

Advisory Fees

Is it time to assess your client fee structure?



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

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

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

assessment may confirm that you're right where you need to be with your fees.

Nearly 73% of advisors in the survey primarily rely on AUM fees for their revenues.

– 2020 *Inside Information Fee Report*

Axos Advisor Services recently sponsored two studies that gauged how financial advisors are charging for their services today. The 2020 Inside Information Fee Report was prepared by Bob Veres of Inside Information and the Elite RIA Study was conducted by InvestmentNews. These reports contain a wealth of data about the various types of fee structures currently employed by financial advisors.

This report examines the data in these studies to reveal the most common fee models currently being used by advisors and some trends that are emerging when it comes to advisors' fees. It also offers guidance in how to assess your current fee structure.

What percentage of AUM do advisors typically charge?

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

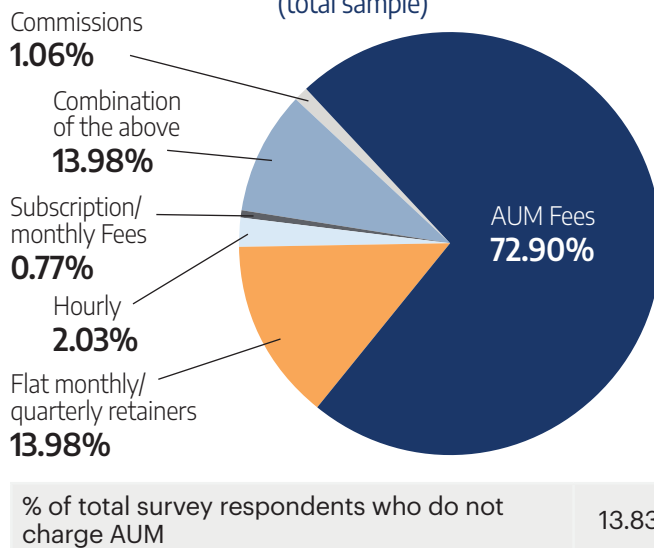
According to the 2020 Inside Information Fee Report, the most popular fee for investment portfolios valued at \$1 million or less is 1% of AUM. For portfolios valued between \$2 million and \$5 million, the most popular fee is 0.8% of AUM. And for portfolios valued at more than \$5 million, the most popular fee is 0.7% of AUM.

The report indicates that a growing number of advisors are willing to work with relatively small clients. For example, only 9% of fee-only advisors said they would turn away a client with a portfolio of just \$250,000 and only 3% said they'd turn away a client with a \$500,000 portfolio. So despite all the hand-wringing about advisory firms imposing minimums on clients, it appears that the vast majority of advisors today are willing to work with less-wealthy clients.

AUM model is the most common fee structure

According to the 2020 Inside Information Fee Report, the AUM revenue model—or charging clients a percentage of their assets under management—is the most common fee structure for advisors today. Nearly 73% of advisors in this survey primarily rely on AUM fees for their revenues. The survey positioned the question as, “What revenue model do you use for the majority of your best clients?”

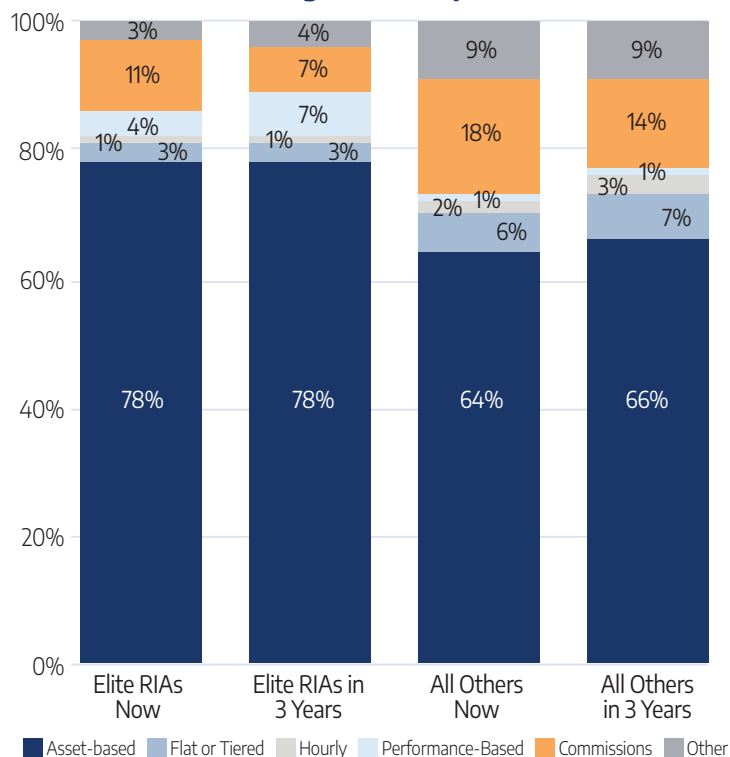
Revenue model for the majority of their best clients (total sample)



Source: 2020 Inside Information Fee Report

About 14% of advisors are charging their best clients a monthly or quarterly retainer fee according to the survey, while only a fraction are charging their best clients an hourly fee (2%), commissions (1%) or a monthly subscription fee (0.77%). About 9% of advisors are using a combination of these fee structures for their best clients.

