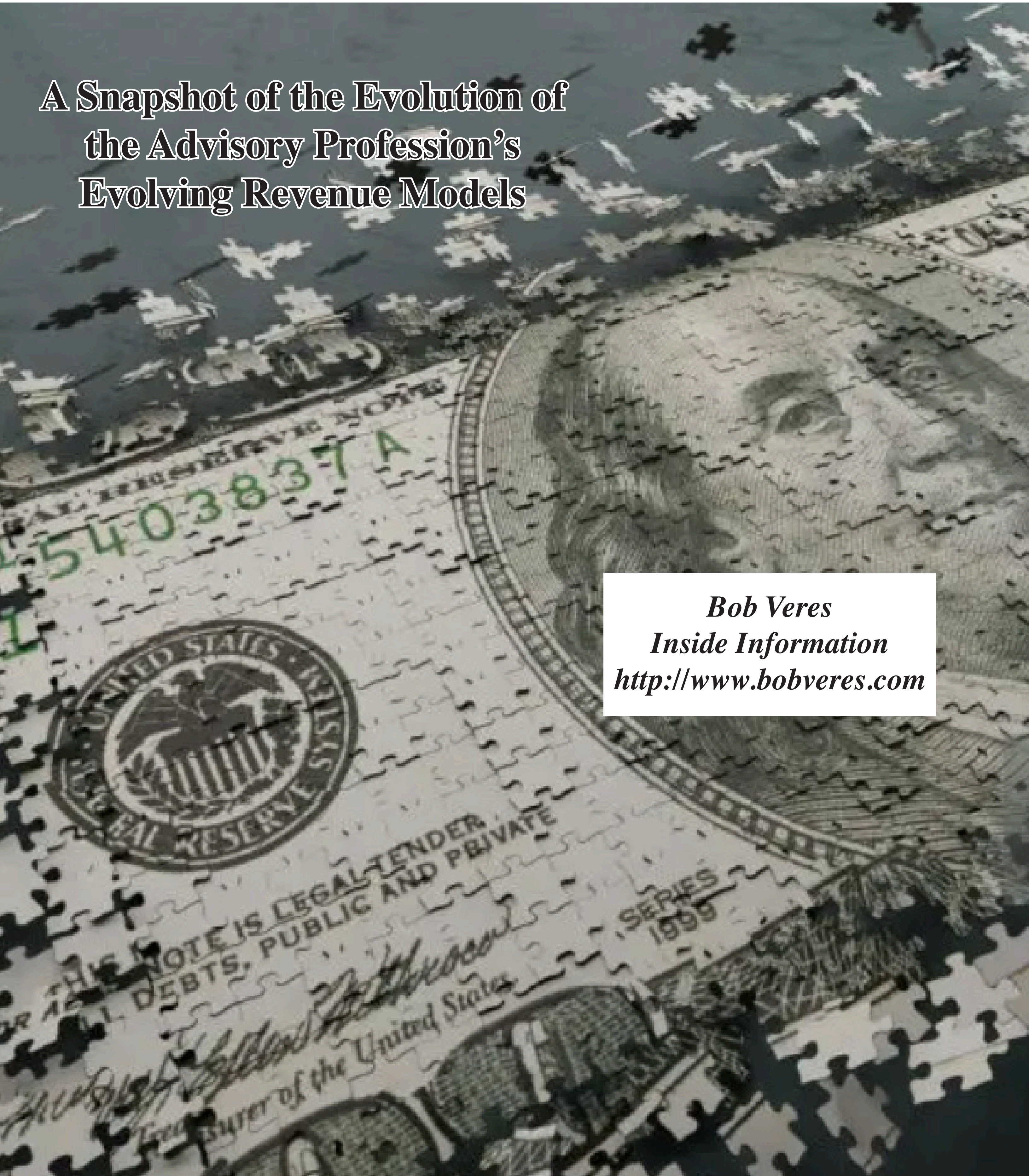
Fees in Motion



A Snapshot of the Evolution of the Advisory Profession's Evolving Revenue Models

Bob Veres
Inside Information
http://www.bobveres.com

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Introduction

The 2024 Inside Information Fee Survey is a followup to a survey conducted right after the Covid pandemic, and is the third in a series. The goal, this time as before, is to create a snapshot of the state of the profession as it relates to how advisory firms are collecting compensation from their clients. Fee models are evolving, and are predicted to change dramatically at some point in the future. Where are we today?

The survey instrument collected data through the month of July and the first two weeks of August, 2024. Invitations were sent out to the *Inside Information* community, to the members of the National Association of Personal Financial Advisors and the Financial Planning Association, and to members of Stephanie Bogan's Limitless Advisor community. The SEI, FP Alpha and Libretto communities also received invitations.

In all, 941 useable responses were collected, containing demographic data on the respondents, and the answers to a variety of questions about how they are--and were--collecting revenues for various advisory services.

As you'll see on the following pages, the questions were numerous and detailed, providing a rich trove of data to evaluate. We asked about up-front planning fees, percentage of revenues attributable to different fee structures, percentage of clients served under different fee structures, why advisors are adopting these alternative models, what advisors believe to be the hourly value of their--and their associates'--time, and the wide spectrum of AUM percentage fees debited from client portfolios of various sizes.

We asked advisors how confident and satisfied they are with their current revenue model, and what challenges they face in implementing it.

On the following pages, you'll see this data presented in charts and occasional graphs. Where appropriate, the data is broken down in deep detail, by firm size and business model, to help advisors at different types of firms get a snapshot of the activities and models of their peers.

I'm personally grateful to the FPA and NAPFA, to SEI, Limitless, FP Alpha and Libretto for their help in getting the word out about the survey. And I want to thank Libretto, Altruist and FP Alpha for their sponsorship of the survey--and for allowing me to make it available to you and the planning profession generally.

I also want to acknowledge and thank Chrstine Gaze of Purpose Consulting Group and Angie Herbers of Herbers & Co. for their advice and insights as this survey was developed.

The following pages offer a number of surprises, insights and--yes--confirmations of what you probably already suspected. I hope it will become a guide to you and to the profession as you evaluate and iterate how you charge for your services in this constantly-evolving professional ecosystem.

Best,

Bob Veres

Inside Information

http://www.bobveres.com

What is *Inside Information?*

It's a monthly series of in-depth articles about all the things you need to know to be a true professional and achieve success in the planning space.

It's the observations and insights of Bob Veres, a 40-year veteran and thought leader in the planning space.

It's your guide to trends and key issues as the advisory profession evolves, giving you the opportunity to benefit from the changes that are constantly taking place in client services, marketing, practice management, investing, technology and... revenue models.

It's the only example of fee-only journalism in the planning profession.

Fee only? 12 issues a year, 16-20 pages of insight, costs $349 for new subscribers, $299 for renewals.

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There is always a money-back guarantee if the service isn't right for you. There's no risk; everysubscription is a trial subscription.

The goal of the publication is to give readers a significant information advantage over non-fiduciary competitors and brokerage firms--

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inside information

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Special to this issue:

***Practice Management**: Have you ever wondered why successful Type A people have such limited success with traditional coaching?* .... page 6

The Profession: *Creating videos is hard for a lot of advisors. Here's a service that makes it easy, and also addresses awkwardness in front of a camera.* ..... page 15

Parting Thoughts: *What's wrong with our information services.* .... page 21

What is the Value of Behavioral Coaching?

Synopsis: ***Here's the first fintech solution to address the largest component of what Morningstar and Vanguard have termed 'Advisor Alpha.'***

Takeaways: ***Not all investors get the same benefit from behavioral coaching. The key is to measure, not just risk tolerance, but the skittishness factor when markets are unstable, and then quantify how that could translate to investor underperformance.***

I'm sure you've all seen research by Morningstar, Vanguard and others trying to quantify what has been termed 'advisor alpha'—which basically means the additional portfolio return that clients can obtain if they hire (and listen to) the various expertises of a financial planner. Morningstar did a pretty comprehensive review of the subject a decade or so ago. More recently, Vanguard has explored the topic, using Morningstar and Vanguard investor data (*https://corporate.vanguard.com/content/dam/corp/articles/pdf/putting_value_on_your_value_quantifying_vanguard_advisors_alpha.pdf*).

I've put the relevant chart up so you can see their (somewhat fuzzy) conclusions on the next page. (My conclusion: *advisors rock!*)

You know the components of Advisor Alpha: getting

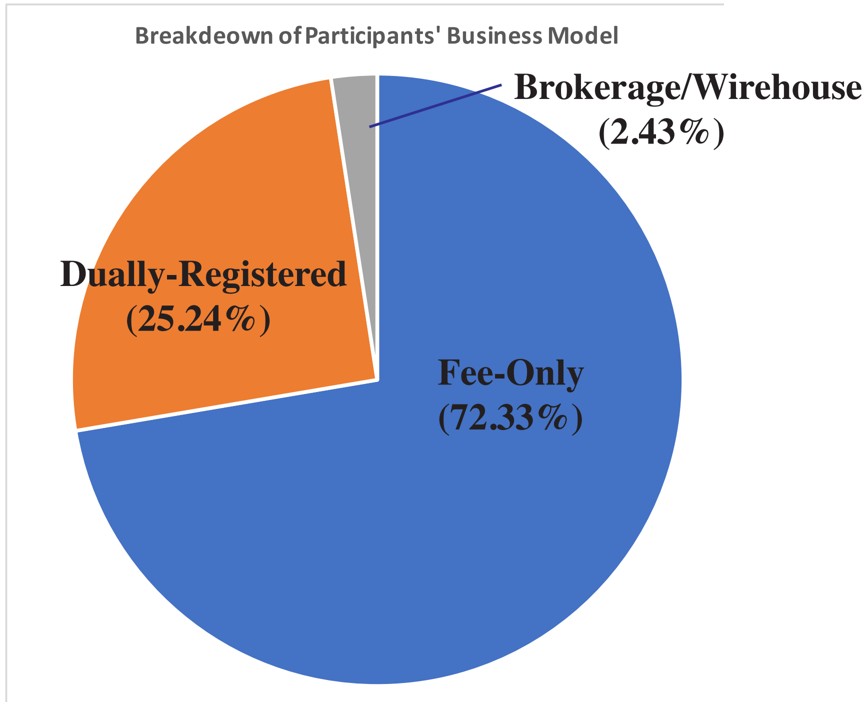
EARLY WARNING

The deadline is just two weeks away; if you haven't already, please take a moment (actually 11 minutes) to fill out the Inside Information Fee Survey, and provide data that will go into a report on revenue model trends in the planning profession. (Link: *https://www.surveymonkey.com/r/22TQ7TM*) Are you in the mainstream, ahead or behind the curve? (Whatever the curve is…)

Also, Insider's Forum conference (http://www.insidersforum.com) program is now complete. The schedule includes an operations staff track, and sessions on how to obtain funding while staying independent, new best practices for creating engaging client experiences, a panel discussion featuring chief talent officers on staff training and internal development. Plus a keynote panel discussion where chief marketing officers share their best advice on organic growth. Plus an advanced cybersecurity presentation and a discussion of outside funding options for advisory firms that want to stay independent.

Inside Information subscribers should use the 24INSIDER discount code on the registration page: *www.insidersforum.com*, and a second attendee from the same firm receives a significant discount.

