Advisory Fees

Is it time to assess your client fee structure?

ADVISOR SERVICES

Fee structures in the financial advisory world have changed dramatically over the past couple of decades, largely moving away from the commission-based revenue model that was prevalent in the 1990s to an assets under management (AUM) fee model. While the AUM fee model continues to be widely practiced, new approaches are starting to gain acceptance, especially among next-gen advisors. Given these trends, it may make sense to assess whether your current fee structure is the right one for your business and whether it's time to make any changes.

Financial advisors get paid in a number of different ways via different fee structures. These include charging clients a fee based on assets under management, charging retainers and hourly fees, charging fees for specific services rendered, and receiving commissions for financial products sold.

Given the current environment, now might be a good time to take a fresh look at your fee structure and determine whether it's still appropriate for your clients and your business. Increased competition from robo-advisors and the accompanying "race to zero" on trading fees—not to mention market volatility that is causing clients' portfolios to fluctuate wildly—could indicate a need to consider some changes in your fee structure. At the least, performing a fee structure assessment may confirm that you're right where you need to be with your fees.

Numerous studies have been conducted over the past few years to gauge how financial advisors charge for their services today. These studies provide a wealth of data and insights about the trends driving these changes. Let's review the various types of fee structures currently employed by financial advisors, the emerging trends in advisors' fees, and how to assess your current fee structure appropriately.

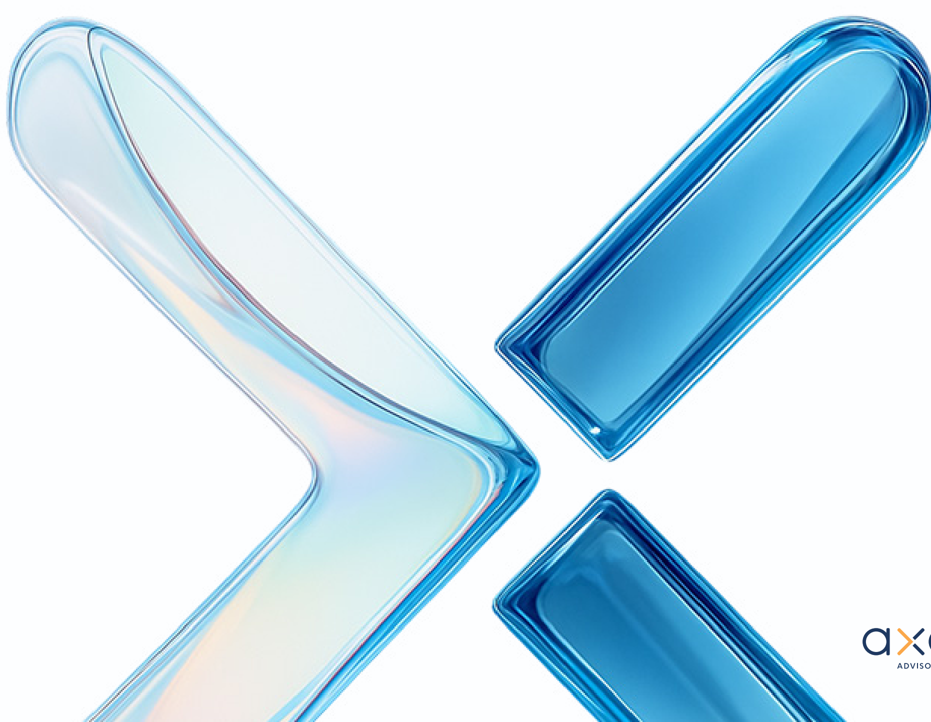
What percentage of AUM do advisors typically charge?

Given the ongoing popularity of the AUM revenue model, it would be helpful to know what percentage of assets advisors who use this fee structure are charging.

The AUM model for advisor fees remains a popular choice and continues to grow, with the average annual fee hovering around one percent of total AUM.[1] In a 2024 survey of 600 advisors by Envestnet and MoneyGuide, 62 percent of advisors indicated that they used an AUM model.[2] These same advisors primarily serve the Boomer generation, with 91 percent comprising their client makeup compared to 12 percent of Millennial clients. Twenty-nine percent of clients had an AUM of $500K, 63 percent were between $500K-1M, 44 percent were between $2-3M, 17 percent were between $4-9M, and only three percent were at $10M.