Average Fee Composition



Source: 2020 Elite RIA Study, InvestmentNews

The Elite RIA Study reflected similar results, reporting that 78% of elite RIAs and 64% of all RIAs (elite and non-elite) in the study currently use an AUM revenue model. Elite RIAs were identified as RIA-affiliated firms with at least \$250 million in AUM that scored in the 50th percentile of both firm productivity (revenue per professional, which includes partners and advisors) and revenue per staff (total firm headcount).

When RIAs were asked in the Elite RIA Study how they set their pricing/fees and to “select all that apply,” 86% of the respondents said they use at least some AUM pricing and 42% said they use at least some commission-based products and services. Twenty-seven percent said they use at least some flat or tiered dollar fees, and 25.1% said they charge at least some hourly fees.

When asked what percentage currently contributes to the RIA firm’s total revenue, nearly 68% said AUM fees and 16% said commissions-based products and services.

To determine fee structures based on advisors’ experience, the 2020 Inside Information Fee Report broke down responses by the number of years firms have been in business. The takeaway is that more experienced advisors are more likely to rely primarily on the AUM revenue model. About 76% of advisors with 20 or more years of experience use this fee structure,

compared to just 53% of those with less than five years of experience. This can be interpreted in several different ways: For example, more experienced advisors may be working with older and wealthier clients who are used to this fee structure.

Another possible explanation is that newer advisors may be working with younger clients who have fewer assets to manage. Almost half of all advisors (44%) said they had developed alternative fee structures to the AUM model as a way to accommodate less-wealthy and younger clients. As the 2020 Inside Information Fee Report states, “It is clear that a large plurality of advisory firms have moved away from pure AUM in order to serve the ‘blue ocean’ of people who have not accumulated AUM minimums.”

Interestingly, a lower percentage of fee-only RIAs are being compensated primarily by AUM fees (68%) than dually-registered (84%) and brokerage/wirehouse (81%) advisors. Among fee-only RIAs who aren’t being compensated primarily by AUM fees, most (19%) are being compensated primarily by monthly or quarterly retainers. Meanwhile, about 37% of advisors use the AUM revenue model only while 33% use a combination of the AUM model and charge monthly or quarterly retainer fees.

When asked what they believe the value of a financial advisor’s time is, the median response among all advisors was \$300 per hour for senior advisors and \$175 an hour for associate advisors.



What is an advisor's time worth?

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

To answer this question, firms must start by tracking their advisors' time. However, less than 20% of firms do so, according to the 2020 Inside Information Fee Report. This percentage ticks up a little to 30% for firms that don't use the AUM revenue model.

When asked in the survey what they believe the value of a financial advisor's time is, the median response among all advisors was \$300 per hour for senior advisors and \$175 an hour for associate advisors.

Do you have a different revenue model for some clients than for others (total sample)	
All clients AUM only	37.01%
All clients flat monthly/quarterly fees only	2.51%
All clients hourly fees	1.08%
All clients subscription fees only	0.60%
AUM for some, flat monthly/quarterly fees for others	33.17%
AUM for some clients, hourly for others	13.41%
AUM for some, subscription fees for others	6.35%
Hourly for some, monthly/quarterly fees for others	5.27%
Hourly for some, subscription fees for others	0.60%

Source: 2020 Inside Information Fee Report

To identify current trends when it comes to different fee structures, the 2020 Inside Information Fee Report asked advisors whether they had converted a high number of clients from the AUM model to a different revenue model in the past five years. The vast majority (92%) said no, so there

doesn't appear to be a big trend away from the AUM fee structure right now. Looking ahead, 36% of advisors plan to switch from the AUM model to a more flexible combination fee schedule sometime in the next two to five years.

How much do you charge for an initial financial plan	
I don't charge for it	48.51%
Less than \$1,000	5.40%
\$1,000-\$1,500	9.16%
\$1,500-\$2,000	5.59%
\$2,000-\$2,500	6.17%
\$2,500-\$3,000	9.06%
\$3,000-\$4,000	6.85%
\$4,000-\$5,000	4.44%
\$5,000-\$7,000	3.09%
\$7,000-\$10,000	0.87%
\$10,000-\$15,000	0.58%
\$15,000-\$20,000	0.10%
\$20,000+	0.19%
Median initial fee	\$2,500-\$3,000

Source: 2020 Inside Information Fee Report

Charging for financial plans and a la carte services

One of the most common services offered a la carte by financial advisors is creation of an initial financial plan. The 2020 Inside Information Fee Report found that nearly half (48%) of all financial advisors do not charge their clients a fee for this service. The survey shows that the larger the firm and the more experienced the advisor, the less likely they are to charge for an initial financial plan. Among the firms that do charge for this service, the median fee is between \$2,500 and \$3,000.

