Fees at a Crossroads
ADOPTING AN ADVISORY FEE MODEL THAT REFLECTS YOUR TRUE VALUE

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Introduction

The convergence of technology, regulatory scrutiny and shifting demographics are compelling our industry to rethink the way advisors charge for their services. The spirited debate playing out in the trade media and industry conferences has pit fee-only advisors against fee-based advisors, with both sides ardently supporting their positions. To be sure, competitive pressures and the success of low-cost robo-advisor platforms are contributing to the conversation. But we’re left to wonder why many advisors still give away the one asset that investor’s value most: advice.

We believe that many investors today are looking for a quarterback to oversee their financial lives and that an algorithm is no substitute for a human relationship. Still, the proliferation of low-cost solutions leads us to question the status quo: are we charging for advice or a commodity? Can advisors continue to justify an ongoing assets under management (AUM) fee when the cost for investment selection, allocation and rebalancing has declined dramatically thanks to automation? If Vanguard® and Charles Schwab offer investors portfolio management for 30 basis points (bps) or less, it’s not hard to imagine pressure for advisors to reduce their asset management fees or charge distinct fees for portfolio management, financial planning or other services. Clearly advisors need to be paid for their services, but what exactly is being delivered? And is it worth 100 bps?

**Competitive market forces may have broken the link between the simple AUM pricing model and the true value advisors offer.** While advisors report that clients aren’t asking for lower fees, growing evidence suggests that strong market returns through the recovery have led to complacency among both financial advisors and their clients. We expect conversations may change when clients question why they’re paying 100 bps a year to lose money. As financial and investment markets have evolved over the past 25 years, the advice business needs to move ahead as well. We believe the very nature of the advice model is changing.

Are we overstating the problem? We don’t think so. In this paper, we assess the current landscape and explore pricing trends and strategies to help you implement a model that reflects your value proposition and supports your business objectives. Primary research among advisors and consumers helps shape these views. We conclude with a practical road map that can help you build lasting enterprise value.
A guide to this paper

BOB VERES WEIGHS IN
Throughout this paper, thought leader Bob Veres comments on a variety of fee-model trends.

FINANCIAL ADVISOR SURVEY
We have incorporated responses to our online survey conducted in August 2015 about advisory fees. We offer insights from the 775 respondents to help advisors/owners better understand the state of the industry and to assess their own agenda.

CONSUMER SURVEY
SEI, in partnership with Phoenix Marketing International, surveyed 539 U.S. affluent households in April 2015 about how they compensate their financial advisor.

INDUSTRY INSIGHTS
Several firms also contributed to our paper, including:

› Alan Moore, CFP®, co-founder of the XY Planning Network and president of Serenity Financial Consulting.
› Kyle Walters, CFP®, CPWA®, CIMA®, founder of Atlas Wealth Advisors.
Identity crisis: What’s in a name?

For generations our industry has managed to thoroughly confuse consumers about who we are, what we do and how we get paid for doing it.
The dizzying array of titles we use continues to expand: Financial advisor or financial adviser (both the SEC and FINRA use the “adviser” spelling with an “e” not an “o,” consistent with the law itself that regulates advice, the Investment Advisers Act of 1940); investment advisor; independent advisor or registered advisor; financial planner (lowercase), or Certified Financial Planner® (uppercase with trademark); wealth manager; wealth advisor; private wealth advisor; asset manager. Our business cards and bios are festooned with designations, such as CFP®, CFS, CFA®, CPA, PFSSM, CLU®, ChFC®, CEBC, RHU, CPCU®, CIC, CIMA®, etc.

Further complicating our identity, we’re the only profession that differentiates our services by how we charge for them. Other financial professions — legal, accounting, medical — distinguish themselves by the services they offer; their pricing reflects a value clients appreciate and are willing to pay for. Today’s financial advice landscape ranges from pure money managers to wealth managers, with various hybrids emerging across the spectrum. Pricing for these services runs the gamut from commission-based to fee-based, fee-only, retainer, flat fee, or a combination of some or all of these arrangements. Is it any wonder that investors are bewildered? We believe that today’s investors — across the economic and generational spectrum — want advice and guidance to manage their increasingly complex financial lives. The time has come for our industry to adopt a universal advice-based model built on a foundation of professional advice, trust and integrity, and pricing models that equate to the value investors are willing to pay.

We advocate for an advice-based model that clearly articulates a value proposition that clients understand and are willing to pay for.

Wealth management isn’t just about investment management

The term “wealth management” has been bandied about the industry for more than a decade and many firms and individuals tout themselves as wealth managers. But what does that really mean? Without a universally accepted definition, no consensus on the knowledge or skills required or agreement on the target clients to whom such a service would cater — many advisors have adopted it freely. Yet, of the approximately 315,000 professionals who call themselves advisors in the U.S., Cerulli and Associates estimates that only 5% are actually wealth managers.

For us, wealth management is more than marketing jargon. It’s a business model that entails comprehensive advice and planning services encompassing all areas of a client’s financial life for high-net-worth ($5 million+) individuals. These include personal, family and business-related goals; executive compensation; tax strategies; complex trust and estate planning; and charitable giving.

AUM ain’t broke, so why are we trying to fix it?

“The ‘it ain’t broke’ argument against moving from an AUM model to retainers or hourly is superficially correct. But if you look under the hood, you find some important issues for advisors to consider.

It’s undeniably correct that most of your baby boomer clients are perfectly satisfied with an AUM or hybrid AUM revenue model. It’s hard to justify the effort and potential relationship disruption of switching these clients to a less familiar model.

But consider this: Advisors who rely on an AUM revenue model are largely giving up the ability to work, profitably, with an enormous blue ocean of potential clients — individuals (some but not all of them younger) who have significant income/cash flow but have not yet built a significant retirement portfolio. Add the millions of validators who would benefit from working with an advisor, who would pay for advice, but prefer to manage their portfolios themselves.

If you add an alternative retainer-based or hourly revenue model option, suddenly you’re able to tap into these very large, uncrowded markets of consumers — many of whom need your services more than those who have already accumulated significant portfolios.

Of course, most advisory firms already serve clients who fit this description. They call these children or close friends of existing clients ‘accommodation clients,’ and clumsily apply an AUM model to people with few assets, losing money in the process.

The best way to dip your toe into this blue ocean may be to find ways to turn these ‘accommodation clients’ into profitable relationships. If you can manage that, under a retainer arrangement, you can then turn the referral spigot all the way open. Instead of asking your clients to prequalify the leads they send your way, you can say that your staff is open to giving help and advice to anyone who needs it.

Looking longer-term, you see from Alan Moore’s contribution to this report that the younger Gen Y and millennial cohort prefers a retainer model, and may push back on AUM fees even after they accumulate larger portfolios. What he doesn’t say, but I think is behind the aversion to AUM, is that this generation has a very high validator mentality. They want planning services but don’t want to delegate away control over their portfolios.