AUM model is the most common fee structure

While the AUM model remains the most popular fee structure choice for advisors, various new options, including hourly, retainer fees, and subscription models, continue to emerge. According to Envestnet's 2024 State of Financial Planning and Fees: Technology's Impacts, AUM and flat-fee models remain the most popular. Sixty-two percent of advisors use the AUM model, charging an average of 1.05 percent, while 40 percent charge a flat fee of $2,554 on average.[2]



According to 2023 data from Advisory HQ, the average AUM fee for a $50,000 account is 1.18 percent, or $590 a year. Fixed or hourly fees can also be tacked onto special financial planning projects on consultative services and range from $7,500 (for investments under $499,999) to $55,000 (for investments over $7.5 million). Depending on the advisor's seniority and expertise or the project's complexity, hourly fees can range from $120 to $300.[3]

Types of Financial Advisor Fee Structures[3]

Fee Type	Types of Financial Advisor Fee Structures
Percentage of AUM	Percent of the total assets in a client's account, which could follow a tiered schedule. Generally speaking, the higher a client's asset level, the lower the percentage fee paid.
Hourly Charges	The rate charged per hour, is typically for a special project or consulting.
Project-Based or Standalone Planning Fees	Clients are charged a one-time fee for a comprehensive financial plan or a specific project.
Retainers/Subscriptions	Clients pay a recurring fee, often monthly or quarterly, for ongoing access to planning services. This structure supports a more consistent, collaborative relationship.
Commissions	Additional compensation is earned when a purchase or a trade is made.

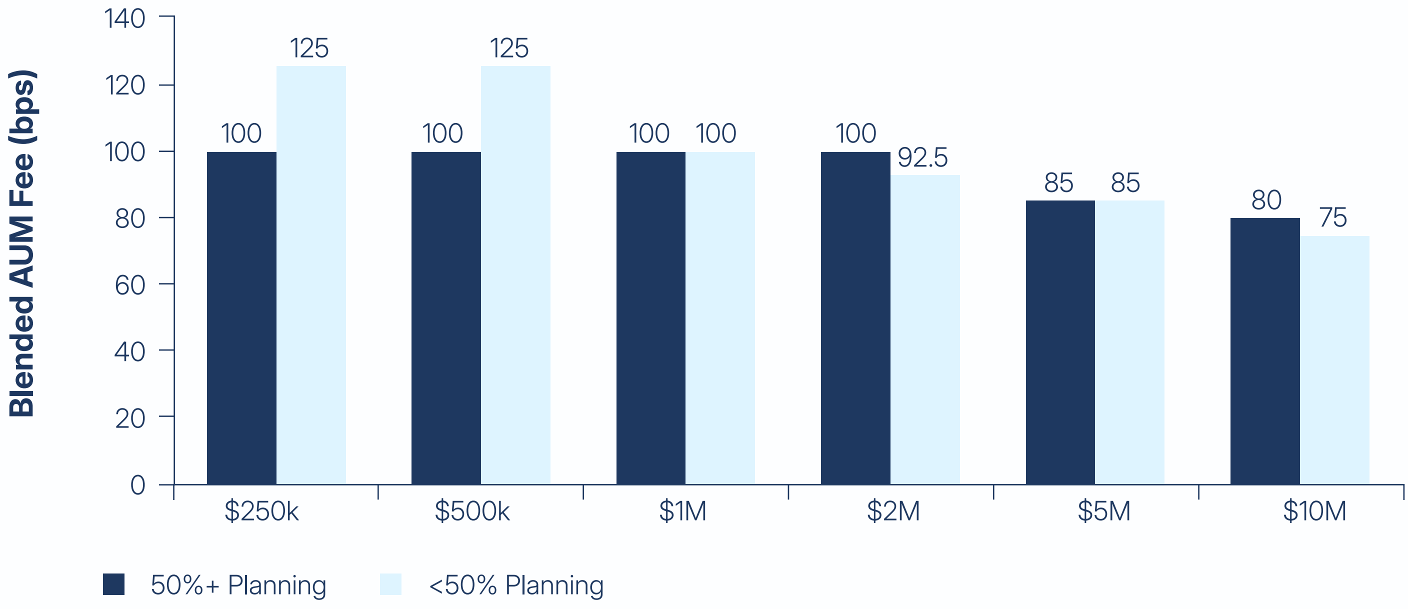
Type of AUM Fee Schedule	Asset Tiers	Median Rates
Graduated	$0-$1 million $1 million – $2.5 million $2.5 million – $5 million Over $5 million	1.00% 0.80% 0.65% 0.50%
Cliff	$0-$500,000 $500,000 – $2 million $2 million – $4 million Over $4 million	1.15% 1.00% 0.85% 0.75%

