How to Develop a Fee Schedule
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Too many advisors share a reluctance to charge what they are worth. That fear is both a philosophical and a business issue. To overcome it, here are several factors to consider when designing your fee schedule.

The services you provide

In September, I wrote an article on menus of services. I mentioned a variety of ways in which advisors help their clients. I am a big proponent of ongoing, comprehensive financial planning. Offering comprehensive planning services is a philosophical decision – it broadens your mandate beyond merely managing a client’s investments.

If you are not charging an annual fee for financial planning and would like to, refer back to my article. Use my menu of services document as a tool to help facilitate a conversation about the various ways you can help your clients.

Begin by offering annual financial planning to new clients from the beginning. Make this part of your standard operating procedure.

Once you are comfortable having this conversation with new clients, discuss annual planning with your existing clients. Walk them through the menu of services, ask them which areas are of concern to them and which areas they don’t fully understand. Then, share your thoughts on the benefits of annual planning. State that you are working in this manner with all of your new clients and want to offer the service to your existing clients.

Here’s a reminder of some of the benefits of annual planning:

1. It helps clients articulate their goals and dreams. Each year, they will gain more clarity around what they want to achieve. This can allow you and them to make minor adjustments to your strategies in order to better reach those goals.

2. By keeping these goals and dreams in the forefront, you can reinforce the need to act in a way that is necessary to reach their goals. Your clients will remain motivated and disciplined to do what is needed. If they become too far removed from their goals, it is easier to stray off course.
3. Accountability is increased. You, as the advisor, will be kept in the loop with regard to their actions. If you review income, expenses and account values on an annual basis, it is harder for clients to hide large expenditures from you.

4. Annual planning allows you to take advantage of new investment vehicles, tax law changes, estate planning changes and the like.

5. Remaining focused on the goals and having a plan in place to help your clients achieve these goals provides you and them with peace of mind.

6. Clients have you as a go-to person to discuss anything related to their financial situations. Because you will already be familiar with their situations, you will be in a better position to help them.

7. People with plans tend to be more successful in achieving their goals.

**Compare ongoing financial planning to annual check-ups with a doctor**

Most people understand the various stages of cancer – stage one being an earlier stage than stage four.

The reason you go to a doctor on an annual basis is to find any illnesses or diseases at an early, treatable stage. You have a higher likelihood of success treating stage-one versus stage-four cancer.

Transfer this same logic to annual financial planning. As the advisor, you have a higher likelihood of helping your clients recover from a stage-one mistake than a stage-four mistake. If you do a thorough annual review of clients’ situations, you can address the consequences of bad decisions or bad habits before they become crises. If you find out about something at stage four (three, four or more years after the fact), it will be more difficult to recover.

**Fees based on complexity**

Some advisors offer financial planning for a flat fee, with every client paying the same amount. Instead, I encourage advisors to offer a range of fees based on the complexity of the case before them.

Consider these two cases:

1. A pre-retired couple who has been married to each other for 37 years and have two children who are financially independent. Both the husband and the wife have saved into their 401(k) plans and have a substantial sum of money. Their home is almost paid for and they have completed basic estate planning.

2. A pre-retired couple who have both been married previously, both having children from prior marriages. The husband started a company during his first marriage and one of his children helps run the business. None of their other children have any interest in working in the business. The
wife’s first husband passed away and left a significant sum of money to her, along with three rental properties and a vacation home.

Both of these couples have come to you for help preparing for retirement, but one situation is much more complex than the other. The fee that you quote each couple should reflect that variation of complexity.

The fees you charge need not be equal, but they should be fair.

What you are worth

Don’t confuse your worth with how easy something is for you. This is a common mistake.

If you have been in the financial planning business for a while, you are likely able to assess a prospect’s situation in the initial meeting and develop a fairly good plan for them on the spot. After all, you have advised hundreds of clients during your career, so any particular situation rarely poses a challenge.

Just because something is easy for you does not mean there is a low monetary value to it. Consider if you were to bring case number two (above) to an estate-planning attorney who has seen many similar cases over the years. Would you expect the attorney to charge a minimum fee because the case is easy or a premium due to his or her many years of experience?

The actual and perceived value you bring to your clients

Your worth should be based on factors such as your years of experience, your expertise in a particular area and any designations you have acquired.

You can calculate taxes and administrative fees that will not be paid due to proper estate planning. It is always a good idea to illustrate these benefits to your clients.

The value you bring to your clients is also qualitative, which is harder to calculate. Have you ever helped a widow understand and believe that will be okay financially without her husband? Have you ever alleviated strain in a marriage because you were able to develop a plan that allowed the saver to loosen the grip on the bank account and enjoy life a bit more with his or her spouse?

Although you can’t put an actual price on these scenarios, these are the types of situations in which the perceived value is much more important to your client than the money you saved them.
Fees on top of fees

A philosophical discussion often arises when clients raise the concern that they already pay significant fees for asset management.

There are a few ways you can go:

1. Decide that clients with a certain level of assets, such as $500,000 or more, can receive annual financial planning as a part of their asset-management fees.

2. Decide that annual planning is a distinct and separate service from asset management and deserves to stand on its own, with its own fee schedule.

3. Decide that the first year of planning contains the most work, so it should be a service with its own fee. In subsequent years, once assets have been positioned and insurance products have been put in place, updating the plan will be easier. You can roll the planning service into the asset management fee or keep the planning fee separate, but you can lower the fee in either case.

No matter which option or combination of options you select, it is important to be paid for the work that you do. Amid holding meetings, inputting data into planning software, circling back to clients for missing data, researching, strategizing and putting final deliverables into presentable packages, you are looking at a considerable time commitment for each client. Even if you delegate a good portion of the work, you should be compensated.

Never think of the financial plan as a loss leader for gathering assets or selling other products.

How to come up with an appropriate fee schedule

Here is a good reminder I often share with advisors. I’m not sure where it came from, but I take it to heart.

If no one complains about your prices, they are too low. If almost everyone complains about your prices, they are too high. Resistance of 15-20% is about right. If resistance begins to creep up to 25%, start scaling back.

It sounds like Goldilocks, but I have found this advice to be very instructive.

If after all of this, you still can’t decide how best to set your fees, consider putting together a focus group to tackle the problem. Ask a handful of clients to come together for the benefit of your business (and, hopefully, to improve the service you provide). A focus group can include any type of participant. Consider including a wholesaler or two that you respect, other local business professionals that might be struggling with how best to set their fees or a group of local advisors that could benefit from the subject matter and a lively discussion of the topic.
No matter how you come to your decision, take the opportunity to analyse and review your fee schedule while putting together your 2014 business plan.

For the past 16 years, Teresa Riccobuono has been a professional organizer, business consultant and practice-management specialist to the financial services industry, helping advisors bridge the gap between their existing and their ideal financial planning practice. Although she lives in the San Francisco Bay Area, she works with advisors across the country. She is a member of the board of directors of the East Bay Chapter of the Financial Planning Association and is currently the co-chair of its public relations committee.

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