It’s pretty obvious that today’s younger consumers eventually will be the primary clients of advisory firms and will probably work with the successors of today’s founding advisors. How can you transition from the preferred revenue model for baby boomers to the preferred revenue model for millennials? Have the successors create a version of Moore’s retainer fee model for today’s accommodation clients, develop close relationships with the people who will inherit the assets of your primary clients while they market their services to their peers — and along the way build your firm’s revenue model of the future.”
Embrace an advice-based business model to realize your true value

Initiating a conversation about fees and pricing models can be uncomfortable. Besides, why fix something that isn’t broken, right? Following five years of solid asset management growth, the advisory business is thriving and owners are reaping the benefits.² Our research underscores the “it’s not broken” view: more than half (61%) of advisors who participated in our survey have not made a change to their fee structure in more than five years — two-thirds of those have never changed their fee structure. Responses were similar for one- or two-person offices as for firms with 20-plus employees.³

It turns out fees are not the most popular conversation topic among investors and their advisors, either. Our research reveals that three-quarters of consumers across various wealth tiers indicate they “never” or “seldom” discuss fees with their primary advisor.⁴

Financial advisors of every ilk do a lot more for their clients than just invest their assets. The best advisors explore the complex relationships their clients have with money; they help clients articulate goals, develop budgets and comprehensive plans. Among other services, they offer guidance on retirement, education, philanthropic and estate planning to improve their clients’ financial lives. Yet most advisors don’t charge clients for these services. For most, compensation — be it AUM fees, commission or both — is linked to the investment products their clients buy (or they sell) where the advisors’ added value is least measureable.

How often do fees come up in conversation with your primary advisor?

Source: SEI Consumer research, in partnership with Phoenix Marketing International, April 2015, n=539.
A brief history of fees

For the greater part of a century, serving investors traditionally has meant selling them a product. Indeed, product selection alone historically dictated the fees investors paid, typically in the form of commissions, as intermediaries evolved as product distributors. Initially we sold stocks, bonds and insurance to privileged investors; then mutual funds and retirement accounts brought investing to mainstream America.

The narrative changed with the SEC’s decision to deregulate commissions in 1975. As the discount brokerage business flourished, and no-load mutual funds prospered, the do-it-yourself investor was born. Forty years later, fees remain a point of discussion, contention and differentiation for advisors. While originally advisors earned a livelihood from generous commissions (back-end, front-end, trailing), compensation has been evolving since 1990 from a commission- and transaction-based system to a fee-based asset management framework. As such, assets — and asset retention — have become vital to most pricing models and most firms’ sustainability.

The focus of many advisory practices has straddled the world of advice and portfolio management. In addition to the underlying fees assessed by investment companies, most investors are subject to an additional level of fees assessed by their financial advisors. As more advisors have moved to the wealth management model, the standard fee for services has averaged about 100 bps, regardless of what services are actually rendered — from planning and advice, to implementation, monitoring and rebalancing. Such an arrangement has been easier to justify with older clients (baby boomers) whose investments are more substantial than younger investors.

At the same time, innovation (i.e., index funds, ETFs, tax harvesting and low-cost wealth management platforms) and advancements in technology have automated many of the functions advisors historically have been paid to perform. Advocates for greater transparency and reduced conflicts of interest, such as NAPFA, Bob Veres and others, argue that the AUM-based fee model no longer serves investors. Meanwhile, new pricing strategies, including variations on retainers, flat fees, hourly billing and lower asset fees are emerging.
Darwin’s children

“One interesting question that you don’t see debated in the press involves advisory firms whose primary service is asset management. Imagine that in the near future, full-service planning firms are charging the equivalent of 75 (or so) bps for financial planning and 25 (or so) bps for asset management. At the same time, online investment platforms are charging 0 to 25 bps for pure (passively managed) asset management. In that environment, what would the primarily asset management advisory firm charge? My guess is that many of these firms will adapt by providing more comprehensive planning services in order to distinguish themselves from the robos. But some will choose to continue to build their ‘offer’ on adding alpha, either by selecting above-average funds or dynamic allocation, or both. They will be putting visibly more effort into the asset management work than the robos, and will feel entitled to charge for the extra value they bring to performance.

These firms will experience fee compression that will take them down from 1% to something closer to 50 bps. Their mission will be to deliver performance that justifies those fees. How many will be able to deliver alpha above those fees, and survive the Darwinian competition against index returns? More to the point, how many will be able to do this consistently, without falling behind during any particular three- to five-year period and exposing themselves to periodic client exoduses?

**The business lesson will be that the planning services lead to more stable client relationships than pure AUM services.** Planning may be more esoteric and its value may be harder to measure, but the value proposition doesn’t fluctuate unpredictable with the markets.”

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We believe the decoupling of investment advice and portfolio management is underway, challenging the venerable AUM model — though we suspect, and our research confirms, that it is unlikely to change any time soon.

**Fee-based assets on the rise**

In its fifth annual “State of Retail Wealth Management” report, PriceMetrix describes 2014 as a “breakthrough year for fee business” as more advisors made the transition from commission- to fee-based business, the sharpest increase ever. “The percentage of fee-based assets in the average advisor’s book of business increased from 31% to 35% in 2014, while the percentage of fee revenue rose from 47% to 53%.” Still, a significant share of advisors’ compensation is commission-based.
Fees: The consumer perspective

Despite ongoing education and disclosure efforts, many consumers remain uninformed about how their advisors are compensated. Research conducted for SEI by Phoenix Marketing International finds that one-third of mass affluent households pay their provider a percentage fee, based on a level of assets (fee-based). Nearly 3 in 10 investors indicate they pay their advisor each time a transaction is made. An alarming one in four investors are not sure how their provider is compensated.

A smaller number of households indicate that they pay a retainer (6%) or an hourly fee (3%). But 14% of mass affluent investors indicate they do not compensate their advisor at all.5

Source: SEI Consumer research, in partnership with Phoenix Marketing International, April 2015, n=539.
New trends emerging in the online advice arena

As innovative tools become available and existing ones become more accessible and relevant to their needs, it appears Gen Yers are likely to manage more of their finances on their own. In fact, according to our research with Phoenix International, 64% of Gen Y investors indicate they manage more of their finances on their own given the proliferation of online tools.

Some advisors have embraced online tools and are learning from them, while others disregard them and are afraid or worry about their existence. We asked investors whether or not they believe online advice tools compete with their financial advisor. It turns out, the wealthier investors are more inclined to indicate that online advice tools compete with their advisor. In fact, 28% of millionaire households feel this way compared to 21% of mass affluent households. It’s also clear that the age of investors affects how they view online tools. Fifty-five percent of millennials are more inclined to view online tools as a direct competitor of their human advisor.

Source: SEI Consumer research, in partnership with Phoenix Marketing International, April 2015, n=539.
Advisors’ fear of losing clients unwarranted

We probed investors on what they would do if they felt they were paying too much for advisory fees, and found that the vast majority would stay with their advisor regardless.

Among the mass affluent:
- 30% would ask their advisor for a reduction in fees and if granted they would stay
- 27% would ask their advisor for a reduction in fees and would stay even if they said no
- 22% would not say or do anything and would stay with their advisor

Among the high net worth (HNW):
- 27% would ask their advisor for a reduction in fees and if granted they would stay
- 27% would ask their advisor for a reduction in fees and would stay even if they said no
- 16% would ask their advisor for a reduction in fees and would leave if they said no
Advisors’ experience consistent with consumer attitudes

The vast majority of advisors report that their fear of losing clients when they jumped to an AUM model was unfounded; they were able to retain 90% of all clients.

Source: SEI Survey, Advisor Fees, August 2015, n=775.
Shifting pricing trends: Advisory fee models in place today

The following table illustrates the variety of fee models in place today.