Survey Respondent Demographics



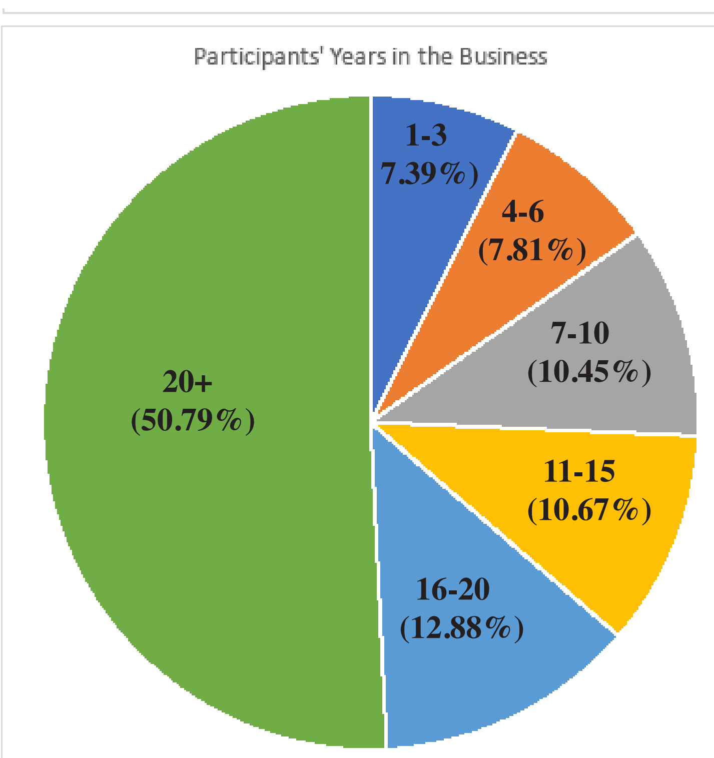
The fee surve you're reading now collected a total of 941 useable responses. We gathered some general information about each of the respondents--their business model, years of experience, and the size of the firms they represented--for two reasons.

First, we wanted to understand whether this data is a fair representative sampling of the advisory profession as a whole. And second (as the reader will see), we wanted to be able correlate various aspects of the data back to this demographic information, to tease out distinctions and trends in the marketplace at large.

The pie chart above shows the revenue models of the survey participants, and the reader will notice that it skews heavily toward fee-only advisors. This may be appropriate for a survey that focuses on fee structures, particularly newer trends in advisor compensation models.

As in our past surveys, a small number of advisors affiliated with brokerage firms chose to participate.

And, as will be evident shortly, the dually-registered (fee plus commission plus other models) advisors tended to be somewhat light on commission compensation; one might fairly describe them as 'nearly fee-only,' in aggregate.

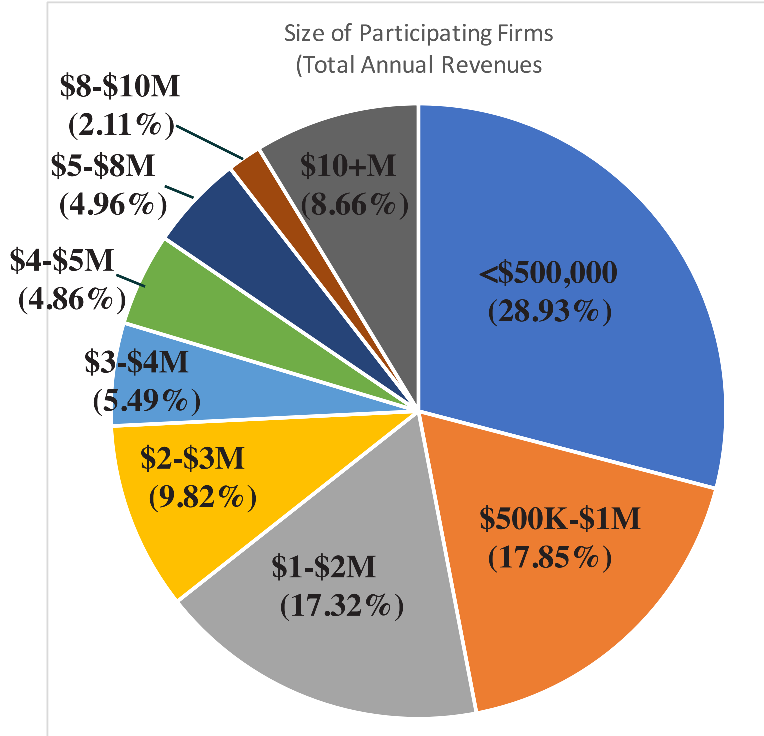


To the left, we see the breakdown in the age of the advisory firms--how long they have been in existence. Once again, we seem to have a reasonable mix of advisors in the marketplace. Roughly half the respondents are working at firms that are 20 or or years old, which probably reflects the demographic of the marketplace at large.

This data will be correlated with different fee models to help us understand whether newer firms are more likely to adopt new fee models than more established enterprises.

Scanning the chart on the right side of this page, we can see that the survey collected data from firms of virtually every size, although the percentage of very small firms in the sample may be higher than in the marketplace at large. Once again (this has been a trend in other surveys) we collected responses from more very large ($10+ million annual revenues) firms than firms in different categories between $2 million and $10 million in top-line revenue.

This data will be used repeatedly as we analyze the responses--looking for revenue model differences among firms of different sizes along the spectrum.



Up-Front Planning Fees

What are advisors charging for the initial financial planning work that begins their relationship with a prospect/client? Is the initial financial plan a loss leader or a revenue source?

The chart below represents the spectrum of responses when we asked whether the respondents' firms charge for the initial planning work. If so, how much do they charge a typical/average client?

The reader might be surprised to see that more than half of all advisors who responded to the survey said that their firm does not charge for the initial financial plan. Fee-only advisory firms were less likely to charge up-front fees than dually-registered firms.

Perhaps not surprisingly, firms that are completely or primarily dependent on an AUM model for their revenues are less likely to charge an up-front fee. Flat-fee (quarterly or subscription-based) firms did not make up a large percentage of the sample, but all of them reported that they don't assess a separate fee for the initial planning work.

Looking further down the chart, we can see that as firms become larger, they become less likely to charge an initial planning fee; indeed, 75% of firms with more than $10 million in revenue reported that they do not assess these fees, compared with roughly 50% of much smaller firms.

Moving across the chart, the most likely response from readers is surprise that other advisors are charging at those rates. One might plausibly argue that any fee under $3,000 represents a loss leader--and that accounts for roughly a fifth of the advisory firms that DO charge planning fees.

We might also surmise that a typically fee in the $3,000 to $7,000 range (17.95% of the sample) would represent fair compensation for the up-front work, and then we notice that a not-trivial number of firms are typically charging more than $10,000 per initial plan.

Fully 2% of the largest firms report charging more than $20,000--and you see somewhat of a fat tail at the lower right end of the chart. The obvious conclusion is that the largest advisory firms either regard the initial financial plan as a loss-leader or a significant profit center.

Does the Firm Charge an Up-Front Fee for the Initial Planning Work?

	No	Less than $1,000	$1,000 - $1,500	$1,500 - $2,000	$2,000 - $2,500	$2,500 - $3,000	$3,000 - $4,000	$4,000 - $5,000	$5,000 - $7,000	$7,000 - $10,000	$10,000 - $15,000	$15,000 - $20,000	>$20,000
All	**55.54%**	**2.75%**	**4.65%**	**4.54%**	**5.39%**	**5.39%**	**7.50%**	**5.91%**	**4.54%**	**2.53%**	**0.53%**	**0.11%**	**0.42%**
Fee-Only	57.96%	1.46%	3.80%	2.92%	4.82%	5.69%	7.01%	6.57%	5.40%	3.07%	0.58%	0.15%	0.29%
Dually-Registered	48.54%	6.69%	7.11%	9.21%	6.69%	4.60%	8.79%	4.60%	2.51%	0.42%	0.42%	0.00%	0.42%
Primarily AUM	62.26%	1.76%	3.88%	3.88%	5.29%	4.41%	7.23%	5.47%	3.35%	2.12%	0.00%	0.18%	0.18%
Primarily Flat Fee	100.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Primarily Hourly	58.33%	0.00%	0.00%	0.00%	0.00%	8.33%	16.67%	0.00%	8.33%	0.00%	0.00%	0.00%	0.00%
Below $500,000	48.18%	3.28%	5.47%	5.47%	5.11%	6.93%	11.68%	6.93%	5.11%	1.82%	0.00%	0.00%	0.00%
$500K-$1M	49.11%	4.73%	7.69%	7.69%	5.92%	2.37%	8.28%	5.33%	5.33%	2.96%	0.00%	0.00%	0.59%
$1-2 Million	55.21%	2.45%	4.91%	3.07%	7.36%	6.75%	6.75%	4.91%	3.68%	4.29%	0.61%	0.00%	0.00%
$2-3 Million	60.22%	3.23%	5.38%	7.53%	3.23%	9.68%	4.30%	2.15%	2.15%	1.08%	1.08%	0.00%	0.00%
$3-4 Million	70.59%	1.96%	0.00%	1.96%	7.84%	1.96%	3.92%	1.96%	3.92%	3.92%	1.96%	0.00%	0.00%
$4-5 Million	58.70%	2.17%	4.35%	0.00%	6.52%	6.52%	2.17%	6.52%	10.87%	0.00%	2.17%	0.00%	0.00%
$5-8 Million	61.70%	0.00%	0.00%	0.00%	4.26%	4.26%	4.26%	12.77%	6.38%	2.13%	2.13%	0.00%	2.13%
$8-10 Million	70.59%	0.00%	0.00%	0.00%	0.00%	0.00%	5.88%	11.76%	5.88%	0.00%	0.00%	5.88%	0.00%
$10+ Million	75.58%	0.00%	0.00%	1.16%	3.49%	2.33%	3.49%	6.98%	1.16%	3.49%	0.00%	0.00%	2.33%

Of those who DO charge planning fees, we asked:

Does your firm raise or lower the initial planning fee based on the complexity of client situations?

The small chart to the right shows that most firms will assess the complexity of client situations when they set the up-front planning fee; a small percentage do not. We included the 'sometimes' optional response to see if there was any (not a technical term) 'squishiness' about this practice--and in a fifth of the firms responding, there was.

The chart below offers the responses to a followup question:

	Yes	No	Sometimes
All	67.24%	13.69%	19.07%

If your firm does charge planning fees, does it offset those fees for clients who decide to have the firm manage their assets?

Overall, more than half of the respondents do not. About 35% do offset in whole or in part, and the percentages are relatively stable across the percentages of firm revenue derived from AUM and across the size spectrum--with the exception of 100% AUM firms, where, perhaps surprisingly, two-thirds of firms do not offset the up-front fees.

Before turning the page, notice the last two columns, which capture, once again, some of that 'squishiness' factor about up-front fees. A consistent 12-20 percent of firms seem to decide whether to offset those up-front fees on a case-by-case basis, perhaps in negotiations with prospects that they want to sign onto long-term AUM relationships.

	Yes, in whole	Yes, in Part	No	Usually	Seldom
All	18.88%	16.45%	51.40%	5.98%	7.29%
100% AUM	24.32%	5.41%	67.57%	2.70%	0.00%
90-100% AUM	23.40%	13.30%	45.74%	7.98%	9.57%
80-90% AUM	12.50%	18.06%	45.83%	11.11%	12.50%
70-80% AUM	12.73%	21.82%	52.73%	7.27%	5.45%
60-70% AUM	8.70%	26.09%	43.48%	8.70%	13.04%
50-60% AUM	27.27%	18.18%	45.45%	4.55%	4.55%
Below $500,000	16.67%	17.95%	48.72%	7.69%	8.97%
$500K-$1M	15.28%	23.61%	50.00%	4.17%	6.94%
$1-2 Million	22.67%	8.00%	56.00%	5.33%	8.00%
$2-3 Million	19.57%	15.22%	47.83%	8.70%	8.70%
$3-4 Million	20.83%	12.50%	54.17%	8.33%	4.17%
$4-5 Million	11.76%	29.41%	41.18%	17.65%	0.00%
$5-8 Million	25.00%	12.50%	41.67%	12.50%	8.33%
$8-10 Million	55.56%	0.00%	44.44%	0.00%	0.00%
$10+ Million	21.88%	6.25%	50.00%	9.38%	12.50%

Revenue From Different Models

The question is pretty straightforward: what percentage of your firm's revenue is derived from each of a number of different fee (and commission) models?

As the reader can see below, the responses are quite nuanced--perhaps surprisingly so. Notice that only 17% of the firms that participated in the survey generate all of their revenues from AUM; roughly 50% report that AUM makes up 90% of their total compensation.

