUM fees at higher thresholds, that partially mitigate this effect.

In practice, our research shows that median fees were 1.0 percent of AUM up to \$1 million. The median fee then dropped to roughly 0.9 percent at \$2 million and 0.8 percent at \$5 million. Notably, the marginal fee that financial advisors are charging is often lower than these thresholds—especially at higher AUM levels—but because the lower rate is charged only on additional assets above the breakpoint, the total fee decreases more modestly as portfolios increase. For instance, an advisor that charges 1 percent on the first \$2.5 million and 0.6 percent on all amounts above \$2.5 million has a marginal fee of 0.6 percent for a \$5-million portfolio, but the total fee on that \$5-million portfolio is 0.8 percent of the account balance.

At the 90th percentile, financial advisors reported charging roughly 1.5 percent for

portfolios of up to \$250,000, 1.3 percent at \$1 million, 1.1 percent at \$2 million, and 1.0 percent up through \$5 million.

Between 2018 and 2020, we see scant evidence of fee compression, and only at the very low-end for \$100,000 portfolios. Interestingly, we see slightly higher fees for larger portfolios in 2020.

Overall, percentage-based AUM fees in 2020 were roughly in line with observations in 2018. Of course, rising asset values during this period also have meant higher dollar fees and more income for financial advisors, even though fee schedules remained the same. In turn, this trend of higher compensation is mirrored in the dollar-based fees results, which also are up substantively, far more than inflation, from 2018.

We cannot speak to what is driving this increase per se. It will be interesting to see if these fees experience contraction during future market declines. If so, advisory fees may be affected by a rising-tide-lifts-all-boats effect. On the other hand, it would not be surprising for these fees to remain more stable than AUM-based fees.

AUM FEE TRENDS ACROSS DIFFERENT ADVISOR SEGMENTS

When looking at AUM fees for clients with a \$1-million portfolio by business, CFP certification status, and team structures, a median of 1.0 percent in AUM fees was fairly consistent across all advisor segments, with the exception of advisors within B/Ds charging more (1.1 percent) and solos charging less (0.95 percent).

However, the trend of advisors at B/Ds charging more than any other advisor type was very pronounced at all fee percentiles for clients with \$1-million portfolios. Specifically, we found advisors within B/Ds charging 1.1 percent and 1.25 percent at the median and the 75th percentile, respectively, versus advisors within RIAs charging 1.0 percent and 1.05 percent at the median and the 75th percentile, respectively. An additional AUM fee of approximately 15-20 percent charged by advisors within B/Ds is in line with the additional costs that B/D-based advisors incur between grid-based payouts and additional platform costs (Henschen 2020). This may suggest that B/Ds are adding a non-trivial cost layer to the AUM model

that is passed to consumers in higher fees and that RIAs may enjoy a competitive price advantage by eliminating a layer of broker-dealer intermediaries when going independent.

Surprisingly, there is little difference in AUM fees between CFP professionals and non-CFP professionals. Median fees for a \$1-million client were roughly 1.0 percent of AUM for each group in 2018 and 2020. However, although CFP practitioners may not be charging higher AUM fees, they are charging higher financial planning fees across the various pricing structures, which may indicate where CFP professionals perceive the value they can deliver to clients. Furthermore, our data suggest that CFP professionals tend to serve a more-affluent clientele, so CFP professionals charging the same AUM rates are still often generating more revenue.

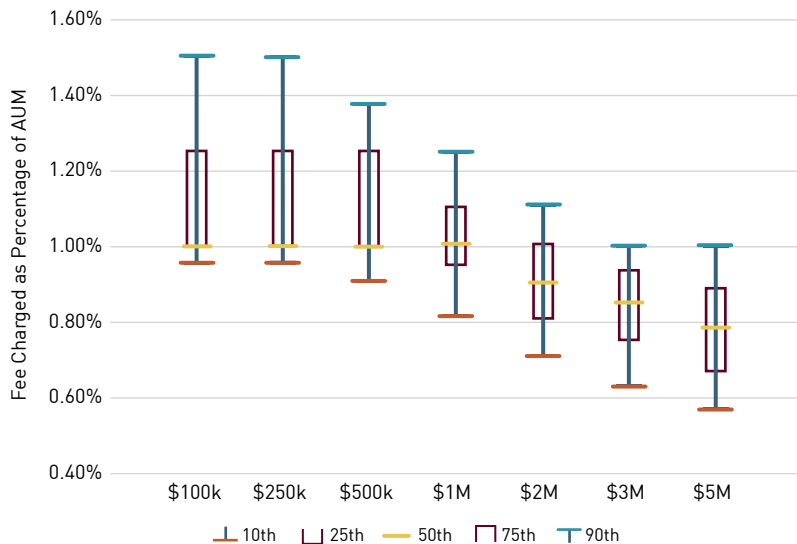
On the other hand, solo advisors tend to price higher than silos for stand-alone financial plans, but solos tend to price lower than silos for AUM pricing. Advisors within different team structures may be bundling services differently; perhaps silos are relying more on AUM as a primary revenue source and solos are using AUM as a supplemental to planning fees—or conversely, using planning fees to supplement their lower AUM fees.

WHAT IS A FINANCIAL ADVISOR'S TIME REALLY WORTH?

Based on the detailed information collected in the survey, we analyzed data to determine what an advisor's time is worth as an hourly rate for client-specific activities. A typical lead financial advisor's weekly tasks include business development with prospects, meetings with existing clients, meeting and plan preparation for client reviews, professional development, internal management tasks, and more. Specific financial planning tasks—e.g., client meetings, financial plan preparation, and meeting preparation—tend to take up about 56 percent of a lead advisor's time.