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<tr>
<th>FEE MODEL</th>
<th>FEE EXAMPLE</th>
<th>COMMENT</th>
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| Commission/ticket charges | - Markups (1% to 2% of every trade)  
- Product fees/maximum permitted sales charge is 8%, but most loads fall within a 3% to 6% range | - Simple  
- Easy for small accounts (+insurance)  
- Not objective  
- Expensive  
- Transaction-dependent |
| AUM             | - Asset-based and usually tiered  
< $1 million: 100 bps  
$1 million to $3 million: 90 bps  
$3 million to $5 million: 75 bps | - Easy for advisor to explain and for client to understand  
- Not aligned with services of advisor  
- Advisor revenues are tied to market performance |
| Retainer/fee for service | - Annual retainer and usually tiered  
A Clients: $7,500/year  
B Clients: $5,000/year  
C Clients: $3,500/year | - Aligned with services/value  
- Complex  
- Transitions are difficult |
| Hourly fee      | - Hourly fees  
$400/hour for senior advisor to $200/hour for junior advisor | - Clear models (lawyers/CPAs)  
- Tied to effort rather than effectiveness |
| Menu            | - Asset-based for asset management/retainer for advice  
25 bps + $3,000/year | - Complex but flexible  
- Supports various client segments |

Source: SEI primary and secondary advisor research.
Correcting a pernicious 80/20 rule

“I’ve argued for years that professional advisors should know the internal cost of providing their client services. The proposed model in this white paper is a good start: Track the time of your lead and associate advisors as well as other professionals who work directly with the client, and assign a cost to each of their respective hours devoted to client work. Next, I would suggest that you take the subsequent step, and add up the costs of your administration and operations staff, plus the investment management staff, plus the various costs of running an office (e.g., rent, phones and electricity). Assign these expenses proportionately for each client. (The math is not complicated; it’s fundamentally adding up the overall costs in a year and then dividing by the number of clients.)

When advisors go through this exercise, they often discover that they’re spending just as much time, energy and internal cost on the client who pays $2,500 a year as much as the client who is paying 10 times that amount based on their respective AUM levels. In fact, those internal costs will actually be higher for demanding, less wealthy clients than for wealthy, undemanding ones.

It is not unusual for advisors to discover that 80% of their clients are unprofitable. The other 20% are, in some cases, generating 150% of the firm’s overall profits. They’re experiencing an especially pernicious version of the old 80/20 rule.

Is that fair? Should some clients pay dramatically more for the same services than others? Does it make business sense to work with so many clients at a loss? I believe the correct answer to both questions is ‘no.’ If you agree, what do you do?

As mentioned here, many firms have segmented their client service structure into tiers: A, B and C clients. They either offer more meetings and more high-touch services to the clients who come earlier in the alphabet, or they assign those higher revenue clients to the more senior advisors in the firm. They may be on call 24/7 for A clients, but only return phone calls the same day for B and C clients. (What else? Alas, the profession doesn’t have a clearly defined service model, much less one that provides the finer grain of different client tiers models.)

Using tiers helps, but it doesn’t typically bring about an equality of profit margin. The additional factor is to switch the unprofitable clients to retainers. Use the per client profitability spreadsheet to determine how much to charge each unprofitable client to bring them at least to a break-even point.

This allows you to use your least profitable clients as experimental subjects in the much longer transition from AUM to retainers. You can dip your toes into the retainer waters without risking your profitable client relationships.

Presto! All of your clients are now profitable. Of course, some unprofitable clients will opt to leave rather than pay higher fees. But in my conversations with advisors, this rarely happens. The chief impediment is the objections the advisor imagines, in his or her mind, that clients might raise — but in reality, seldom do.”
Is it time to make a change?

The highly visible — and vocal — debate about compensation among advisors and in the trade media suggests that our industry is at a crossroads. Can advisors continue to justify an ongoing AUM fee when the cost for investment selection, allocation and rebalancing has declined dramatically thanks to automation?

Clearly advisors need to be paid for their services; but what exactly is being delivered? And does it have to be 100 bps? Shouldn’t transparency be the guiding force in client dealings no matter what the advisor’s certifications or designations are, or how an advisor charges for service? And for that matter, shouldn’t all financial advisors be obliged to do the right thing for clients — not just those who are legally obligated to put clients’ best interests ahead of their own?

We believe the very nature of the advice model is changing.

Proponents of AUM-based fees — the most common pricing model used by about one-third of our survey respondents — argue that it is the only approach that aligns advisor compensation with client interests. Other survey participants (57%) charge a combination of AUM fees plus planning or retainer fees and/or commissions.

Those that support hourly, retainer or flat fee models for an evolving range of services claim that an AUM fee structure unfairly prejudices HNW investors whose assets subsidize service. They also disparage AUM fees for being too closely linked with investment performance.
There is general agreement among many industry thought leaders and advisors that the commission model — which still represents the most common compensation arrangement for financial advisors — is the least desirable arrangement and, going forward, may be the hardest to justify.

What is unclear is whether clients desire or will demand a change in fees for online versus traditional advice. Pressure to reduce fees will likely remain low until existing clients start pushing back, which hasn’t happened yet.

Are you feeling pressure to lower your fees?

Our survey revealed that more than half (61%) of advisor respondents have not made a change to their fee structure for primary clients in more than five years. Of these, what is even more telling is that nearly two-thirds have never changed their fee structure.

We also asked if advisors anticipate changing their fee structure in the next two years. A resounding 71% said no.

However, almost 19% plan to switch to a combination AUM plus retainer model or simply add planning fees to an AUM model. The remaining 10% of respondents are looking to convert from commissions, or simply adopt hourly fees or retainers.

Source: SEI Survey, Advisor Fees, August 2015, n=775.
Answering the “greed-head” charge

“If every advisory firm offered the same type of services, it would be much easier for the profession to arrive at a standardized revenue model. But the reality is that some firms primarily offer asset management, sometimes (but not always) overlaying a cursory financial planning component. Other advisors provide a great deal of value on the planning side. With their ongoing coaching services, they help their clients achieve personal as well as financial goals. They also manage assets. Some firms primarily invest passively, while others put in a lot of work on mutual fund due diligence. Still others embrace a more active investment philosophy, incorporating nontraditional (and sometimes private) investments, taking on the additional costs of investment due diligence.

The result: Different firms have very different internal costs to service a client relationship. Firms that do cursory planning and primarily use passive investments enjoy remarkably greater profit margins than firms that put more effort into the planning work and active asset management. Consumers get a lot more value from the latter than the former, but in many cases they’re paying the same AUM fees to both. These distinctions were largely invisible to consumers until the robo-firms started talking about the ‘greed-head advisors’ who charge 1% on client assets, while they (the robos) only charge 15 to 25 bps. Suddenly these esoteric (but important) distinctions were there for all to see.

What to do? I’ve recommended that advisors consider breaking out their fee structure into two parts: for the planning work and for the asset management work. Then you can answer the ‘greedy advisors’ charge by saying, yes, they charge 25 bps to manage assets, and so do we. We also charge [a fee equivalent to 75 bps] for services they don’t offer — and then list the planning services.