Look to the right, and you see that 10% of a pretty wide sample generates no revenues at all from AUM.

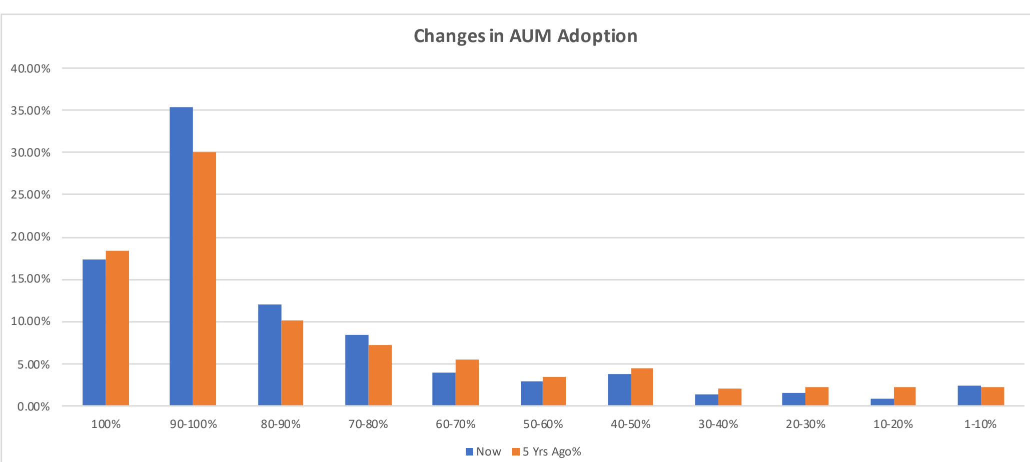
None of the other models listed below make up a high percentage of advisory firm revenues, but the real story unfolds toward the right columns of the chart.

The way to read this chart is that each cell represents the percentage of advisory firms that receive the percentage of revenue in that column for each of the models. So we see that 37% of the responding firms get 1-10% of their revenue from hourly fees for the core planning work, and another 8.5% are generating between 10 and 20 percent. More than 20% of firms generate 1-10 percent of their revenues from, respectively, flat quarterly fees and hourly project fees for add-on services.

These represent accommodations and experiments, and it would appear that most advisory firms (nearly all?) are testing out new fee waters with select clients.

The survey did not uncover a wholesale shift from AUM to some other model; instead it shows that other models are being added incrementally--and if you look down at the bottom part of the chart, you see that this trend was actually well-underway at least five years ago.

Percentage of revenue derived from different revenue models											
	100%	90-100%	80-90%	70-80%	60-70%	50-60%	40-50%	30-40%	20-30%	10-20%	1-10%	0%
AUM	17.33%	35.35%	11.97%	8.44%	3.88%	2.96%	3.76%	1.37%	1.60%	0.80%	2.39%	10.15%
Up-front planning fees	0.62%	0.12%	0.37%	0.49%	0.00%	0.25%	0.87%	0.62%	2.35%	8.53%	37.21%	48.58%
Hourly fees for core planning work	1.65%	0.55%	0.00%	0.18%	0.18%	0.00%	0.18%	0.37%	0.55%	2.56%	24.18%	69.60%
Flat quarterly fees based on the scope of the work	1.31%	2.36%	0.52%	0.66%	0.92%	0.52%	1.31%	1.31%	0.66%	2.10%	11.80%	76.54%
Flat quarterly fees based on client net worth	2.04%	1.63%	0.54%	0.27%	0.54%	0.41%	0.41%	0.14%	0.54%	1.09%	4.62%	87.77%
Subscription (monthly) fees	0.68%	0.54%	0.14%	0.68%	0.27%	0.81%	0.41%	0.95%	1.08%	1.89%	11.91%	80.65%
Hourly/project fees assessed for add-on services	0.00%	0.00%	0.13%	0.00%	0.13%	0.26%	0.53%	0.53%	1.06%	1.85%	22.06%	73.45%
Flat fees for different add-on services	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.27%	1.36%	16.67%	81.71%
Commissions	0.12%	0.37%	0.37%	0.25%	0.25%	0.37%	1.74%	1.61%	2.85%	5.21%	18.98%	67.87%
FIVE YEARS AGO												
AUM	18.44%	30.06%	10.18%	7.19%	5.51%	3.47%	4.43%	2.04%	2.16%	2.28%	2.16%	12.10%
Up-front planning fees	0.53%	0.27%	0.53%	0.27%	0.40%	0.27%	0.40%	1.60%	3.46%	7.98%	32.05%	52.26%
Hourly fees for core planning work	1.79%	0.20%	0.00%	0.40%	0.40%	0.20%	0.00%	0.40%	0.60%	4.18%	22.31%	69.52%
Flat quarterly fees based on the scope of the work	1.64%	0.82%	1.09%	0.41%	0.41%	0.82%	1.23%	0.41%	1.37%	2.60%	9.58%	79.62%
Flat quarterly fees based on client net worth	1.81%	1.53%	0.42%	0.42%	0.28%	0.00%	0.42%	0.42%	0.14%	0.70%	4.87%	89.00%
Subscription (monthly) fees	0.56%	0.42%	0.42%	0.00%	0.14%	0.70%	0.28%	0.56%	0.56%	1.26%	7.29%	87.80%
Hourly/project fees assessed for add-on services	0.00%	0.00%	0.00%	0.28%	0.00%	0.42%	0.28%	0.28%	0.97%	2.64%	20.00%	75.14%
Flat fees for add-on services	0.28%	0.28%	0.14%	0.00%	0.00%	0.00%	0.14%	0.14%	0.42%	0.85%	11.61%	86.12%
Commissions	0.67%	0.27%	0.80%	0.80%	1.34%	1.07%	1.34%	4.55%	5.61%	6.28%	14.30%	62.97%



It's not easy to compare the top and bottom part of the chart, cell-by-cell, so the differences between today and five years ago, for different models, are illustrated in the series of graphs on this and the next page.

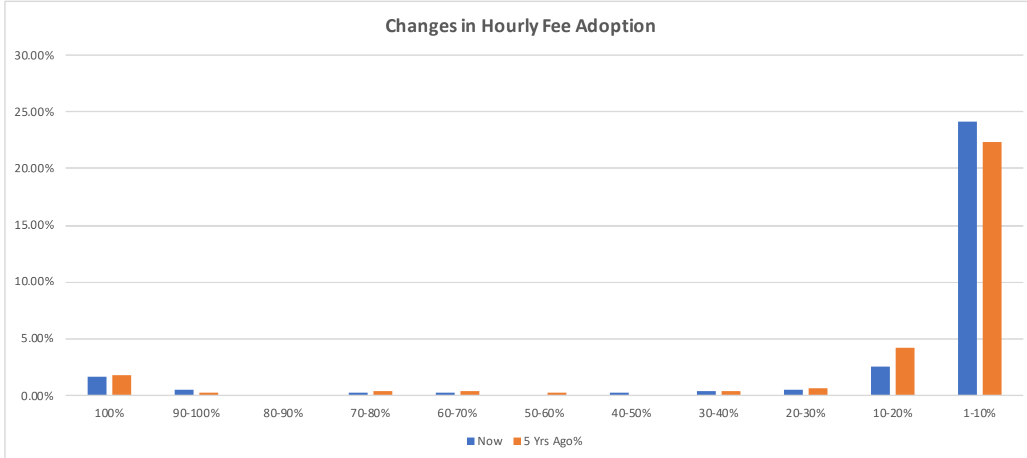
The reader can see that, overall, the level of revenues earned through AUM has changed at most incrementally (see left), with fewer firms at 100% of revenues today than before, but a few more at >90%.

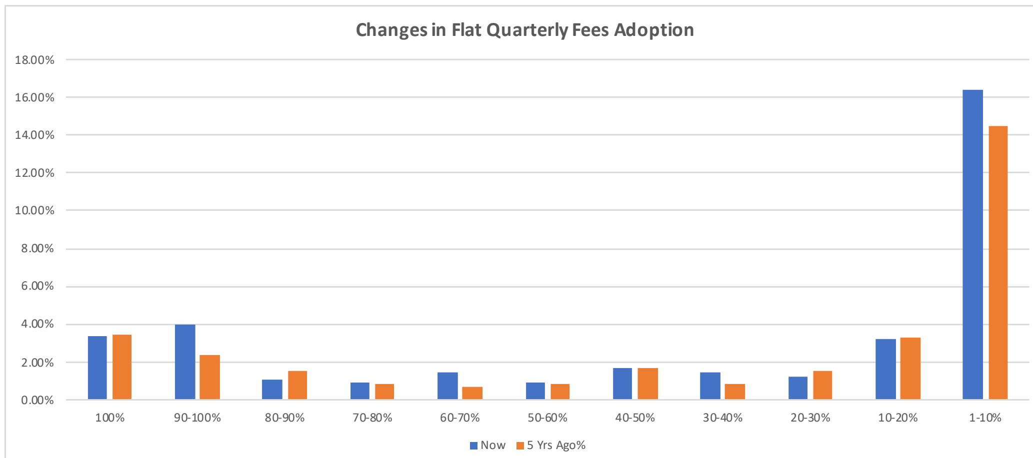
Moving to hourly fees (right), we see the purely hourly firms on the far left side of the graph, and a perhaps surprisingly high number of firms participating incrementally in an hourly revenue model--a few more today than five years ago, but clearly a trend that has been going on for some time.

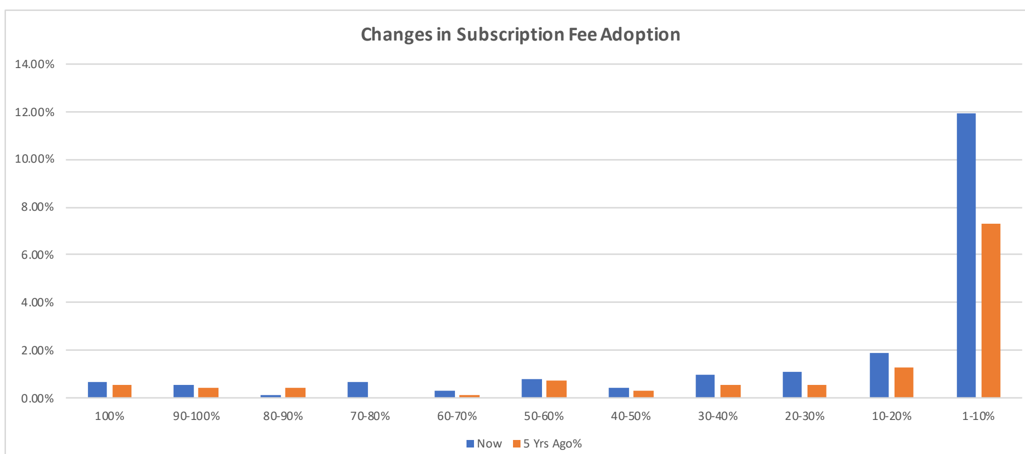
The same is true with quarterly fees as an alternative to AUM. Five years ago, roughly 3.5% of firms were purely charging on a flat quarterly fee basis, and that is still true today. A larger number of firms are now 90% compensated by quarterly fees, and on the far right, we see that an increasing number of firms are incorporating flat fees into their model on what might be an experimental basis.