Figure 2

ADVISOR AUM FEES BY ASSET LEVEL



Source: 2020 Kitces Research Study on Advisor Pricing, Vol. 1, August 2020

If we allocate that time to client-specific, billable tasks across median lead advisor revenue (\$300,000) or income (\$155,000), the data implies an hourly equivalent revenue rate of \$238/hour or an income level of \$123/hour. In other words, when aggregated across all types of business and revenue models—from hourly advisors to AUM advisors—the revenue an advisor generates amounts to roughly \$238/hour.

By contrast, when evaluating investment management services that advisors provide—from back-office investment research and due diligence to meeting preparation and meeting time with clients—the equivalent hourly rate is approximately \$323/hour, of which the lead advisor on average earns \$167/hour. So, even though in practice investment management is charged on a predominantly AUM basis, the equivalent hourly rate is similar to what hourly advisors charge—yet it's higher than financial planning hourly rates, which suggests that investment management tasks are prone to fee compression, that advisors are undercharging for financial planning, or that financial planners are not sufficiently delegating support tasks to free up their time for the highest-value work. Implied hourly rates for time spent on broadly defined financial planning tasks are lower for associate advisors (\$210/hour for revenue versus \$66/hour for income).

Our data also suggests that fee levels among CIMA® and CPWA® professionals fees are likely higher than the average (see table 5).

By comparing information from those who identify their firms as primarily AUM versus those who identify as primarily hourly, we gained insight into some of the challenges of running an hourly practice. Those compensated primarily via AUM reported higher implied hourly rates of income for financial planning (\$166 versus \$67) and revenue (\$348 versus \$93).

This suggests that if hourly advisors want to replicate the type of financial

Table 5

INCOME FOR ALL ADVISORS, CPWA® CERTIFICANTS, AND CIMA® CERTIFICANTS

Income Level	All Advisors	CPWA Certificants	CIMA Certificants
50th Percentile	\$150,000	\$245,000	\$320,000
90th Percentile	\$500,000	\$1,325,000	\$1,650,000

Source: 2020 Kitces Research Study on Advisor Pricing, Vol. 1, August 2020

success that AUM advisors have achieved, they would need to bring in about \$350/hour in financial-planning-related task revenue versus the roughly \$93/hour that hourly advisors report. Viewed another way, the AUM model is very “forgiving”: The client pays an AUM fee and the advisor feels compelled to do more or enough work to justify that fee and retain the client—but doesn’t have to worry about doing work that isn’t paid for. By contrast, hourly advisors appear to struggle to bill for all the work they do, even at a median rate of \$250/hour.

Furthermore, advisors in primarily hourly practices who want to attain the same level of financial success as top earners in primarily AUM firms would require much higher hourly rates. To examine this, we defined a “top earner” as an AUM advisor whose earnings fall between the 85th and 95th percentiles; we used an upper cutoff to ensure that extreme outliers aren’t driving our result.

We found that top-earners are taking home a median of \$500,000 in income based on \$936,000 of revenue. Top earners also are spending a greater percentage of their time doing highly valued client-facing work. Even so, these advisors are still charging an implied rate of about \$950/hour–\$1,600/hour. Clearly this points to an incongruence between some regulators’ maximum reasonable hourly fees of no more than \$250/hour and the implied hourly rates that top-performing AUM advisors are commanding in the marketplace.

KEY TAKEAWAYS ABOUT FINANCIAL ADVISOR PRICING

Despite ongoing fee compression for financial services products, our research

uncovers little indication of fee compression among financial advisors themselves.

The overlapping nature of the many types of advisor compensation makes it hard to sort out the true cost of a comprehensive financial plan. For instance, commissions from product implementation continue to be a source of additional revenue for many advisors who charge fees for financial planning services. Even fee-only advisors may receive additional income from follow-up consultations or implementation in other areas.

In addition, some advisors also are willing to do hourly or standalone financial planning work to produce a possibility of future work. This probabilistic, expected-value approach to completing a plan, part as compensation now and part as future compensation, complicates matters considerably.

Nonetheless, our research broadly shows that financial planning fees are on the rise, both with respect to the rates that advisors charge and the frequency of charging additionally or separately for financial planning on top of AUM or commission-based implementation services.

In turn, the most successful advisors appear to be serving a deeper, more targeted niche where they can charge higher fees without needing to do the most comprehensive and time-consuming financial plans (Tharp 2020). In fact, comprehensiveness alone is not a predictor of advisor pricing, and covering a lot of categories could indicate that

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FINANCIAL ADVISOR FEE TRENDS . . .

Continued from page 17

an advisor is too generalized to deliver significant value to a particular niche.

In other words, by spreading oneself thin and trying to serve everyone, an advisor can miss out on planning efficiencies and provide less value to a client who would otherwise help that advisor move upmarket.

We also find that the AUM model continues to dominate the financial advice landscape. This may be, in part, because the AUM model appears to be much more profitable, which may be because AUM pricing is more value-driven—or at least affluence-driven—than hourly planning.

On the other hand, our research also shows that retainer and subscription-based financial planning models are on the rise. These models have had some of the strongest fee increases and are attracting a distinctly different, high-income non-AUM clientele.

Regardless of the business model, however, advisors are spending only about 50 percent of their time on financial planning-related tasks—and only 20 percent of that is in direct client-facing meetings. As a result, leveraging one's own time within the practice by hiring support staff or joining an ensemble firm presents a tremendous

opportunity to become more efficient and improve the earnings for the advisor and the practice. 🟡

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