That also addresses what some of us believe is a huge problem: The fact that advisors are giving away planning work in order to get the (increasingly commoditized) asset management engagement. The AUM fee structure implicitly (but strongly) suggests that your real value is in managing assets (which you charge for), rather than the (free) planning work. Advisors tell me that consumers don’t see the value of planning and won’t pay for it. I think that’s increasingly not true. But if it is, whose fault is that? Advisors are going to have to come up with a much clearer articulation of their value. If you’re stumped on how to communicate your value, try collecting real client stories of how peoples’ lives changed after working with you for five or 10 years.”
Pressure points

Several factors are contributing to the downward pressure on investor fees. At the same time, the cost of doing business for advisors has increased, with expenses for compliance, recruiting and retaining talent, rent and technology all rising. Based on our survey responses, some advisors are worried; most are not.

Robo-advisors converging with traditional advisors: The success of low-cost online advice is changing rapidly and profoundly. Analysts estimate that by 2020 robo-advisors will manage about $2 trillion, which is up dramatically from today’s $30 billion in assets under management. In the last six months, more online advice platforms are being formed or acquired by larger companies. Since January 2015, Vanguard®, Charles Schwab, BlackRock®, Wells Fargo, and LPL Financial announced plans to roll out robo-services. The landscape is shifting from a direct-to-client offering to an advisor platform, as the two worlds converge. Advisors with great technology (what we term techno-advisors) are incorporating automated investment services, particularly for younger investors. Meanwhile, the robo-advisors are realizing that clients need and want the advice, guidance and behavioral coaching that only a human advisor can offer. The trends may be relieving fee pressures, but continue to call into question the value of advisors’ asset management advice.

Regulation: Both the Financial Industry Regulation Authority (FINRA) and the U.S. Securities and Exchange Commission (SEC) are scrutinizing the fees brokers and advisors charge investors and have made the issue a regulatory and examination priority. As the Department of Labor explores advisors’ role relative to employer-sponsored retirement accounts, the mandate to reduce conflicts of interest and “hidden fees” will continue to exert pressure on fees. Many argue that all advisors (regardless of certification or designation) should be subject to the fiduciary test; others argue that commissions and fees are the problem. That debate will continue.

Informed investors/validators: Thanks to greater access to information, a growing number of online resources and greater media coverage, retail investors are getting smarter about all aspects of investing. Advisors have not reported pressure from their clients to reduce their fees yet. But we believe intense competition will result in more focus on transparency, as growing investor interest in what they are charged for the risks they take and the returns they receive call fees into question. From GuardVest to BrightScope®, Morningstar® to U.S. News Advisor Finder, a slew of technology-driven tools is cropping up to help investors find an advisor as well as track investment-related fees and measure the performance of their advisors. Especially since the recession, a growing number of investors are digging deeper and asking more questions about what they own, how their assets are allocated, and how their returns compare to key benchmarks.
Transparency: Regardless of which pricing model advisors choose, the call for greater fee transparency is highlighting discrepancies among service providers and creating opportunities for those who occupy the higher moral ground. Increased consumer awareness and buying power are factoring into the transparency equation pushing advisors to align fees with client objectives.

Next generation investors: Fee pressure is also coming from younger investors who are experienced comparison shoppers. Millennials especially rely on peer reviews and ratings to choose a restaurant, plan a vacation and make major purchase decisions. Their approach to investment services is no different. These digital natives are able to compare services and pricing far easier than their parents or grandparents. Less likely to rely on Social Security for their retirement, they’re managing more of their financial lives on their own. Research shows that millennial investors are “better-behaved than their elders on a variety of measures.” Younger investors also trade less frequently and select lower-cost investments (paying an average of 0.39% in fees, less than half of those paid by boomers). Other analysis shows that millennial investors are more bullish on emerging markets and more internationally diversified than baby boomers. Finally, millennial investors are wary of large brokerage firms and financial institutions, and are less likely than boomers to indicate their advisor makes recommendations in their best interest.

Millennials want your help (Really!)

Research conducted by LinkedIn and Ipsos sought to understand affluent millennials’ ($100,000+ in investable assets) usage of and engagement with financial services. They report that while affluent millennials “want to take the helm when it comes to their finances, they don’t want to navigate these waters alone. Yes, they want to conduct their own research, make their own decisions and execute their own trades. But they also value the insights and guidance of experienced financial advisors.”

A financial advisor is:

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<th>STATUS QUO AUM-BASED FEES</th>
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<th>CON</th>
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<tr>
<td><strong>PRO</strong></td>
<td>Simple for clients to understand; simple for advisors to explain</td>
<td>Fee implies investment advice only; devalues other advice</td>
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<tr>
<td></td>
<td>Out of mind fees for advisors and investors; there’s no check to write</td>
<td>Lack of transparency for investors; fees are deducted from accounts with no accounting for the “what” or “why”</td>
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<td>All investors are treated equally</td>
<td>A disconnect in mind of client that when they add more money, they don’t seem to get more service; HNW clients — subsidize service for small clients with lower AUM</td>
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<th>MENU APPROACH</th>
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<th>CON</th>
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<tr>
<td><strong>PRO</strong></td>
<td>Value is tied to specific services</td>
<td>Unbundling allows investors to pick and choose services, some of which are difficult to truly unbundle</td>
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<td>Pushes advisor to only offer value-added services — menu approach means you have to constantly think about your value</td>
<td>The very nature of a menu implies the advisor is constantly highlighting fees</td>
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<td></td>
<td>Moral high ground ensures complete transparency</td>
<td>More complex to collect and account for</td>
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**Stability in the storm**

“From a business management standpoint, the AUM revenue model has a flaw: Clients pay less for your services when the markets go into a significant downturn. A 25% downdraft will not uncommonly lead to an across-the-board drop of 15% to 20% in a firm’s revenues.

Those who defend the AUM model say that this gives them an ‘identity of interest’ with their clients, who pay more when you’ve made their portfolios go up, and less when you’ve let their portfolios go down. On the other side of the argument, advocates for change point out that you didn’t actually cause the market to go up or down. So is it appropriate that you should be rewarded or punished for it?

But neither of these arguments touches on the core issue: An advisory firm typically does a lot more work during a downturn, and the work is probably more valuable to clients in that panicky time period.

You know the drill. There’s a market drop, and suddenly a lot of your clients are calling and asking if this is the time to sell out. You find yourself sending out messages about the markets more often. More handholding takes place, and advisors themselves experience a certain degree of paralysis and trauma. Behavioral finance doesn’t just affect clients; advisors are not immune to reacting emotionally to market shifts. How many advisors aggressively rebalanced back to equities in March 2009?

Your internal expenses (and blood pressure) go up precisely when revenues go down, and one could argue that the value of your advice is greatest when blood is running in the streets. Normal businesses can lay off workers during difficult times, but for your firm, it’s just the opposite; you need more capacity during revenue shortfalls.

Having a retainer or hourly component to your models will help stabilize revenues, and keep your firm solvent during the times when your advice is most valuable and your staff is working hardest. They keep your ship afloat and provide fewer distractions when your clients need you most. In that aspect, they are clearly superior to an AUM revenue model.

Of course, on the other side, when markets go up, the AUM model provides a built-in raise for your clients. Forgoing these auto-increases leaves money on the table. The solution may be to revisit fees every three years, and revise them based on rising internal costs and/or increasing (or decreasing) client complexity.”
WHERE IS THE PRESSURE ON INVESTOR FEES COMING FROM?