What is an advisor's time worth?

Advisors who want to shift from the AUM revenue model, where determining compensation is a simple mathematical equation, to one of the other fee structures must first answer a deceptively simple question: How much is their time worth? Or in other words, what is the internal cost of servicing various clients, whether their needs are simple, moderate or complex?

To answer this question, advisors must start by tracking their time to work smarter, not harder. Many hours are being put in between the front, middle, and back offices, but with varying degrees of success. The 2022 Kitces Report, "How Financial Planners Actually Do Financial Planning," shows that advisors generating over $1M of revenue work the same as their peers who generate only $250–$400k. Indeed, the time allocations of executives down to planning specialists follow similar paths for time spent on investment management, general management, client meeting prep, prospecting, administrative tasks, professional development, investment research, meeting with clients, client servicing tasks, compliance needs, financial plan prep, and marketing.[4]

Figure 6.20 Blended AUM Fee Among Bundling Firms, By Allocation Of AUM Fee[4]



Technology may apply pressure on an advisor's preference to move away from the AUM model to a different revenue model. Common complaints about the AUM model include conflicts of interest, disproportionate fees, and lower appeal to younger generations just beginning their wealth-building journey. Conversely, artificial intelligence can drive greater efficiency and transparency when operated by a skilled advisor, freeing them up for more meaningful client interactions.[5] Indeed, an Accenture survey of 500 financial advisors found that 97 percent believe AI can help grow their business by more than 20 percent.[6]

Charging for financial plans and a la carte services

A la carte financial planning is nothing new. Common services that financial advisors might charge clients extra for include:

- Investment management
- Retirement income planning
- Business owner succession planning
- Cash flow planning
- Estate planning
- Education planning
- Income tax preparation
- Business owner services
- Investment tools
- Concierge services

What about fee compression?

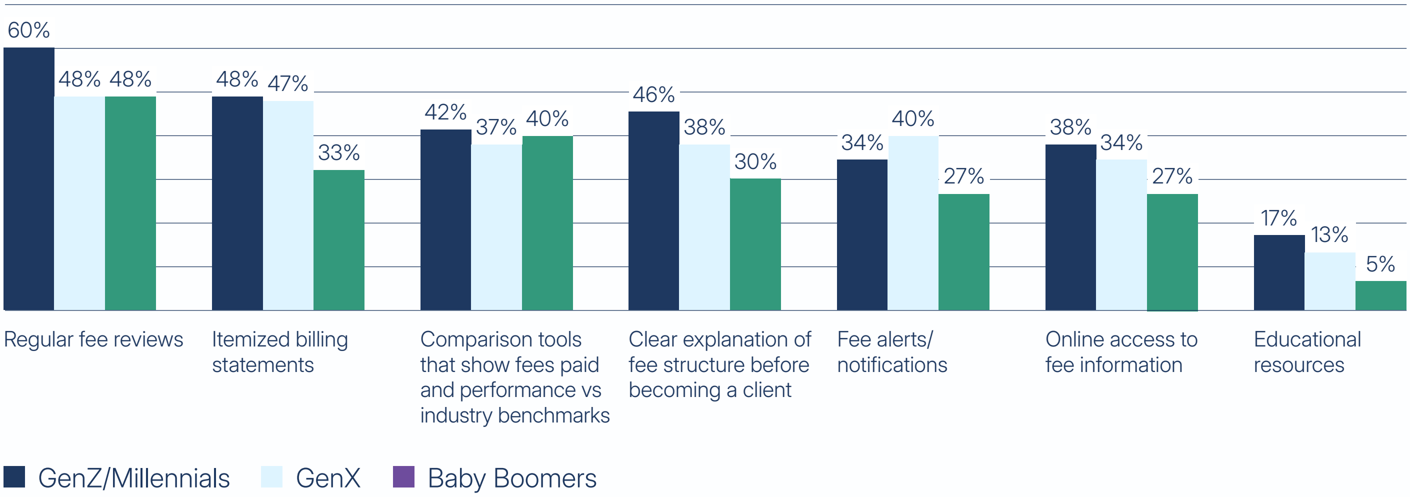
It has become a popular refrain among some commentators in the financial media that the advisory industry continues to experience fee compression. However, most current financial advisors would beg to differ.

