# Fees in (Slow) Transition

**Synopsis:** ***Ever wonder whether the firm down the street is experimenting with how it charges clients? Here's a look at the state of the profession's revenue model.***

**Takeaways:** ***Nearly all firms are charging some of their clients based on something other than AUM. But nearly all are charging AUM for most of the people they work with.***

At last count, there were an infinite number of ways for financial planners to bill for their services. They might or might not charge a planning fee, and the planning fee can be anything from a few hundred dollars to over twenty thousand. If they charge AUM, they might bill in advance, in arrears or based on the average daily balance over the month or quarter, and there are many possible variations of where the breakpoints would start, and whether they would be cumulative (that is, if the account is above $1 million, then the entire account would be charged a discounted fee) or incremental (anything below $1 million is assessed one fee, anything from $1-2 million is assessed another, etc.). There can be additional hourly billing, and of course the entire fee might be assessed on an hourly basis, a subscription basis, on a fixed quarterly retainer that does or does not automatically escalate at the inflation rate—or some combination of all of those, plus an AUM fee or not, and those fixed fees could be based on net worth, complexity or the phases of the moon.

As most of you know, *Inside Information* has conducted two fee surveys, focused primarily on several fee levers: how much were advisors charging for the up-front plan (if anything), how much was charged for AUM and where were the breakpoints, and most interestingly, how many advisors were experimenting with non-AUM fee structures—and if so, what kind? The most recent survey found that a majority of advisors are charging at least some of their clients via one of the non-AUM methodologies, and flat quarterly fee plus AUM was the most popular alternative option.

> ***Advyzon's research shows that 92% of advisory firms are using multiple fee structures with their clients.***

To gather that data, of course, I had to ask advisors to fill out a lengthy questionnaire that asked a lot of nosy questions, and then compile the results on a spreadsheet, teasing out results by comparing this response to that one. But recently, Advyzon, the all-in-one software program that includes client portfolio management, reporting and billing, made the process a lot easier; they looked at the fee structures of more than 1,000 firms that use the system to bill their fees out of client accounts. Their data confirms much of what I found, and adds to some of the nuances.

For example? You can see the full white paper here (*https://engage.advyzon.com/2022-billing-fee-white-paper*), but I can give you some of the highlights in case you're taking a second look at whether (or not) to broaden the way you charge your clients. Start with the different AUM approaches. The report notes that 92% of firms that charge AUM using a blended fee approach—a certain fee for assets below the first threshold, a different fee for assets in the next band (however that is defined) and so forth. 81% are billing quarterly (the alternative is monthly), and 58% are billing on the beginning balance, while 42% bill on the ending quarterly balance on the client accounts. 58% are billing in advance rather than in arrears, although oddly (to me, at least) a number of firms offer both options.

But here's the interesting part: according to Advyzon's survey of the advisory firms that use its software, 92% of all firms (and 95% of firms with over $100 mil-

*"I've never SEEN such worthless garbage. Have the derivatives department put it into nice pretty packages, and we'll sell the hell out of it.."*

lion under management) are using multiple fee structures with their clients. That is, they are offering quarterly or monthly retainers, or hourly, or some combination thereof to at least some of their clients. My guess (the report doesn't say this) is that less wealthy clients with high cash flow are billed at a flat quarterly or hourly rate.

The report says that 39% of firms (and 44% of those larger firms) are charging at least some of their clients on a quarterly flat fee basis. Disappointingly, the report doesn't delve into how many of those flat fee arrangements are a planning (flat) fee plus an AUM (investment management) fee—which I happen to think is going to be the most popular option as advisors transition away from AUM. And (this, too, is disappointing) hourly fees and up-front planning fees are not mentioned, probably because they are not billed out of client portfolios and would be invisible to Advyzon.

The report offers a lot of advice on how to position your fees to clients, but the thing that stands out the most is that the value proposition has definitely shifted from managing client assets (increasingly commoditized) to planning and advice and expertise. Eventually, the revenue model is going to follow this trend, even if it is still playing catchup at the moment.

What seems to be driving the expansion of fee options is the fact that there are many potential clients (high income executives and professionals) who don't have the assets to justify an AUM fee, but have the cash flow to pay on some other model. ■