ROBO-ADVISORS
Despite all of the media coverage, only 15% of advisors are feeling pressure to lower their advisory fees as a result of robo-advisor competition.

SMALLER ACCOUNTS
74% of advisors use the same amount of resources on small clients as they do on larger clients. Of those who have changed their fee model for smaller accounts, 23% use a monthly or quarterly retainer, or AUM fee with retainer or robo-platform.

CURRENT CLIENTS/PROSPECTS
54% of respondents say they receive questions from existing clients and new prospects about fees.

Source: SEI Survey, Advisor Fees, August 2015, n=775.
Research implications and considerations

There is no right or wrong model. What should you do? Continue with your current model or proactively change? Both approaches can be justified depending on who you are and, equally important, who your client is. Your pricing model will depend on the type of clients you are targeting, your firm’s culture and your growth goals.

Assess your current client base. The median age of full service investors is 61 years and the age factor steps up a whole year every nine months. You may not feel the pressure now, but more than likely you’re not talking to younger investors. As boomers begin to spend down their portfolios, advisors seeking to grow their practices will need to find new ways to replace those fee-bearing assets. Will your business model work for the next generation? Next generation investors have different needs, different financial profiles, and different demands. The most successful advisors are devising programs for lower-net-worth millennials with a modified fee structure that replaces some AUM charges with an annual retainer.

Not feeling pressured? No problem. If you are not feeling pressure from your clients to move, then think hard before doing so. Let others do the groundbreaking and learn from them as they evolve. The industry will take time to move, if in fact it does. Some clients will ask why you didn’t adapt your pricing strategy earlier. Your best response may be that it is a complex issue, and that clients may be giving up simplicity for choice, and that only time will tell if and how the algorithm-based models work.

One don’t: Don’t arbitrarily reduce your AUM fee because you read in the news that fee compression is inevitable. The analysis outlined in this paper should boost your confidence and let you step forward from a position of strength when the time is right.
The conflicts issue

“Before you leave this report, the reader should consider one other important issue regarding AUM fees vs. retainer or hourly. Advisors who move to a retainer or hourly model (or toward those models through some kind of hybrid arrangement) are reducing their conflicts of interest in the client relationship.

Whenever I’ve raised conflicts of interest as an argument in favor of converting from AUM, I get a lot of pushback from other well-known pundits. They tell me that advisors would simply ignore those conflicts. If a client comes to their AUM-compensated advisor, and wants to put money in a real estate investment or pay off his mortgage, the advisor will give advice that is in the client’s best-interests, even if it diminishes the AUM.

There’s no serious debate that many advisors would, indeed, give that advice. But we’re in danger of forgetting that the existence of conflicts of interest has other impacts. Conflicts raise questions and doubts all by themselves, regardless of how advisors respond to them. If a client asks you to vet a complex $2 million real estate deal, you have two choices. You can recommend that the client take a pass on the deal, in which case the client is free to wonder if you made that recommendation based on the $20,000 annual revenue a different recommendation would have cost you. If, on the other hand, you said that the deal looks like a good one, and $2 million flows out of the client’s account to buy the property, it just cost you $20,000 a year to give good advice. Is that the ideal outcome in either case?

It’s worth remembering that during the long messy transition from mostly commissions to mostly (or all) fees, commission-compensated advisors argued that they, too, ignored the conflicts of interest posed when one product paid a lot more than another. History has shown that many did not.”

The long-term trend in the profession is away from conflicts of interest. If that trend is going to continue (and I believe it is as inexorable as gravity), then retainer or hourly fee structures are the future of the profession. Fail to prepare for them at your own risk.
Refined fee models and approaches for unique circumstances

Advisor pricing strategy is a complex topic. Even when you think your model has considered all the possibilities, you’ll encounter specific issues depending on the age of your firm, your culture and your target client. In this section, we focus on some of the nuances.

Financial planning: To charge or not to charge

When a new client is engaged, it can take two months to a year to transfer assets to your firm. The largest share of the work starts immediately with building the core of the financial plan. Should you charge for the plan or give it away? Most planners charge for the planning effort — from $1,500 to $10,000, depending on the complexity of the client’s circumstances. Doing so ties value to cost, however, it is a large expense to impose on a new relationship. Some advisors see that as a good test of a client’s commitment, while others see it as a way to lose a prospect. Most advisors fold the ongoing financial planning fee into the AUM fee, but the tendency is to skimp on future planning once the initial comprehensive plan is complete.

Keep planning at the front of your client relationship.

› If you schedule two meetings a year, we recommend that you focus one on planning and the other on asset management.
› Conventional wisdom dictates that a life event (house, job change, marriage, baby, divorce, death) happens once every three years; such events tend to be more frequent for younger clients between the age of 25 and 40.
› If no such event is suggested by your client, create a reason to review the plan. It is not difficult; changing legislation, macro-market conditions, philanthropy are all good reasons. Often these “surprise” agendas are a sure way of showing your value, especially if it’s something the client hadn’t thought much about.
› If the plan is a living set of goals and life levers built into your software, each event is an opportunity to co-plan with the client. It validates the existing goals, which are often provoked by a new event, and adds the new goals that emerge.
› The yearly planning meeting becomes an event that both the planner and client look forward to.
Comprehensive planning firms

In general, if you are a comprehensive planning firm, we suggest that you charge for the initial development of a financial plan. Doing so shows the client the key value of the relationship from the onset.

› It is a test to see if the client wants a real advisor.
› Attaching a value to the plan pushes the relationship into the planning sphere, a far richer one than just investment management.
› Perhaps it is a law of human nature that dictates clients will take anything that’s given away for free, but will invest time and effort into something — and value it more — if it has been paid for.

With this approach you have moved into an ongoing planning relationship with your client and provided a valid reason for an ongoing fee, whether it’s a retainer or included in the AUM fee.
Accommodation/smaller accounts

Many advisors bring on accommodation accounts, often as a courtesy for client family members or referrals. And, because an advisor’s instinct is to provide great service, they often overservice these small clients. Many would argue there is no such thing as overservicing, but if you’re paying attention to the bottom line, there is.

The AUM fee model breaks down for smaller accounts. For example, if a client has $100,000 of investable assets, an annual 100 bps AUM fee generates $1,000. It is hard to provide service at this level.

First thing to decide: Do you want to have smaller account clients, knowing that they will become large clients? Do you want to focus on the HENRYs (High Earning, Not Rich Yet)? If this is the case, you need to change your model significantly. Is it an accommodation? Or, do you always say no?

In any of these situations, it makes sense to have a different fee schedule for smaller clients. The emerging way to do this is a flat retainer varying from $600 to $5,000/year (depending on service and reason for these smaller accounts). $2,400/year or $200/month is equivalent of 100 bps on $240,000.

The retainer disappears when an AUM threshold is reached. You’ll want to smooth the path from retainer to the AUM fee arrangement.

Innovative model based on household income and net worth

In our research, we uncovered an innovative model that is interesting and truly objective. The model developed by Atlas Wealth Advisors (atlaswealthadvisors.com) creates an advisor fee using a client’s income and net worth.