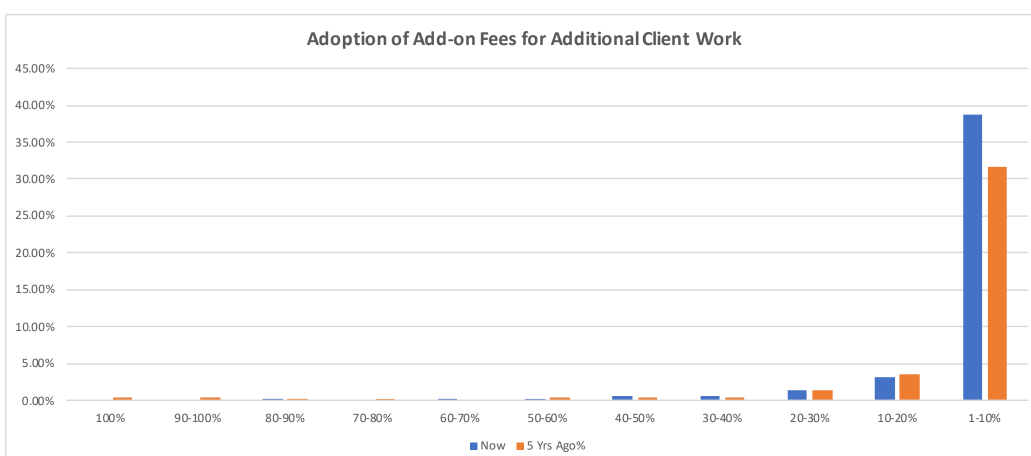
The number of purely/mostly subscription-fee firms is roughly unchanged from five years ago, but the percentage of firms that are testing the waters (so to speak) seems to be growing. Twelve percent of the survey respondents now charge some form of subscription fee, probably as a way to serve younger, less-wealthy clients.

Not surprisingly, very few firms are generating most of their revenues from add-on fees for services above and beyond the core planning engagement. But notice that five years ago, 30% of firms were generating some revenue from this source, and that has now increased to roughly 40%.









Clients Served by Different Models

The charts on this page and the next represent another way to measure the encroachment of a variety of revenue models into the advisor space. Here, we simply asked: *what percentage of your firm's clients are paying some--or all--of your compensation by different fee models?*

The chart below offers the results for the entire sample of respondents. The reader can see that only 23% of responding firms assess an AUM fee on 100% of their clients (surely a change from 10 years ago), and only 60% charge 90+ pecent of their clients via AUM. This is certainly a surprising number; it means that a large plurality of firms in the advisor space are charging a large plurality of their clients under fee structures that are not widely explored or publicized.

Looking down along the left column, one can see that only 4% of advisory firms charge exclusively flat quarterly fees, and another 3% are hourly-only. Smaller percentages are serving 100% of their clients by other means.

Once again, the real story is toward the right, where we see that 35% of the responding firms are charging some of their clients via flat quarterly fees, 27% are charging some clients hourly fees, and anywhere from 5-10% of firms are serving some percentage of their clients via blended arrangements--AUM plus quarterly or subscription or hourly fees.

The bottom part of the chart looks at the percentages of advisory firms that are charging separately for different services that they might regard as above and beyond the core planning engagement--and this is a trend that has clearly not caught on across the profession. Only 2-6% of advisors charge separately for these services, perhaps because they regard them all as part of the core planning service.

Are different size firms more or less likely to bill their clients under these various fee structures? The charts on the next page break down each revenue model's popularity according to firm size. The top, which assesses different size firms' allegiance to the AUM revenue model, shows that, in general, larger firms tend to put most of their eggs in the AUM basket, while almost a quarter of the smallest firms don't charge AUM at all.

Note that the top two charts break down the percentages by percent of revenues, while the bottom three look at percentage of clients served. Depending on size, between 20% and 35% of advisory firms derive some revenue (and serve some clients) under a flat quarterly fee structure. Eleven to fifteen percent of firms are serving some clients via a blended quartly fee/AUM model, and a similar percentage are blending subscription fees with AUM. The exception is the smallest firms; 31% of them charge some clients via subscription, and about 4% seem to be mostly subscription-based.

At the bottom, nearly 9% of the smallest firms are serving 100% of their clients via hourly fees, but interestingly, looking down the 100% column, the survey picks up some fairly large purely-hourly firms as well.

Meanwhile, the largest firms seem to be serving the fewest clients on an hourly basis.

What percentage of your clients would you estimate are charged…	100%	90-100%	80-90%	70-80%	60-70%	50-60%	40-50%	30-40%	20-30%	10-20%	1-10%	0%
AUM only	22.90%	29.83%	8.54%	4.46%	2.85%	3.47%	2.97%	2.35%	3.59%	2.85%	3.47%	12.75%
Flat quarterly fees only (however based)	4.12%	2.75%	1.24%	0.41%	0.96%	1.10%	1.65%	0.41%	2.88%	2.88%	16.07%	65.52%
Hourly only	3.19%	0.21%	0.21%	0.43%	0.43%	0.21%	0.43%	0.43%	0.64%	1.70%	18.72%	73.40%
AUM + commissions	1.81%	1.66%	0.60%	1.66%	0.91%	1.21%	1.06%	1.66%	3.93%	3.02%	13.90%	68.58%
Flat quarterly fees for planning, AUM for asset management	1.26%	0.98%	0.84%	0.42%	0.42%	0.42%	0.70%	0.70%	0.98%	0.70%	6.32%	86.24%
Flat monthly subscription fees only (however based)	1.00%	0.86%	0.14%	0.29%	0.43%	0.29%	0.57%	0.57%	0.57%	1.43%	9.16%	84.69%
Flat quarterly fees above AUM for higher scope of work	0.44%	0.00%	0.00%	0.15%	0.00%	0.15%	0.15%	0.00%	0.44%	1.03%	3.67%	93.99%
Commissions only	0.28%	0.41%	0.28%	0.28%	0.28%	0.55%	0.55%	1.24%	2.06%	2.89%	13.34%	77.85%
Quarterly fees for base planning + hourly fees for add-on services	0.15%	0.00%	0.00%	0.29%	0.00%	0.00%	0.29%	0.00%	0.15%	0.00%	1.90%	97.22%
Flat monthly subscription fees for planning + hourly fees for add-on services	0.15%	0.29%	0.00%	0.00%	0.00%	0.00%	0.00%	0.15%	0.00%	0.29%	2.32%	96.81%
AUM for base planning + hourly fees for additional services	0.14%	0.14%	0.43%	0.00%	0.29%	0.43%	0.14%	0.14%	0.14%	1.01%	5.77%	91.34%
Monthly subscription fees for planning, AUM asset management	0.14%	0.00%	0.00%	0.43%	0.14%	0.14%	0.86%	0.43%	1.15%	1.15%	4.17%	91.38%
Add-on fees												
Flat fees above AUM for tax planning	0.29%	0.00%	0.15%	0.00%	0.15%	0.15%	0.15%	0.00%	0.44%	0.29%	3.94%	94.46%
Flat fees above AUM for estate planning	0.15%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.15%	0.15%	0.00%	3.95%	95.61%
Flat fees above AUM for retirement planning	0.15%	0.00%	0.00%	0.00%	0.00%	0.15%	0.00%	0.44%	0.44%	0.15%	3.80%	94.88%
Flat fees above AUM for tax preparation	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.15%	0.44%	2.66%	96.75%
Flat fees above AUM for insurance planning	0.00%	0.00%	0.00%	0.00%	0.00%	0.15%	0.00%	0.00%	0.15%	0.00%	1.62%	98.09%
Flat fees above AUM for education planning	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.15%	0.00%	0.88%	98.97%

AUM only (percent of revenue)												
Firm revenues	**100%**	**90-100%**	**80-90%**	**70-80%**	**60-70%**	**50-60%**	**40-50%**	**30-40%**	**20-30%**	**10-20%**	**1-10%**	**0%**
<$500K	13.01%	15.85%	10.16%	10.16%	4.07%	4.47%	6.10%	2.03%	3.66%	2.03%	4.07%	24.39%
$500K-$1M	17.28%	35.19%	14.20%	8.64%	5.56%	3.70%	4.32%	1.23%	1.85%	0.00%	1.85%	6.17%
$1-2M	14.29%	45.45%	11.69%	5.19%	3.90%	3.25%	4.55%	0.65%	0.65%	1.30%	2.60%	6.49%
$2=3M	26.44%	36.78%	12.64%	12.64%	3.45%	1.15%	1.15%	0.00%	0.00%	0.00%	1.15%	4.60%
$3-4M	13.04%	60.87%	10.87%	6.52%	4.35%	0.00%	0.00%	2.17%	0.00%	0.00%	2.17%	0.00%
$4-5M	31.82%	38.64%	6.82%	6.82%	2.27%	2.27%	2.27%	0.00%	0.00%	0.00%	0.00%	9.09%
$5-8M	21.28%	51.06%	12.77%	8.51%	0.00%	0.00%	2.13%	2.13%	0.00%	0.00%	2.13%	0.00%
$8-10M	11.76%	35.29%	23.53%	5.88%	0.00%	5.88%	0.00%	5.88%	11.76%	0.00%	0.00%	0.00%
>$10M	22.97%	50.00%	13.51%	6.76%	2.70%	2.70%	1.35%	0.00%	0.00%	0.00%	0.00%	0.00%

Flat Quarterly fees only (percent of revenues)												
Firm revenues	**100%**	**90-100%**	**80-90%**	**70-80%**	**60-70%**	**50-60%**	**40-50%**	**30-40%**	**20-30%**	**10-20%**	**1-10%**	**0%**
<$500K	4.17%	6.48%	2.78%	1.39%	2.31%	1.39%	2.31%	0.46%	0.93%	4.17%	7.41%	66.20%
$500K-$1M	2.88%	4.32%	0.72%	0.72%	0.00%	0.00%	2.88%	2.16%	0.72%	2.88%	16.55%	66.19%
$1-2M	2.99%	3.73%	1.49%	0.00%	0.75%	1.49%	0.00%	1.49%	0.75%	2.24%	13.43%	71.64%
$2=3M	2.50%	2.50%	0.00%	0.00%	0.00%	1.25%	1.25%	3.75%	1.25%	6.25%	8.75%	72.50%
$3-4M	0.00%	0.00%	0.00%	0.00%	2.33%	0.00%	0.00%	2.33%	0.00%	0.00%	18.60%	76.74%
$4-5M	0.00%	2.50%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	2.50%	5.00%	10.00%	80.00%
$5-8M	0.00%	0.00%	0.00%	2.22%	2.22%	0.00%	2.22%	0.00%	2.22%	0.00%	20.00%	71.11%
$8-10M	0.00%	0.00%	0.00%	0.00%	6.67%	0.00%	0.00%	0.00%	0.00%	0.00%	26.67%	66.67%
>$10M	2.78%	0.00%	0.00%	0.00%	0.00%	0.00%	1.39%	0.00%	0.00%	2.78%	22.22%	70.83%

Flat quarterly fees for planning, AUM for managing client assets (percent of clients served)												
Firm revenues	**100%**	**90-100%**	**80-90%**	**70-80%**	**60-70%**	**50-60%**	**40-50%**	**30-40%**	**20-30%**	**10-20%**	**1-10%**	**0%**
<$500K	2.07%	1.55%	0.52%	0.52%	0.52%	0.52%	0.52%	0.52%	0.00%	0.00%	4.15%	89.12%
$500K-$1M	0.75%	0.75%	1.49%	0.00%	0.00%	0.00%	0.75%	0.75%	1.49%	0.75%	4.48%	88.81%
$1-2M	0.83%	1.67%	0.00%	0.83%	0.00%	0.00%	0.83%	0.83%	0.83%	0.83%	7.50%	85.83%
$2=3M	0.00%	1.45%	0.00%	0.00%	1.45%	1.45%	2.90%	0.00%	1.45%	1.45%	4.35%	85.51%
$3-4M	0.00%	2.50%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	12.50%	85.00%
$4-5M	0.00%	0.00%	2.56%	0.00%	0.00%	0.00%	0.00%	0.00%	2.56%	0.00%	2.56%	92.31%
$5-8M	0.00%	0.00%	0.00%	0.00%	0.00%	2.38%	0.00%	2.38%	2.38%	4.76%	7.14%	80.95%
$8-10M	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	7.14%	92.86%
>$10M	3.28%	0.00%	1.64%	1.64%	0.00%	0.00%	0.00%	0.00%	1.64%	0.00%	14.75%	77.05%