While the threat of fee compression has not emerged over the past few years, RIAs have been asked to provide a larger suite of services to account for their pricing models, often at the risk of aggravating profit margins.[7] Envestnet's 2024 State of Financial Planning and Fees: Technology's Impacts survey agrees that the level of financial planning has expanded since the pandemic, with 52 percent of advisors now providing both comprehensive and modular planning—a 9 percent increase since 2020.[2]

Financial plans are critical documents, and more advisors agree that charging for them makes good sense, but there is inconsistency in how and why they charge for the plans. In 2023, only 10 percent of advisors did not charge a fee for a plan, down considerably from 28 percent in 2020. However, 63 percent of advisors only charge for a percentage of the plans they create and update, while 37 percent charge for every plan.[2] The less experienced an advisor is, the less time he or she is likely to spend creating a plan. This could be due to newer advisors being more comfortable using technology to help them create plans or more experienced advisors working with more complex clients that require more financial analysis and time, or a combination of both.

Morningstar's 2024 Advisor Fee study (a sub-study of its Voice of Investor report) surveyed 506 investors currently working with a financial advisor. It found variation between generations in how they compensated their advisors and illuminated potential cracks in the mold. Indeed, inheriting generations may break the cycles of previous advisor fee models. The survey found that over half (54 percent) of investors don't know how much they pay their advisors. Moreover, the younger the investors, the more their views on advisor's fee transparency waned: 30 percent of Baby Boomers thought their advisor's fee transparency did not need to be improved. In comparison, only 11 percent of GenZ/Millennials thought the same.[8]

Inheriting generations have strong opinions about how fee transparency should be improved.[8]



What might cause RIAs to either raise or lower fees over the next few years? Evolving regulations, for one. Envestnet's *2024 State of Financial Planning and Fees: Technology's Impacts* identifies considerable and growing concern from advisors that regulatory requirements will increase costs while also reducing access to quality advice. In 2024, 49 percent of advisors cited regulations as a concern, compared with 44% in 2020.[2]

Assessing your current fee structure

Given the current industry environment, you may want to perform an objective assessment of your fee structure and decide whether you should make any changes or not. First, consider what your current primary fee structure is. You may have one type of fee structure, such as fee-only. Or, like many, you may be using a combination of two or more different revenue models. If so, determine what percentage of your revenue is generated by each different model. This will give you an indication of which model is generating the most income.

Next, assess whether your current fee structure is the most efficient and profitable for you and your clients. Studies continue to show that experienced advisors working with older and wealthier clients are more likely to use the AUM revenue model than less experienced advisors. Yet recent estimates put the average advisor at 56 years old.[9] All said, the higher your AUM, the more profitable the AUM revenue model could be for you.

It may also be wise to do some market research to find out what kinds of fee schedules other financial advisors in your area are using. Compare this to your primary fee structure, keeping in mind differences such as size, experience level, and client demographics.

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