“ Wealth management is evolving at an exponential pace and the way we charge needs to do the same,” says Kyle Walters, CFP®, founder of Dallas-based Atlas Wealth Advisors. “Rather than a one-size-fits-all approach, we developed a tiered pricing strategy for our clients that is fair, transparent and aligned with their goals. The income and net-worth matrix represents a unique formula that is good for everyone, but especially effective for entrepreneurs and medical professionals with high incomes who are currently being ignored by our industry. The client pays an annual retainer of $2,000 to $24,000 — and benefits from our comprehensive wealth management services that are tailored to their needs.”
We like this pricing model for several reasons:

› It works really well with HENRYs (e.g., young professionals, including doctors) who may not have a large net worth yet, but do have high income.

› Here, the advisor considers how debt should align with investments, and so provides debt management services in addition to investment services. The net-worth approach also considers real estate. For most advisor models, real estate as an investment does not fit into fee models. In this model it does; an advisor can then build services around real estate investments and be compensated for them.

› The fee is not tied to the markets or performance of the investments — so the advisor is paid the same whether markets go up or down.

Most people seek to increase their net worth and household income. This model aligns the advisor fee with attaining those universal financial goals.

Assets under advisement: To charge or not to charge

› Assets under advisement (AUA), or “assets held away,” are assets that are not under your direct management or custody. Thanks to the power of aggregation solutions, assets such as those held in 401(k), 403(b) and 529 plans can easily be monitored.

› Personal financial management software and tools robo-advisors use to aggregate data from a variety of accounts have become invaluable. Many of these are free to advisors who use aggregation solutions.

› Most advisors do not charge a fee for held-away assets yet still provide clients investment/allocation advice that the client then implements. The advisor benefits from a good view across client holdings, and when there is an IRA rollover, they are well positioned to manage those assets.

› Some wealth advisors have built their services on a holistic planning foundation, affording them deep insight into all their wealthy clients’ holdings. They charge for the coordination, performance reporting and advisement on those held-away assets.

This model makes sense for advisors who work with HNW investors who value and are willing to pay for the service. Advisors must properly disclose the arrangement and be able to demonstrate their ability to monitor and advise their clients on asset allocation and risk management controls as well as provide comprehensive reporting.
Fee-change early adopters

Much has been written about the traditional advisory model that favors baby boomer clients over younger investors. According to an article in The Wall Street Journal, investors pulled some $11.4 billion from their retirement accounts in 2013, reversing years of growth after a generation of contributions. As more boomers retire and access their accounts, it will mean fewer assets for advisors to manage — and, consequently, lower revenue. Until recently, our industry has ignored younger clients — for obvious reasons.

Typically, millennial advisors focus on Gen Y/Gen X clients. However, this is not the only case. Plenty of young advisors are starting firms and focusing on the same clients as older advisors do. In this section, we will focus on young advisors. While robo-advisors have been technology disruptors, young advisors have been the advice disruptors in terms of the fees they charge. Why? Young advisors are starting advisory firms and some are differentiating themselves by:

▷ Offering fee-only and/or retainer-based services
▷ Using technology to interact with clients
▷ Being niche-focused (e.g., young executives, young doctors, teachers)
▷ Leveraging communications technology to transcend locality — they often serve a national client base from the start
▷ Providing advice to a much broader audience
▷ Helping each other
▷ Using a combination of social media and the press effectively

Gen Y advisors realize they need a different pricing model to connect with younger clients and support the way they do business. The approach comes natural to the younger advisors and plays to their strengths. More importantly, they have managed to differentiate their offering from seasoned advisors and compensate for relatively limited experience.

But the key issue for them is how do you run a profitable practice if your clients don’t have a lot of money? The answer: the retainer model. Younger consumers are used to paying fixed fees for services they value — whether it’s their cell phone, personal trainer or yoga class membership, these are considered nondiscretionary expenses.
A new study from Hearts & Wallets looks at the robo-phenomenon through the prism of trendsetting millennials, comparing robo-advisor brands as perceived by investors ages 21 to 39. They estimate the market segment represents 34.2 million households that make decisions involving more than $2 trillion in investable assets. Even more important than millennials’ current asset totals, is their potential for substantial future earnings and wealth inheritance — and their trendsetting attitudes on technology and customer experience.

Most Gen X/Y focused advisors charge between $100 and $200/month for their services — and the math works. For example, if an advisor charges $150/month and the investor has $100,000 in assets, this is the equivalent of an advisor fee of 180 bps. The fee is a comfortable and painless expense especially for the HENRYs (High Earning, Not Rich Yet) niche. Payment can be a standing order from a credit card, a bank account or an investment account. More importantly, the value of the services has been disassociated from the amount of assets, and you can have a profitable client.
Focus on XY Planning Network: A conversation with co-founder Alan Moore

**XY Planning Network** is the leading organization of fee-only financial advisors that specializes in working with Gen X and Gen Y clients. The network, launched by 28-year-old Alan Moore and Michael Kitces, serves younger clients over the web and focuses on big issues, such as career, saving, home buying, college, insurance and taxes. Moore recently sold his practice to focus on XY Planning Network (XYPN) full-time. As of January 2016, the Network boasts 186 members and is growing at a pace of 10 new members per month. As for demographics, about one-third of all members are female — as compared to 26% for traditional firms — and the median age is 36.¹

Moore believes that “like the robos did with technology, millennials are the advice-industry disruptors.” The XY business model favors retainer fees that range from $150 per month on the low end to several hundred dollars per month, depending on the target market. “The retainer fee model is supporting a new generation of small entrepreneurs,” he says. “The difference is that, while the old-school model was fixated on assets, the new school is outsourcing the investment component and focusing exclusively on financial planning. For many, the goal is not a million-dollar business, but to build one in the $200,000 to $500,000 range that is meaningful but allows flexibility,” he explains.
These younger advisors are not only perfecting their niche marketing strategies — working with athletes and celebrities on the high end, but also school teachers and student loan experts — they’re capitalizing on a whole new advice model that centers on new communications, such as text, video and email.

Moore does not believe fee compression is an inevitable trend. “Advisors don’t explain how much value they add,” he claims. “As an industry, advisors have to get better at articulating and demonstrating their value to avoid fee compression.” But he believes the next big challenge on the horizon is recruiting next generation advisors. “Younger talent is in short supply. These advisors want more input and a clear path to partnership. Otherwise, they will be more than willing to continue running their own businesses,” he says.

He predicts that in 10 years AUM will not be the dominant fee structure for financial advisors; the retainer model will. Part of his prediction hinges on hope as he fervently believes it is a much better model for everyone. “AUM is like a drug,” he says, and “it’s difficult to wean advisors off of it. A bear market could very well be the catalyst for change. The industry has changed,” Moore asserts. “Retainers and the way that advisors charge is one thing, but the evolution underway is so much broader. The way that advisors service their clients is changing profoundly.”

**Moore’s retainer model is simple and straightforward:**

**Assumptions**

› The financial advisor has 100 clients with an average of $50,000 in investments.
› Each client pays $1,000 up-front, and a $150 per month retainer, plus 1% of AUM.