Subscription fees only (percent of clients served)												
Firm revenues	**100%**	**90-100%**	**80-90%**	**70-80%**	**60-70%**	**50-60%**	**40-50%**	**30-40%**	**20-30%**	**10-20%**	**1-10%**	**0%**
<$500K	1.95%	1.95%	0.49%	1.95%	0.98%	1.95%	0.98%	2.93%	1.46%	2.93%	13.17%	69.27%
$500K-$1M	0.00%	0.00%	0.00%	0.76%	0.00%	0.76%	0.76%	0.00%	1.52%	2.27%	13.64%	80.30%
$1-2M	0.00%	0.00%	0.00%	0.00%	0.00%	0.80%	1.60%	0.80%	0.80%	1.60%	11.20%	83.20%
$2=3M	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	4.11%	13.70%	82.19%
$3-4M	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	7.32%	92.68%
$4-5M	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	12.20%	87.80%
$5-8M	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	2.44%	0.00%	9.76%	87.80%
$8-10M	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	21.43%	78.57%
>$10M	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	1.54%	6.15%	92.31%

Hourly fees only (percent of clients served)												
Firm revenues	**100%**	**90-100%**	**80-90%**	**70-80%**	**60-70%**	**50-60%**	**40-50%**	**30-40%**	**20-30%**	**10-20%**	**1-10%**	**0%**
<$500K	8.96%	0.00%	0.00%	0.75%	0.75%	0.00%	0.75%	0.75%	2.24%	4.48%	20.90%	60.45%
$500K-$1M	0.00%	0.00%	1.05%	1.05%	0.00%	1.05%	0.00%	0.00%	0.00%	2.11%	22.11%	72.63%
$1-2M	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	1.41%	0.00%	0.00%	19.72%	78.87%
$2=3M	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	2.33%	0.00%	0.00%	0.00%	18.60%	79.07%
$3-4M	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	38.10%	61.90%
$4-5M	3.70%	3.70%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	14.81%	77.78%
$5-8M	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	3.70%	96.30%
$8-10M	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	22.22%	77.78%
>$10M	5.26%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	5.26%	89.47%

Different Models Adopted by Yrs. in Business

These charts below and on the following page break down the percentage of a firm's total revenue by age of firm. The hypothesis is that younger firms will be more likely to embrace different models than firms that have been in existence for 15, 20 or more years.

The data does indeed suggest that younger firms operate under more diverse fee models than older ones. In the upper chart at the bottom of this page (left column), we can see that more than 27% of advisory firms generate zero percent of their revenues from AUM, while only 5.5% of the oldest firms eschew AUM entirely. But looking at the right column, the number of AUM-only firms seems to be about evenly split across firms of all ages.

The columns in between are a bit of a muddle, but the center of gravity is clearly on the right side of the graph; most firms generate most of their revenues from AUM, even if the percentages tend to be lower for younger firms.

The takeaway from the next chart, where we compared the commission revenue of advisory firms of different ages, is that commissions have become a niche revenue source in the profession, not unlike subscription fees. In fact, more advisory firms (see third chart on the next page) have adopted monthly subscriptions as a revenue source than the number of firms that get some revenue from commissions. Very few firms are earning more than 10% of their revenues from commissions.

If nothing else, this demonstrates that, over time, the profession is fully capable of making a wholesale shift from one revenue model to another. The same chart in the 1990s would have reversed the two charts on this page; commissions would have dominated, and AUM fees would have represented a niche, experimental revenue model.

The top graph on the next page lists percent of revenue from hourly fees, and we note that some of the larger firms in the space (right columns) are hourly-only or mostly hourly, suggesting that, despite being in the minority, firms that charge by the hour can be viable and even grow to significant size.

Note that younger firms are more likely to participage in an hourly model. However, the left column indicates that hourly is part of the fee structure of a fifth to a third of larger firms as well.

The right column of the next graph indicates that a small but not insignificant number of firms are 100% relying on flat quartery fee billing, and this is true for firms of all ages. The right-hand column of the third graph indicates that a higher percentage of younger firms are largely subscription-based; the percentages go down as firms get older. Even so, a consistent 10-15% of firms across the size spectrum are charging some clients via this model.

AUM - % of total revenue

Yrs. In Bus.	0%	1-10%	10-20%	20-30%	30-40%	40-50%	50-60%	60-70%	70-80%	80-90%	90-100%	100%
1-3 Yrs.	27.42%	0.00%	1.61%	3.23%	0.00%	8.06%	4.84%	6.45%	3.23%	4.84%	20.97%	19.35%
4-6 Yrs.	19.12%	5.88%	0.00%	4.41%	2.94%	2.94%	2.94%	5.88%	10.29%	13.24%	19.12%	13.24%
7-10 Yrs.	10.00%	3.33%	0.00%	1.11%	1.11%	7.78%	3.33%	6.67%	14.44%	17.78%	20.00%	14.44%
11-15 Yrs.	14.74%	3.16%	0.00%	3.16%	1.05%	4.21%	5.26%	2.11%	5.26%	15.79%	30.53%	14.74%
16-20 Yrs.	9.91%	0.00%	1.80%	0.90%	3.60%	2.70%	2.70%	2.70%	4.50%	13.51%	33.33%	24.32%
20+ Yrs	5.54%	2.44%	0.89%	0.89%	0.89%	2.66%	2.22%	3.33%	9.31%	10.42%	44.35%	17.07%

Commissions - % of total revenue

Yrs. In Bus.	0%	1-10%	10-20%	20-30%	30-40%	40-50%	50-60%	60-70%	70-80%	80-90%	90-100%	100%
1-3 Yrs.	79.66%	13.56%	1.69%	0.00%	1.69%	0.00%	0.00%	1.69%	1.69%	0.00%	0.00%	0.00%
4-6 Yrs.	82.76%	10.34%	1.72%	0.00%	0.00%	1.72%	0.00%	0.00%	0.00%	1.72%	1.72%	0.00%
7-10 Yrs.	67.90%	13.58%	12.35%	2.47%	0.00%	3.70%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
11-15 Yrs.	73.33%	18.89%	1.11%	1.11%	2.22%	1.11%	2.22%	0.00%	0.00%	0.00%	0.00%	0.00%
16-20 Yrs.	70.59%	14.71%	7.84%	0.98%	2.94%	1.96%	0.00%	0.00%	0.00%	0.00%	0.98%	0.00%
20+ Yrs	62.26%	23.08%	5.05%	4.57%	1.68%	1.68%	0.24%	0.24%	0.24%	0.48%	0.24%	0.24%

Hourly Fees - % of total revenue												
Yrs. In Bus.	**0%**	**1-10%**	**10-20%**	**20-30%**	**30-40%**	**40-50%**	**50-60%**	**60-70%**	**70-80%**	**80-90%**	**90-100%**	**100%**
1-3 Yrs.	57.14%	23.81%	11.90%	0.00%	0.00%	2.38%	0.00%	0.00%	2.38%	0.00%	2.38%	0.00%
4-6 Yrs.	78.43%	13.73%	5.88%	1.96%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
7-10 Yrs.	61.11%	38.89%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
11-15 Yrs.	67.19%	21.88%	3.13%	1.56%	0.00%	0.00%	0.00%	1.56%	0.00%	0.00%	1.56%	3.13%
16-20 Yrs.	66.20%	28.17%	0.00%	1.41%	1.41%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	2.82%
20+ Yrs	73.66%	22.90%	1.53%	0.00%	0.38%	0.00%	0.00%	0.00%	0.00%	0.00%	0.38%	1.15%

Flat (Quarterly) Fees - % of total revenue												
Yrs. In Bus.	**0%**	**1-10%**	**10-20%**	**20-30%**	**30-40%**	**40-50%**	**50-60%**	**60-70%**	**70-80%**	**80-90%**	**90-100%**	**100%**
1-3 Yrs.	75.93%	5.56%	5.56%	0.00%	1.85%	1.85%	1.85%	0.00%	1.85%	1.85%	1.85%	1.85%
4-6 Yrs.	59.02%	11.48%	6.56%	1.64%	3.28%	1.64%	3.28%	1.64%	1.64%	3.28%	3.28%	3.28%
7-10 Yrs.	65.82%	15.19%	2.53%	1.27%	1.27%	0.00%	1.27%	1.27%	1.27%	1.27%	6.33%	2.53%
11-15 Yrs.	62.22%	15.56%	3.33%	0.00%	1.11%	2.22%	2.22%	0.00%	0.00%	0.00%	5.56%	7.78%
16-20 Yrs.	74.49%	10.20%	3.06%	2.04%	0.00%	1.02%	1.02%	2.04%	1.02%	1.02%	3.06%	1.02%
20+ Yrs	70.72%	14.89%	2.23%	0.99%	1.49%	1.74%	0.00%	1.49%	0.50%	0.74%	2.98%	2.23%

Subscription (Monthly) Fees - % of total revenue												
Yrs. In Bus.	**0%**	**1-10%**	**10-20%**	**20-30%**	**30-40%**	**40-50%**	**50-60%**	**60-70%**	**70-80%**	**80-90%**	**90-100%**	**100%**
1-3 Yrs.	62.50%	12.50%	7.14%	1.79%	5.36%	0.00%	3.57%	1.79%	0.00%	0.00%	3.57%	1.79%
4-6 Yrs.	67.31%	17.31%	0.00%	0.00%	3.85%	0.00%	3.85%	1.92%	1.92%	0.00%	1.92%	1.92%
7-10 Yrs.	72.73%	14.29%	5.19%	1.30%	0.00%	1.30%	1.30%	0.00%	1.30%	0.00%	0.00%	2.60%
11-15 Yrs.	80.72%	9.64%	0.00%	2.41%	1.20%	1.20%	1.20%	0.00%	1.20%	0.00%	0.00%	2.41%
16-20 Yrs.	84.21%	12.63%	1.05%	2.11%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
20+ Yrs	85.90%	10.90%	1.33%	0.53%	0.27%	0.27%	0.00%	0.00%	0.27%	0.00%	0.27%	0.27%

Overall, the reader is likely to find the charts above and on the previous page to be a bit messy and confusing. The chart below was created to cut through some of the clutter, and show the percenage of firms, of different ages, that are participating at least incrementally in the various revenue models. The first column indicates that most firms charge AUM fees (no surprise), and the percentage goes up as firms get older. Newer firms are more likely to charge hourly and via subscriptions than their older cohorts, but there is significant participation in all models by all cohorts, with one notable exception: the older and more established the firm, the less likely they are to use a subscription-based model with any clients.

At this juncture, no one model seems likely to replace AUM, but some contenders are emerging. The marketplace is testing the alternatives.

% of Firms Participating in Various Revenue Models				
Yrs. In Bus.	**AUM**	**Hourly**	**Quarterly**	**Subsc.**
1-3 Yrs.	72.58%	42.86%	24.07%	37.50%
4-6 Yrs.	80.88%	21.57%	40.98%	32.69%
7-10 Yrs.	90.00%	38.89%	34.18%	27.27%
11-15 Yrs.	85.36%	32.81%	37.78%	19.28%
16-20 Yrs.	90.09%	33.80%	25.51%	15.79%
20+ Yrs	94.46%	26.34%	29.28%	14.10%

Reasons for Different Models

If advisory firms are instituting a variety of nontraditional fee models (however cautiously), then it seems natural to ask about their reasons for doing so.

The chart below includes the specific proposed reasons the survey asked about, and the responses. Three-quarters of the respondents said they have instituted these non-AUM models as a way to profitably serve less-wealthy clients.

No real surprise there, but notice that a third of them (more than one answer was permitted) said that their wealthiest clients preferred to pay non-AUM fees. Another 10% each said that they were looking for ways to serve family members of wealthy clients, and business owners whose net worth was primarily tied up in the business rather than in liquid assets. Another roughly 9% were looking for a way to recoup the additional servicing costs of clients who require more work beyond core planning and asset management services.