<table>
<thead>
<tr>
<th>Income/Expenses</th>
<th>Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial up-front fees</td>
<td>$100,000</td>
</tr>
<tr>
<td>Recurring revenue</td>
<td>$180,000</td>
</tr>
<tr>
<td>AUM fees</td>
<td>$50,000</td>
</tr>
<tr>
<td>Annual salary, junior advisor</td>
<td>$60,000</td>
</tr>
<tr>
<td>Equipment, technology (one-time expense)</td>
<td>$10,000</td>
</tr>
</tbody>
</table>

In this example, the junior advisor’s salary may vary, depending on location, experience and education. And the initial up-front fee to cover the cost of financial planning could be increased to $200. Still, the $230,000 of recurring revenue yields $170,000 in annual profit. And those assets will grow over time, and so will the fees advisors collect on AUM.
The next wave of outsourcers

“If my predictions are correct, the services that clients are willing to pay for will undergo a fairly dramatic shift over the next 10 years, from asset management to financial planning and ongoing coaching. Financial planning will become increasingly personal; therefore, increasingly labor intensive, despite the ongoing efficiency improvements offered by technology. One initial client meeting will become five in the onboarding process. Advisors will keep track of clients’ personal goals in their CRMs, and facilitate their progress through coaching and helping them find outside professionals.

Where will they get the extra time to do these things? When asset management was the service advisors led with, there was a temptation to give short shrift to the planning work. I think we’re about to experience the opposite dynamic.

In the past, a cohort of advisors outsourced asset management to a white-labeled third party. The primary activity of these ‘asset gatherers’ was sales and managing the client relationship. I expect that the ‘asset gatherers’ will gradually age out of the profession, losing market share because they aren’t providing the primary financial planning service that investors increasingly look for from the profession.

But the third-party asset management platforms — whether they be TAMPs, robo-platforms or institutional outsource providers — will pick up a new cohort of relationships from firms that want to concentrate their human capital on financial planning and coaching work. I believe this will be a positive evolution in the professional service model; more firms will be providing labor-intensive planning services and giving their clients professional asset management.”

Think you’re ready for an advice-based fee model?

Shifting the way you get paid may seem daunting, but we’ve broken the process into seven easy steps to give you practical guidance. The steps include considerations, examples and suggestions for different types of practices. And as always, we’re available to answer your questions and help you along the way.
Revisit your value proposition: Your value proposition is the basis of your firm’s business model and, increasingly, the evidence suggests it should be based on meeting clients’ goals through financial planning and advice.

- **Consider why your clients hired you.** Why did they originally hire you? Would they hire you again? How do they perceive you now? How do you want to be perceived? Is there a gap between the two?
- **Do your clients see you as a problem solver,** a consultant and a source of sound advice? What is your service? Is it broader than investment management? Does your client understand the broader value of your coaching?
- **Clarify and update your value story.** To differentiate your firm from competitors, revisit your what, how and why. Dig deep for your why statement; this is where you’ll need to reflect passion for your profession to create an emotional connection.

For more guidance on developing your value proposition, review our value proposition worksheet. Once you’re satisfied that your value proposition is aligned with your firm’s pricing strategy, develop the means to ensure that pricing is administered consistently.

Continue moving from commission to advice-based:

If the bulk of your compensation is from commissions, we encourage you to think about adopting an advice-based model. Whether it’s an asset-based fee, retainer, or a hybrid pricing strategy, transitioning your business model will require added diligence and patience in the short run, but greater transparency and sustainability over time.

- **Develop a strategy to convert your existing book**
  - What types of clients do I most enjoy working with?
  - Which aspects of my work do I like best?
  - Which functions would I like to be less involved with?
  - How many clients do I want to serve and how much staff will I need?

- **Transforming your model from product salesperson to your clients’ wealth manager**
  - Deepen your client relationships and result in greater wallet share and increased referrals
  - Create recurring fee income that builds a predictable future for your firm
  - Create a more salable business

- **Ensure that your clients understand the value of what they are getting**
  - Use metrics to evaluate how you are helping clients stay on track toward achieving their goals
**Scrutinize your costs and profitability:** Even if you don’t charge an hourly fee for your services, you should know what your time is worth and how much time it takes to perform various tasks — from financial planning to investment strategy development. Completing Step 3 will help you identify your most profitable and valuable clients and help you quantify the cost of delivering your services. We suggest advisors do a deep dive on their revenues, expenses and profits. Here’s a back-of-a-napkin approach to help you set a directional course.

At the very least, the cost of your time should be less than the revenue your client generates. Here’s an example of what it looks like:

<table>
<thead>
<tr>
<th>Description</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Hourly Rate (HR)</strong> = Gross revenue / 50 working weeks per year / 5 days per week / 7 working hours per day</td>
<td>Gross revenue is $500,000, then HR is $286 per hour</td>
</tr>
<tr>
<td><strong>Time spent with the client</strong> is your hours spent on prep for meetings, client meetings, calls with client and portfolio management</td>
<td>15 hours per client</td>
</tr>
<tr>
<td><strong>Client revenue</strong> is calculated from advisory fees, 12(b)1s, and any other ancillary fees</td>
<td>Client with a single AUM fee of 100 bps on $500,000 = $5,000</td>
</tr>
</tbody>
</table>

**Your expense is: $4,290, compared to the total fee, which is $5,000**

This obviously is not a profit figure, as staff time, taxes and other expenses are not factored in. However, if you perform this simplistic, easy equation across your clients, you can quickly see (relative to one another), which clients are more profitable. And, the exercise provides valuable information for the next step.
Segment your clients and target markets: We strongly urge advisors to consider different fees for specific client segments. That takes time, thought and effort, as most advisors charge the same fees for all clients no matter what the service or complexity of the client account.

- If your firm is large enough, consider segmenting your client-base
  > It is more than just level A, B, C, and D clients.
- Create different services for different segments. The service variables include:
  > The seniority of the client’s advisor
  > The number (and type) of meetings with the client each year
  > The types of investment products
  > The range of your services that the client will need (and value)
  > The type of reporting that will be provided
  > The parts of your network the client will use (e.g., CPA, attorney)

We offer a simple methodology to segment clients who may work for your firm as you begin to adopt a new fee model. The first group of clients to speak to about your new pricing strategy will be your outsourcers. Once you have refined your talking points and become more comfortable explaining why you are changing your fee model, you will be ready to move on to more challenging clients.

<table>
<thead>
<tr>
<th>Outsourcers</th>
<th>Semi-outsourcers</th>
<th>Analytical</th>
<th>Highly Analytical</th>
</tr>
</thead>
<tbody>
<tr>
<td>Have full faith in your decisions and agree to your recommendations.</td>
<td>Believe in your decisions and agree to most recommendations, but typically ask for more information.</td>
<td>More critical, need to be convinced of the benefits of your recommendations and sometimes ask for evidence that validates your suggestions.</td>
<td>Highly sophisticated, typically require joint presentations with your platform partner.</td>
</tr>
</tbody>
</table>

Fully understand how you will service these segments
**Assess your technology:** For advisors considering a pricing change, technology must factor into your decision early. Evaluate systems to improve advisor productivity, support pricing strategies and reduce processes that are not value added. Many firms rely on their vendors’ tools or in-house programs to track and pay advisors. These may need to be refined or upgraded to accommodate more complex and hybrid fee arrangements.

- **Evaluate the systems** you have in place today to collect client fees
  - Does your custodian offer what you need for complex fee models?
- **Consider credit card or direct debit** from a checking account
  - Clients are used to this model
  - Easier for RIAs
- **Automate as much as you can**
  - You don’t want the fee collection to be a constant client conversation
- **Outsource everything** except your client relationship and value proposition
  - Use the resources and expertise of strategic partners and focus exclusively on the human connection that differentiates your services and enables you to grow.
  - From portfolio management to CRMs and account aggregation, outsourcing assures you the latest, most competitive solution and the most cost-effective way to render excellent service to your clients.