The second chart (below) asks why advisory firms might want to introduce different models in the future, and the answers were roughly--but, interestingly-- in a different order. Almost 20% of respondents are looking for a way to charge their clients for the additional services they're asking for, and there seems to be some interest in profitably serving business owner clients outside of AUM.

If you use different revenue models for different clients (i.e. AUM vs. flat fee or hourly), is this because:	
74.69%	Need a different model to profitably serve younger clients and/or those who don't meet AUM minimums.
35.15%	Wealthiest clients prefer a flat monthly or quarterly fee structure.
10.88%	Trying to profitably serve unwealthy family members of existing clients.
10.46%	Serving business owners who don't meet typical minimum AUM requirements.
8.79%	Need to recoup the additional servicing cost of more time-consuming client issues.

If you plan to introduce different revenue models for different clients (i.e. AUM vs. flat fee or hourly), is this because…	
55.73%	Need a different model to serve unwealthy or younger clients
18.23%	Need to recoup the additional servicing cost of more time-consuming client issues
15.10%	Serving business owners who don't meet typical minimum AUM requirements
11.98%	Wealthiest clients prefer a flat monthly or quarterly fee structure
9.90%	Trying to profitably serve unwealthy family members of existing clients

We can hypothesize that firms of different sizes have different reasons for adopting a different model--that, for example, some larger firms are discovering that their wealthiest clients prefer some kind of non-AUM model, or are trying to find a way to break even when they service the unwealthy children of their best clients.

The chart below correlates firm size with the responses to this question, and it appears that the most common reason across all size firms is to find a model that makes it possible to serve the blue ocean of people who don't meet AUM minimums. (*See first column, below*.)

Toward the bottom of the second column, we see some confirmation of our hypothesis that wealthy clients are asking for non-AUM pricing. And, (fourth column) we see that serving children of clients is a not-insignificant driver of alternative fee models.

Recouping the cost of addressing time-consuming client issues and finding ways to serve business owners might actually be redundant issues; a number of firms answered yes to both.

Reason for adding a different (non-AUM) model					
Firm revenues	Need a different model to serve unwealthy or younger clients	Wealthiest clients prefer a flat monthly or quarterly fee structure	Need to recoup the additional servicing cost of time-consuming client issues	Trying to profitably serve unwealthy family members of existing clients	Serving bus.owners who don't meet typical minimum AUM requirements
<$500K	55.56%	15.56%	28.89%	13.33%	22.22%
$500K-$1M	63.27%	22.45%	18.37%	16.33%	10.20%
$1-2M	65.63%	12.50%	18.75%	12.50%	15.63%
$2-3M	46.15%	7.69%	38.46%	7.69%	0.00%
$3-4M	60.00%	26.67%	0.00%	20.00%	6.67%
$4-5M	37.50%	0.00%	12.50%	25.00%	25.00%
$5-8M	28.57%	0.00%	42.86%	0.00%	28.57%
$8-10M	71.43%	14.29%	0.00%	42.86%	0.00%
>$10M	68.75%	12.50%	18.75%	18.75%	12.50%

We didn't want to confine the respondents to our suggested reasons, so there was an open field where they could enter their own answers. The most prominent of these are listed below in no particular order.

The list includes services outside the normal planning scope (divorce and stock option planning), and demand from younger clients for a flat-fee billing arrangement.

One of the more interesting responses, at the bottom, is how some advisors are having to accommodate the fee structures of their inorganic acquisitions.

Hourly only for divorce work. All else is flat fee.
Large retirement plan consulting clients typically desire flat fees
Legacy billing from acquisitions
Similar to E), we serve people with equity compensation (stock options, RSUs) that are not yet vested.
Some clients manage their own investments but want an occasional professional check in
Trying to profitably serve client who don't want AUM but flat hourly only
Younger clients are aggretated at the AUM breakpoint of their wealthier parents / grandparents.
not every client wants planning services, they may just want AUM services or only want planning services
I have so many legacy clients that I sold VA or A shares 5-25 years ago and I don't feel AUM fees are in their best interest
Purchased other practices that charged differently and kept it

Converting for Core Planning

As a check and balance on some of the earlier data, we asked respondents directly whether they have made a wholesale conversion of their revenue model. The answer, consistant with the earlier charts, seems to be (for the most part) no; that is, the profession is not witnessing a significant shift in how advisors charge their clients for the core planning services they provide. The author of this report and others have predicted such a shift, but there is little evidence of it (so far?) in the data here.

But... nearly 15% of the respondents did make some kind of global shift--and we tried to capture the reasons by offering check-the-box options.

In the past five years, has your firm converted (primarily or completely) how you charge for your core planning services to a different revenue model?	
86.70%	No
9.29%	Converted from AUM to a revenue model not specified here
3.10%	Converted from AUM to primarily/exclusively flat quarterly fees based on complexity or net worth
0.55%	Converted from AUM to primarily/exclusively monthly subscription fees
0.36%	Converted from AUM to primarily/exclusively hourly fees

Almost 10% of the respondents have converted from AUM to... something different from our suggested answers. An open-ended write-in field asked for more details, and some of the responses are listed below. These response don't seem to reflect any wholesale shifts, but they do indicate that there are services that advisory firms have not traditionally charged for.

Considering 1) a more detailed complexity calculation for the monthly fee, 2) a flat fee + smaller AUM, or 3) sliding scale of flat fee
Fee for private investments sourced and vetted.
Flat fee for estate settlement when a client passes.
I will make adjustments if there is market demand.
Possibly flat fees for family meeting facilitation.

How are Advisors Calculating Fixed Fees?

One question that comes up in conference hallway conversations is how advisory firms determine their flat fees. AUM is pretty straightforward. Is there a comparably straightforward way to calculate what the quarterly or subscription fee should be? (*see chart, right.)*

Apparently not. The great majority of firms that charge quarterly or on a subscription basis will assess the scope of the engagement before they quote a fee--which is a nontrivial exercise. A smaller number have opted for simple mathematical calculations--although the net worth calculation is seldom as simple as it might seem.

These answers are interesting for two reasons. First, one of the most persistent objections to flat quarterly or subscription models is that they are really "AUM in drag;" that is, advisors are simply transferring the same fee they would normally earn from AUM to these other models. These responses suggest that, for the most part, that is not actually true in the advisor ecosystem.

The second interesting factor to note is that if advisors are assessing their fees based on client complexity or the anticipated scope of the engagement, this requires a great deal more thought and sophistication than the simpler division problem of calculating an AUM fee. The fact that advisory firms have to master the complexity of matching fees to client situations has probably retarded adoption of alternative revenue models.

However, it's fair to wonder whether the advisory profession, like all professions, will eventually need to gain this skillset, and as it does, whether these models will become more mainstream.

If you charge flat quarterly or subscription fees for planning services, what is the fee based on?

78.47%	Complexity/scope of the work
11.99%	Investment assets
6.54%	Total net worth
3.00%	Net or gross income

Finally, a simple question *(see below)*: Do advisors charge flat quarterly or subscription fees as a way to nurture clients to an AUM arrangement? About half believe flat fees are a permanent arrangement, the other half sees them as a gateway to AUM.

Do you believe that a monthly subscription or quarterly flat fee revenue model is primarily a gateway to nurturing unwealthy clients toward an AUM relationship?

46.37%	Yes
53.63%	No

Value Per Hour - Lead Planners

What is your time worth? It's a pretty basic question, but for many advisors, it's never been top-of-mind to address. The small number of hourly planning firms have to know this value down to the penny, but it's probably fair to say that most advisors haven't given the issue a great deal of thought.

This is amply reflected in the chart at the right, where advisors offered their estimate of the hourly value of a lead planner. You can see that their estimates are, in the vernacular, 'all over the lot.'

The estimates tended to cluster at round numbers, the most popular responses being $300 an hour, $400 an hour (which was the median) and $500 an hour. One might wonder about the advisors (fortunately not many) who believe that their lead planners would, if they charged this way, be billed out at less than $100 an hour, and a handful of respondents believe their lead planners are worth $1,000 an hour, comparable with the principals at some of the larger national law firms. (Who are we to argue?)

This is a repeat question from our 2020 survey, and the respondents back then provided an equally wide spectrum, but a lower median of $300 an hour. Even if we can't pinpoint a clear number, it is clear that advisors, in aggregate, believe that they are growing more valuable over time.

Hourly Value of a Lead Planner

% Responses	$/Hr.
1.29%	$25-$99
3.43%	$100-$199
3.86%	$200
14.00%	$201-$250
1.71%	$251-$299
18.43%	$300
0.57%	$301-$349
12.71%	$350
0.86%	$351-$399
15.14%	$400
0.43%	$401-$449
4.29%	$450
0.29%	$451-$499
15.86%	$500
0.86%	$501-$599
2.00%	$600
0.29%	$650
0.29%	$700
1.29%	$750
0.57%	$800
1.86%	$1,000

One might plausibly expect that more experienced advisors would be more valuable to their clients, and perhaps that advisors at larger firms will be billing themselves out (or internally accounting) at higher rates.

The chart to the right breaks down the responses according to the respondents' reported years in the business, size of the firm they worked with, and (at the bottom) their business model. Aggregating the responses into a median and average figure cuts through a lot of the confusion and clutter of the previous chart.

Interestingly, the newest advisors perceived their value to be higher, on average, than advisors with more experience, and advisors with 20+ years of experience were (again on average) no more likely to view their hourly value as higher than advisors with 4, 7, 11 or 16 years of experience.

But we do see some upscale movement as the firms get larger. Firms with more than $5 million in annual revenues were valuing the time of a lead advisor at $100 an hour more than firms with $1-4 million in revenues, and $150 more than the lead adviosors at smaller firms. Both the median and average figures bear this out.

At the bottom, we see that fee-only advisors were more likely to perceive their hourly value as higher (albeit incrementally) than dually-registered advisors.

Hourly Value of a Lead Planner		
Firm Yrs in Bus.	**Median**	**Avg**
1-3 Yrs.	$400	$514
4-6 Yrs.	$350	$368
7-10 Yrs.	$300	$360
11-15 Yrs.	$350	$375
16-20 Yrs.	$350	$403
20+ Yrs	$350	$387
Firm Revenues	**Median**	**Avg**
<$500K	$300	$327
$500K-$1M	$350	$362
$1-2M	$350	$396
$2-3M	$350	$392
$3-4M	$350	$363
$4-5M	$400	$446
$5-8M	$450	$496
$8-10M	$450	$493
>$10M	$450	$508
Bus. Model	**Median**	**Avg**
Fee-Only	$400	$388
Dually-Registered	$350	$369

Value Per Hour - Associate Planners

The chart to the right offers the same information for an associate planner--a very wide spectrum of responses, clustering around the round numbers: $150, $200, $250 and $300. The median here is $200, up from the $175/hr. median that we reported back in 2020.

Hourly Value of an Assoc. Planner

% Responses	$/Hr.
1.66%	$25-$99
6.03%	$100
3.77%	$125
20.51%	$150
3.32%	$175
1.21%	$176-$199
20.51%	$200
1.96%	$225
21.12%	$250
1.21%	$275
10.71%	$300
4.07%	$350
0.15%	$375
0.75%	$400
0.45%	$450
2.26%	$500
0.15%	$600
0.15%	$700

Below the chart are the responses we received when we asked whether advisors (and their firms) track the time that professionals spend on various client-related (or other) tasks. Most do not.

Those who do have reported that time-tracking technology is becoming much, much easier to implement--a far cry from the timesheets that most advisors mgiht be imagining.

Why does all this matter? More advisors are beginning to charge for add-on services, and the profession is making a (cautious) profession-wide foray into charging some clients by means other than their assets. We're still in the early stages of this shift, but the only way to properly prepare for it is to have a clear understanding of the internal costs that will need to be matched with the new fee structures. One can confidently predict that, in the future, more firms will want to data-mine their internal 'people costs,' and will discover that they don't (yet) have the data to do it.

Does your firm track the time its staff spends each day on different functions, as a way to determine your internal costs to service or onboard clients?

17.77%	Yes
82.23%	No

AUM Fees, Thresholds and Breakpoints

In after-hours conversations with executives at portfolio management/reporting software firms, they will tell you that there are as many variations of AUM fee structures as there are grains of sand on the average beach. Break-points are all over the place, and in many cases, there are different models for different clients with the same assets.

Profession-standard fees for various asset levels will not be forthcoming in the immediate future, but the chart below offers some aggregate guidelines. As you move down the chart, where the client asset levels go up in increments, one can see a general migration to the lower left--AUM percentages go down as the portfo-lio sizes go up.

No surprise there. But we suspect that some readers of this report will feel a sense of wonder at some of the numbers displayed here. Is it really possible that some advisors (albeit very few) are charging less than 0.25% on $1 million portfolios, or more than 1.5%?

The sweet spot migrates from 1% for portfolios up to $1 million to 80-90 basis points at $2 million, down to 60-80 basis points at the $5 million level, and further down to 40-60 basis points for portfolios at $10 million and above.

But the tails at each level are undeniably interesting, and sug-gest that the software executives know what they're talking about.

AUM fee levels for different size portfolios.

Portfolio Size	0.25% or less	0.30%	0.40%	0.50%	0.60%	0.70%	0.80%	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	>1.50%
$500,000	0.87%	0.44%	0.29%	2.19%	0.87%	2.48%	4.81%	6.71%	45.19%	5.83%	14.87%	5.39%	1.17%	6.12%	2.77%
$1 Million	0.85%	0.57%	0.99%	2.69%	1.98%	6.36%	9.34%	15.13%	43.14%	7.50%	6.36%	1.98%	1.13%	1.27%	0.71%
$2 Million	1.27%	0.99%	1.69%	4.65%	5.92%	13.10%	20.70%	19.30%	23.24%	4.08%	2.25%	1.41%	0.56%	0.56%	0.28%
$5 Million	1.86%	3.86%	3.15%	15.59%	19.03%	19.60%	20.31%	7.30%	7.15%	0.72%	0.72%	0.43%	0.00%	0.14%	0.14%
$10 Million	7.07%	6.47%	13.98%	26.17%	18.05%	14.74%	7.67%	1.80%	3.31%	0.30%	0.30%	0.15%	0.00%	0.00%	0.00%

The Ultimate Breakpoint

A related question is whether there is a threshold beyond the breakpoints; that is, where advisors stop charging a percentage of client investible assets and assess a different fee structure.

We asked respondents if there was such a threshold at their firms, and the responses suggest that roughly 10% will switch to a different model at $10 million or $15 million, but (as the reader can see below) the great majority (84%) do not have any upper limit.

If you charge AUM fees, is there a portfolio size threshold where you switch from AUM to charging a flat fee or hourly for portfolio management and planning services?

>$2 million	>$3 million	>$5 million	>$6 million	>$8 million	>$10 million	>$15 million	>$20 million	No relevant threshold
1.22%	0.61%	3.21%	0.31%	0.46%	5.35%	0.61%	4.13%	84.10%

Challenges to Existing Fee Models

As the reader can see from the little chart at the right, most of the respondents to the survey have a very high, or high level of confidence in their firm's existing fee model. In the earlier parts of this report, we've seen ample evidence of tinkering around the edges. These responses suggest that there will not be wholesale changes on the near horizon.

Perhaps the most interesting aspect of the chart is that the self-confidence extended across all fee structures; advisors charging AUM were as happy with their revenue model as hourly or subscription-based advisors--or advisors with those more complex combinations.

Of course, it's natural to be curious about the 'low' and 'very low' responses, few as they were. Looking at the individual responses, we found that a third of the advisors providing these less-than-encouraging self-reports were compensated by AUM plus commissions, another one-sixth of them were paid via AUM plus quarterly retainers, a smaller percentage were entirely or almost entirely commission-based (which was a very small percentage of the overall sample), and the rest were nearly 100% AUM.

How would you rate your level of confidence in your firm's existing fee model?

35.07%	Very high
43.28%	High
18.91%	Moderate
2.24%	Low
0.50%	Very Low

Despite the high confidence scores listed above, advisors were not entirely shy about listing some of the challenges they were facing with their current fee models. Toward the end of the survey, we asked an open-ended question, and you can see some the answers below and on the next page. The responses speak for themselves, but it's interesting to see advisors express concern about their margins in different ways, and the fact that some of their clients (and prospects) aren't fully recognizing the value of their services. We see the persistent challenge of servicing less-wealthy clients, and there are complaints about increasing competition from non-AUM advisors and larger firms. There are some

What challenges are you experiencing with your current fee/revenue model?

Clients don't think fee is worth it when SPY has 2.0 sharpe ratio (although they don't put it that way)
I am holding quite a bit of cash. Not getting paid on these funds, but I am spending a lot of time managing clients cash & cash flow.
Our minimum client size has moved considerably upstream over the years, and so its challenging to keep the growth at the current level.
Unable to service high earners without assets
Getting higher net worth individuals to turn over their full portfolio
Harder to convert additional AUM bc they think they can get advice on it without converting all (and this keeps the AUM fee down)
Value in times of relative low planning needs between known planning needs forthcoming…
Inflation has driven up costs and regulatory pressures as well; our fee structure does not keep up with that.
Making budgeting coaching affordable to for low-asset, low-income clients
Smaller unprofitable accommodation relationships
How to work with younger client without assets to be profitable?
I'd like to add more planning revenue
Having to make clients aware of all the work that happens in addition to portfolio management under an AUM fee
Setting the right fee amount for flat fee only clients based on complexity
We strongly believe in a flat fee, but it is harder to charge an appropriate fee stated as an annual number versus an AUM fee stated as a percentage.
Flat fees are hard to adjust once they're in place.
Charging high enough monthly fees to provide comprehensive ongoing services for more complex clients.
How to incorporate additional services such as tax and estate planning into the fee to compete with Creative Planning and the like.
Some clients (usually lower AUM) are much higher maintenance than others. Lower maintenance clients subsidizing higher maintenance clients is unfair.
Commoditization of investments. Having to add more services (value) for our fees.
My tamp charges me an AUM fee, but higher net worth clients prefer a flat fee
Logistics of recurring fee payments. Some products are commission and we don't want our clients to have to go elsewhere to be serviced.
Consistency across client base and transitioning from Subscription to AUM.

interesting responses alleging that other advisors are discounting their own fees (threatening the profession's profit potential) while other advisors are complaining that they have a hard time charging what they believe they're worth.

And finally, there appears to be some discontentment with fixed-fee models--around the visibility of the fees (sticker shock), the challenge of raising the fees, and even the inability of prospects and clients to properly compare flat fees to the costs of an AUM relationship.

There's not much here that we haven't heard before, but seeing these comments makes one realize that most of the press and conference presentations have focused mst of their scribblings on the practice management challenges that advisors are confronting, despite a plenitude of annoying challenges associated with advisor revenue models--equally vexing, arguably more complex challenges that don't receive nearly the same level of attention or publicity.

What challenges are you experiencing with your current fee/revenue model?

Prospects believing they can get more with an hourly or flat fee than AUM
More & more prospects are asking for a flat fee or fee structure not based on AUM.
More prospects not interested in AUM
More questions about whether the AUM model is "worth it"
Some prospective clients are not interested in investment management or the AUM fee model and would prefer flat fee for a plan only.
Taking sufficient time/ gathering sufficient data to catch all complexity at the beginning of the relationship so that we can price accordingly/set expectation
Determining the appropriate fixed fee is a massive challenge. We could be making a lot more money under AUM but I think those fees are bloated.
Finding the best way to assign a dollar amount to complexity factors
Prospects have a hard time calculating actual AUM fees, so when they see our flat fee, they have sticker shock and don't realize that our flat fee is usually less expensive.
Clients convinced that 1% is too high and it's difficult to quantify the value of the planning experience. They compare us against large client offerings at Fidelity & Schwab.
The regulators' primitive mindset.
Servicing small accounts and the tremendous compliance burden (and growing) associated with all account.
Raising flat fees with inflation/annually
I don't like raising fees
Legacy fees do not match current breadth of financial planning deliverable being offered
Raising fixed fees systematically
We would love to open ourselves up to figuring out how to do a subscription model but haven't quite figured out how to make that work.
I am not getting fees/commissions for legacy accounts and that needs to change.
Increasing services, without as much growth in fees to existing clients
Friction between fee-only work at $500 per hr vs aum
Other advisors discounting too much
Disparity between fees charged and value received
We are under charging and cannot provide the level of service and make a 25% profit margin.
Seeing that everyone charges more than we do.
It's tempting to undercharge
Some people still don't expect to have to pay for real financial planning.
After 18 years, just now starting to hone in on the right fee

Conclusions and Summary

Looking back over the 40+ charts and graphs in the survey, and the many data points contained therein, we can draw some general conclusions about the state of advisory fees at this moment in time.

We did not expect this survey to uncover a major wholesale shift in revenue models--to somehow confirm the long-predicted, never-materializing move from an AUM model to flat quarterly fees or hourly fee structures. Most advisory firms are still generating most of their revenues from a percentage of client portfolios.

Moreover, the 1% industry standard that we hear so much about appears to be generally correct for client portfolios below roughly $3 million.

What the survey DID uncover is a lot of what seems to be experimenting or (to use a less precise term) 'dabbling' in alternative fee models. A high percentage of the responding advisory firms are serving a low percentage of their clients via flat quarterly fees, subscription fees, hourly fees or combination structures that supplement AUM.

The responses strongly suggest that the most popular motivation for these fee experiments is that many firms, large and small, are looking for a model that will allow them to profitably serve the blue ocean of less-wealthy (potentially high-income) clients who need planning advice but have not, previously, fit into the planning profession's preferred model.

But other reasons emerged, including finding ways to serve children of clients, and charging for services like divorce planning and stock option analysis.

It appears, based on the question regarding models five years ago, that this alternative fee trend has been underway at least since the Covid pandemic.

The data shows that a number of firms are beginning to charge separate fees (flat or hourly) for additional services that are outside the scope of the normal planning engagement, but this cannot yet be called an actual trend. The numbers are low, and many firms have a broad definition of what services should fall under 'core planning.' We're going to watch this anticipated trend in the future, since it would seem to address the common complaint that advisors are getting squeezed because clients are asking for more services for the same fees.

We also learned that the up-front planning work is often provided for free, and where it is not, it is not uncommonly waived if clients sign on to an AUM arrangement. In years past (this writer may be dating himself) savings & loan associations would give out toasters to customers who opened a savings account. For many advisory firms, the up-front financial plan is the profession's modern equivalant of those toasters.

There appears to be a healthy cohort of hourly planning firms that are as large (measured by revenues) as the largest firms in the sample, and a small but not insignificant cohort of firms are all-in on the quarterly fee revenue model.

Finally, we learned that advisors have a very broad, one might say *undefined* view of their hourly value--that is, if they were hourly planners, what they would bill themselves out at for the time working with clients? Since 2020, the median value has gone up from $300 an hour to $400 an hour for lead planners; from $175 an hour to $200n an hour for associates.

But since only a small number of advisory firms have a time-tracking process in place, this data is not immediately relevant. As the various alternative fee experiments evolve into a larger part of firm revenue, the internal costs of staff time could become more important to assess and track. This is another potential trend to watch.

Overall, the great majority of advisors report having a high or very high confidence level in their existing fee structure. That didn't stop a number of advisors from expressing dissatisfaction around the margins, but it suggests that we are not going to see wholesale shifts away from the predominant AUM-based revenue model in the coming days, weeks, years and (perhaps) over the next decade.

As the alternative fee structure experiments mature, we may begin to see consensus around how to charge the less-wealthy people who seem poised to make up a larger percentage of clients. Smaller firms are currently the most adventurous in terms of fee structures; perhaps they will arrive at a standard for the rest of the profession to follow.

Discussion and Implications

You've seen the data, and there's a lot of it about virtually every aspect of advisor fees and revenue models. But what does it mean about the state of the profession and the future?