**Adapt your fee structure (if necessary):** This multifaceted step requires planning. Having accomplished Steps 1 to 5, you should arrive at a pricing strategy that makes sense for your business. You will have assessed the competitive environment, confirmed your value story and considered the risks and opportunities associated with your decision.

- **Do you have an existing book?**
  - Think carefully before engaging current clients
  - Easier for a new firm or a new segment for an existing firm
- **Choose the right fee model for the segment**
  - Can be different tiers
  - Can be different models
- **Ensure you understand the profitability of the segment**
  - Have a clear goal for profitability for the segment
  - Historically, wealthy clients have subsidized the smaller clients
- **Ensure that the different models mesh across your book**
  - As the client requires more services, your fee models should support the transitions

**Related tasks**
- Talk to your service providers for support and validation
- Meet with your staff to explain why the firm’s pricing structure is changing and how it will be implemented
- Review and update your materials when necessary — printed and digital
- Develop a detailed timeline for implementing the new fee structure
# A Guideline for Fee Modeling

As you go through the process, the following is a guide for what might work in different situations.

<table>
<thead>
<tr>
<th>FEE MODEL</th>
<th>GOOD FOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brokerage/commission</td>
<td>› Advisors who focus on smaller accounts</td>
</tr>
<tr>
<td></td>
<td>› Advisors who include product (insurance)</td>
</tr>
<tr>
<td>AUM</td>
<td>› Advisors with a legacy AUM business</td>
</tr>
<tr>
<td></td>
<td>› Advisors with a clear value proposition who want simplicity</td>
</tr>
<tr>
<td></td>
<td>› Investment advisors</td>
</tr>
<tr>
<td></td>
<td>› Lifestyle advisors</td>
</tr>
<tr>
<td>Retainer/fee for service</td>
<td>› New advisors looking for differentiation</td>
</tr>
<tr>
<td></td>
<td>› Larger advisors for their smaller accounts</td>
</tr>
<tr>
<td></td>
<td>› Advisors focused on Gen X/Gen Y</td>
</tr>
<tr>
<td>Hourly</td>
<td>› Family office</td>
</tr>
<tr>
<td></td>
<td>› Advisors who are part of a larger firm (e.g., trust, legal or CPA firm)</td>
</tr>
<tr>
<td>Menu</td>
<td>› Advisors using passive investments</td>
</tr>
<tr>
<td></td>
<td>› Larger advisors with deep planning services</td>
</tr>
<tr>
<td>Household income + net worth</td>
<td>› Advisors providing broad wealth management services</td>
</tr>
<tr>
<td>Financial planning (as a separate fee)</td>
<td>› Advisors not offering investment advice</td>
</tr>
<tr>
<td></td>
<td>› Planning firms with financial planning integral to the value proposition</td>
</tr>
<tr>
<td>Assets under advisement (as a separate fee)</td>
<td>› Advisors for ultra high net worth as long as you’re providing performance and advice</td>
</tr>
</tbody>
</table>
Implement your fee structure and migrate your clients: Once you’ve segmented your client base and determined how your pricing strategy will change, you may choose to implement the plan in stages.

- **Create a disciplined migration plan**
  - Don’t do it all at once
  - Do new clients first
  - Do tough clients last when you have worked out the kinks

- **Review with clients before implementing**
  - Review with multiple clients and iterate

- **Communicate well**
  - Work out how to communicate (in person or phone call)
  - Might be different by segment
  - Communicate often

- **Identify clients most likely to balk**
  - Work on your rebuttal
  - Some will use this as a time to look around

**How to talk fees with your clients**

Whether you’re making a small change or a large wholesale one, scripting your position can provide the confidence you need to present your decision persuasively. For additional support, consult our sales aid, “Talking to your Clients about Switching to Fee-Based,” that offers several thematic approaches to give your conversations traction.

**One unalloyed benefit**

“If the profession does eventually move beyond the AUM revenue model, we would all enjoy one extremely beneficial ancillary effect. People would no longer measure advisory firms based on whether they have $20 million, $100 million or $1 billion AUM, and magazines would stop ranking firms based on AUM, as if that had any relationship at all to the quality of the firm or the quality of service it provided to its clients.”
About SEI

SEI (NASDAQ:SEIC) is a leading global provider of investment processing, investment management, and investment operations solutions that help corporations, financial institutions, financial advisors, and ultra-high-net-worth families create and manage wealth. As of September 30, 2015, through its subsidiaries and partnerships in which the company has a significant interest, SEI manages or administers $638 billion in mutual fund and pooled or separately managed assets, including $245 billion in assets under management and $393 billion in client assets under administration.

The SEI Advisor Network provides financial advisors with turnkey wealth management services through outsourced investment strategies, administration and technology platforms, and practice management programs. It is through these services that SEI helps advisors save time, grow revenues, and differentiate themselves in the market. With a history of financial strength, stability, and transparency, the SEI Advisor Network has been serving the independent financial advisor market for more than 20 years, has more than 6,100 advisors who work with SEI, and $48.7 billion in advisors’ assets under management (as of September 30, 2015). The SEI Advisor Network is a strategic business unit of SEI.
About John Anderson
John Anderson is the managing director of Practice Management Solutions for the SEI Advisor Network. He is responsible for all programs focused on helping financial advisors grow their businesses, create efficiencies in their operations and differentiate their practices. John is frequently quoted in publications, such as Investment News, Financial Planning magazine and The Wall Street Journal, and is a frequent speaker at broker-dealer conferences, client seminars and other industry forums. He is also the author of SEI’s practice management blog, Practically Speaking, found at seic.com/practicallyspeaking. Alongside his practice management responsibilities, he also manages a team that provides investment research, case support and analysis to bolster the efforts of SEI’s advisors.

About Raef Lee
Raef Lee serves as a managing director and head of New Services and Strategic Partnerships for the SEI Advisor Network. He is responsible for the identification of new services and markets for the SEI Advisor Network. Raef defines new product offerings for advisors either by partnering with best-in-class companies or shepherding the requirements into SEI’s development teams. In addition, Raef identifies ways for the Advisor Network’s innovative business model to be leveraged in new markets.

About Bob Veres
Bob has served as a commentator, author and consultant in the financial services industry for more than 20 years. He is editor and publisher of Inside Information, an interactive, subscription-based information service for financial planning professionals. He is the author of “The Cutting Edge in Financial Services” (National Underwriter Press), and serves as contributing editor and columnist for Financial Planning magazine. Bob has been named one of the most influential people in the financial planning profession by Investment Advisor and Financial Planning magazines, was granted the NAPFA Special Achievement Award by the National Association of Personal Financial Advisors, and most recently the Heart of Financial Planning Distinguished Service Award from the Denver-based Financial Planning Association.

Special thanks to our contributors
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Contact an SEI representative for more information, insight and guidance about steps you can take to maximize your business and spend more time with clients.

Visit seic.com/advisors or call 888-734-2679.

Primary research included two surveys conducted in 2015:
• Intermediary Survey on Advisory Fees; August 2015, n=775.
• SEI Analysis of Phoenix Marketing International Consumer Survey, April 2015, n=539.

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