We shared the survey (or several of its data points) with some consultants and industry experts, and three responded with detailed observations. Some of the most interesting came from Michael Kitces of Nerd's Eye View, who said that many of the most powerful members of the advisor support ecosystem support continuing the AUM revenue model for their own business purposes.

"It's not only the broker-dealers and wirehouses that want to see us all staying in the AUM model," he says. "It's also the RIA custodians."

Why? "At the end of the day," Kitces says, "the RIA custodial model is, by definition, entirely reliant on RIAs to be their designated 'asset gatherers' to bring AUM to their platforms, because they all make money from assets on the platform."

In fact, if there is going to be an evolution of fee structures, it will increasingly put the best interests of advisors at odds with how the custodians view their own best interests. "Advisors who give non-investment advice can grow wonderfully successful advice businesses," Kitces adds, "but that may do nothing for RIA custodians—or even 'worse,' help their clients use other direct-to-consumer platforms (e.g., Vanguard) for their clients' non-managed investments, while providing other non-investment advice around the rest of the client's situation. That would be extremely damaging to the RIA custodian's business model. This ongoing shift to fee-for-service," Kitces adds, "is significantly more disruptive to the existing ecosystem around advisors than most people realize."

It might also be disruptive to RIA firm founders. Several advisors who commented after taking the survey suggested another reason why firms are shying away from a transition away from the AUM revenue model. "There's an extra challenge in launching a more innovative fee model when your firm is larger," says Barrett Porter of Abacus Wealth in Santa Monica, CA. "When your firm has a recurring wave of new partners coming in, it's not so easy to launch a new model that could cause an enormous immediate hit to the valuation for existing partners. In other words," he adds, "isn't it much easier to avoid the AUM trap when you're not so deeply settled into it?"

Consultant Carolyn Armitage, who was a senior executive at Echelon Partners and involved in firm valuations, agrees. "Moving away from an AUM model to retainers," she says, "will definitely affect a firm's valuation. That's a major consideration for our aging advisor population."

Tipping point?

Does that mean the status quo will persist into the foreseeable future? Stephanie Bogan, of Limitless Advisors, is not surprised to see more adoption of more diverse fee models in smaller and newer advisory firms. "If you've been doing this for 20 years and your clients tend to be in that older demographic, you're not looking to make a change until you have to," she says. "But if you're a newer advisor coming out of college, you're a lot more open-minded about adapting the way you get paid to how it fits your service model and clients you want to attract. They weren't raised in any particular model," Bogan concludes, "so they're able to see value in the fee structures that advisors aren't as familiar with."

As those younger firms become more mainstream, the idea of alternative (non-AUM) fee structures will become more mainstream as well. But bigger picture, Bogan thinks that the profession might have reached a tipping point similar to the shift from commissions to AUM fees back in the 1990s.

The argument is interesting.

"The first phase of these big shifts," she says, "tend to be philosophical. Back in the day, you would hear that the commission revenue model was a conflict of interest, but in the early days, clients weren't arguing about paying them. The fee vs. commission argument was entirely in the profession (*should we be charging that way?*)—and as long as it was philosophical, the transition to fees happened only at the margins."

Then, Bogan notes, consumers gradually began to notice the conflicts, reject sales and prefer fees to commissions. At that point, being fee-only started to become a *business* decision, rather than a philosophical one.

Fast-forward to today. "For the past 10 or even 20 years, you could always get advisors to have a good fee debate online," says Bogan. "It has been a philosophical debate; AUM is a bad model because—take your pick," she says: the idea that it gives clients the impression that the value is in asset management when the value proposition has shifted to planning, or that there's no good reason why advisors should make more simply because the Dow has gone up another few percentage points. (A number of other arguments have been proposed.)

"The alternative fee models were justified by moral imperatives," Bogan concludes. "And there was no real business motivation to act on them, even if you agreed, philosophically with the objections."

And now? Having worked as a consultant and coach with more than a thousand advisors, Bogan is beginning to see the fee discussion finally dipping its toes into a post-philosophical phase. "Now you have people coming out of school with tens or even hundreds of thousands of dollars of student loans, and a good income, and a new baby, saying: *'I think we should do some financial planning,'* she says. The awareness [of the value of planning] has moved to a different part of the consumer lifecycle, so that now there's an emerging *business* reason for individual planning firms to begin adopting alternative models—and that, says Bogan, is when these long-predicted shifts start gaining mainstream adoption.

"We're seeing more firms willing to experiment as they start working with clients who are not in the retirement market," she adds, "because they are now starting to serve clients in the early-to-mid-career segment. I don't see any real shift away from AUM in the retirement market," she adds.

Bogan's conclusion about the data in the survey: it is capturing the early stages of advisory firms adapting their models for this new group of consumers who are asking for planning services. And the fact that they tend to be younger clients means that they will become, eventually, the mainstream bread-and butter clients. Will they prefer to continue working under the fee structure they started with?

Flat fee advantages

Mark Tibergien, a well-known practice management consultant and speaker in the advisor space, noted with interest that a not-insignificant percentage of advisors say that their wealthiest clients prefer a flat fee (non-AUM) fee structure, and this was corroborated by some of the comments we received from advisors who took the survey and felt moved to address it.

"Clients like our flat fee billing idea, especially the new ones starting at around $10 million AUM," says David Armstrong, of Monument Wealth Management in Alexandria, VA. "We let clients add money for no extra fee," he adds, "which is a real motivation to own more wallet share."

Several advisors who switched to a flat fee model say that their clients prefer it. "We converted to a retainer model from AUM 13 years ago, and it was one of the best business decisions we ever made," says Mike Haubrich of Financial Service Group in Mt. Pleasant, WI.

But what about the dreaded meetings where you have to raise those fees periodically to keep up with inflation? Haubrich has turned those meetings into a positive experience for both him and his clients.

"Every two years we have a fee renewal discussion with each client," he says, " where we ask our clients to tell us the greatest value they received over the past two years. Often it is something we never imagined," Haubrich reports. "Clients' responses shape what we will focus on going forward. We then ask what they hope to accomplish over the next two-year period. It gives us a pretty instantaneous feedback loop."

Then Haubrich offers an interesting *ex cathedra* comment. "I'm not sure it is in my best interest for you to try to influence planners to change their AUM ways," he says. "I love competing against AUM firms on how they're compensated. It's just so easy."

Both Bogan and Tibergien say that, despite the topic coming up consistently in the trade press, they haven't seen any evidence of fee compression in the advisor space. Tibergien speculates that the idea may come from the fact that, as clients add systematically to their portfolios, and the markets move up, the portfolios are reaching breakpoints where the percentage of assets drops incrementally. "In my opinion," he says, "it is more accurate to look at revenue per client, revenue per staff or revenue per advisor to see whether an advisor is getting paid more or less than before."

Fee sophistication

A final (and perhaps most compelling) factor that makes advisors think twice about alternative fee structures is that they are going to require greater management sophistication. "Let's face it: charging 1% of client assets is simple and very straightforward," says Bogan. "Matching fees to value and service is always going to be more complicated."

Tibergien suggests that the complexities are not quite as daunting as many advisors might believe. "Advisory firms would need to approach [the fee-setting process] from a 3-tier perspective," he says:

Cost—what does it actually cost advisory firms to serve a collection of clients?

Market—what does the market charge for similar types of services?

Value—what's their value, and are they charging a premium or a discount for what they deliver?

The survey showed that most advisory firms are not tracking the time their senior and associate advisors are spending internally and on client issues, and their estimate of the hourly cost of lead and associate advisors vary tremendously. So how would they arrive at that cost estimate?

If the firm doesn't want to install a time-tracking process, then Tibergien suggests that advisors estimate time spent over a one-month or three-month period, to get ballpark figures. "On the cost side, you would have to look at the advisor's all-in cost—salary and benefits," he says.

From there, the pricing is a mathematical exercise nearly as simple as the 1% AUM calculation. "If my cost to deliver planning and advice on an annual basis is $10,000," says Tibergien [which includes overhead and support staff expenses per client], "and my target profit margin is 25%, I would want to charge my clients $12,500 a year."

Bogan cautions that the calculation should take into account the fact that most advisors don't spend all of their time directly servicing clients. "What you charge for your service time has to be high enough to pay for the other activities," she says. The median estimated value of an advisor's time from the survey is $400. Bogan says that her recommended best practice is $1,000 per hour.

Even so, the fee structures will need to be easily understood by consumers. One advisor commentator spent some time considering a flat fee arrangement, and spoke with a prominent advisor about how he calculated what he would charge individual clients.

"His model involved a mulligan's stew of a lot of different flat fees, based on things like business ownership, size and complexity of the business, the value of the family home (or more than one home), along with other non-investible asset values," he says. "It was pioneering, seductive and compelling."

But the advisor (who asked to remain anonymous) ultimately decided to stick with AUM. "I asked myself, why is the house charged at 0.35% and not 0.40%, and how good is that appraisal?" he says. "My takeaway is that our clients want simple and easy to understand. Evaluating a half dozen separate components to your fee can be cumbersome and difficult to communicate."

Some advisors have overcome this issue by giving clients an option for how to pay—and this allows them to attract the many MANY prospects who want planning advice but aren't interested in turning their assets over to an advisor to manage.

"We charge an initial up-front fee, and then give clients two choices," says Ann Covington, of Covington Alsina in Annapolis, MD. "They can pay an AUM fee, which would include ongoing planning, or a flat annual fee for planning where we don't manage assets."

The flat fee is not just for non-delegators; sometimes clients *can't* move their assets to an advisor's management. "We have some wirehouse employee clients who need to keep assets there, and we do their planning," says Covington. "And there are other clients who don't have investable assets outside of employer accounts, and sometimes we encourage them to keep the money in those accounts to enable Roth conversions from non-deductible IRA contributions."

Plans as marketing

What about those initial planning fees?

The report shows that roughly half of advisory firms don't charge an up-front planning fee (giving away the financial plan) for prospects who become AUM clients, and another half of THOSE appear to be significantly undercharging for the initial plan. Bogan comments that in her experience, not charging or undercharging for the initial planning correlates tightly with firms that are trying to scale faster. “They see the time they give away on those plans as a marketing cost,” she says. “And in many cases, they’re not dropping 12 to 15 hours on that plan; it’s a one-page plan that happens to fit with the desire from clients for simplicity. These firms use it to convey their value.”

Meanwhile, the report shows that most advisory firms have moved away from commission revenue—but many have not moved completely. Several advisors noted that their initial and ongoing advice is purely fee-only, that their commissions don’t come from sales activities--something that might have been more precisely captured from the survey questions.

“We have annuities that pay trails,” says Andrew Palomo, of Pillar Financial Advisors in Oak Brook, IL. “But those are contracts that we did not sell, that we simply took over when the client came on. We manage the annuities and make sure they get the max value out of them,” he adds, “since clients have likely sunk a lot of money into them. The trail income is a bit under 3% of our revenue, but I am a lot more interested in the control, than the trail. How can I help my clients if I don’t consider and advise on all of their financial needs?”

Finally, however the revenue model evolves in the profession, advisors are going to have to show consumers the value of their services, and at the moment, there isn’t a lot of sophistication in the consumer marketplace about an advisor’s value vs. what they’re paying for it.

George Gagliardi, of Coromandel Wealth Management in Lexington, MA, tells the story of a prospect who came to him to discuss her $2 million trust fund managed by a Morgan Stanley office.

“She was paying an outrageous fee of 1.5%,” he says. “When I pointed out to her that this seemed to be a very high fee for just managing her assets, her response was *‘You get what you pay for.’* To which I replied, *‘in this industry, that often isn’t true.’*”

Gagliardi ponts out that most of that 1.5% fee was paying for non-productive layers of management above her broker, expensive buildings and ad campaigns designed to tell her exactly what she now believed. “People still believe that they are getting value for the money they pay, even if they aren’t,” he says. “PT Barnum was right.”

A Quick Reminder of Who Supported this Survey and Made it Possible