The Elite RIA Study found that a slightly higher percentage (50.7%) of advisors currently do not charge a fee for creating an initial financial plan. However, 9.8% of these advisors say they plan to start charging a fee for this service in the future. The Elite RIA Study identified other services that advisors are commonly charging clients for include:

- Investment management (58%)
- Retirement income planning (29%)
- Business owner succession planning (17%)

- Cash flow planning (17%)
- Estate planning (16%)
- Education planning (15%)
- Income tax preparation (15%)
- Business owner services (15%)
- Investment tools (11%)
- Concierge services (8%)

What about advisors who use an AUM fee structure as their main revenue model? Do they charge clients for creating an initial financial plan, or charge them less than advisors who use another type of fee structure?

According to the 2020 Inside Information Fee Report, a little over half (52%) of advisors primarily using the AUM fee structure do not charge clients for creating a financial plan. It's likely that these advisors wrap their compensation for the initial planning work into their collection of a percentage of their clients' assets. Meanwhile, about a third (37%) of advisors who primarily charge monthly subscription fees and about half (48%) of advisors who charge monthly or quarterly retainers don't charge for creating a financial plan.

Has the pandemic-related market uncertainty caused you to rethink your AUM revenue model (asked of advisors who say they only charge AUM)	
No	89.30%
Yes	10.70%
In the past 5 years have you converted a high number of clients from AUM to a different model?	
No change	92.06%
Converted to hourly	0.21%
Converted to monthly/quarterly fees	5.04%
Converted to subscription fees	1.29%
Converted to combination of all three	1.39%
In the next two to five years do you plan to change from an AUM revenue model?	
No planned changes	64.43%
Will convert from AUM to flat fees	11.08%
Will convert AUM to subscription fees	3.83%
Will convert from AUM to hourly	0.68%
Will move to a combination of fees	19.97%

Source: 2020 Inside Information Fee Report

What about fee compression?

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

In the 2020 Inside Information Fee Report, more than 83% of advisors said they are not experiencing fee compression at the current time while about 16% said they are. This is a trend worth keeping an eye on in the years to come.

Not surprisingly, advisors who charge by the hour are the most likely to charge for creating an initial financial plan—90% of them charge their clients for providing this service.

How much time does it take an advisor to create an initial financial plan? A median of 10.5 hours, according to the 2020 Inside Information Fee Report. The less experienced an advisor is, the less time he or she is likely to spend creating a plan. This could be due to newer advisors being more comfortable using technology to help them create plans or more experienced advisors working with more complex clients that require more financial analysis and time, or a combination of both.

Other trends in advisory fees

The 2020 Inside Information Fee Report revealed that firms are starting to expand beyond the pure AUM fee model. The survey asked whether advisors employed a different revenue model for some clients than others, and 33% said they charge an AUM fee for some clients while charging a flat monthly or quarterly fee for others. The reason for this emerging trend is that respondents indicated that they needed a different model for younger or less-wealthy clients than the AUM fee model.

When asked in the 2020 Inside Information Fee Report survey if the current pandemic has caused them to rethink their fee model, 89% of respondents said it hasn't.

Are you experiencing “fee compression” as you set fees for clients		
No	83.51%	
Yes	16.49%	
Are you experiencing fee compression?		
Business Model	Yes	No
Fee-only	13.35%	86.65%
Dually-registered	20.90%	79.10%
Brokerage/Wirehouse	50.00%	50.00%
Years of Experience	Yes	No
1-5 years	13.16%	86.64%
6-8 years	12.50%	87.50%
9-10 years	14.00%	86.00%
11-15 years	13.08%	86.92%
16-20 years	15.19%	84.81%
20+ years	18.00%	82.00%
Size of Firm	Yes	No
\$100,000-\$250,000	9.94%	90.06%
\$250,000-\$500,000	15.03%	84.97%
\$500,000-\$1 million	15.31%	84.69%
\$1-2 million	15.15%	84.85%
\$2-3 million	27.27%	72.73%
\$3-4 million	14.71%	85.29%
\$4-5 million	12.90%	87.10%
\$5+ million	23.20%	76.80%

Source: 2020 Inside Information Fee Report

The Elite RIA Study also inquired about developments that may cause RIAs to either raise or lower fees over the next one to two years. According to the study, respondents related the top three reasons which may potentially contribute to RIAs raising fees include providing an expanded service offering (39%), having to operate in a more difficult regulatory environment (25%), and shifting investor demands (17%).

As to trends over the next one to two years that may potentially cause RIAs to lower fees, respondents indicated increased competition (22%), lower-cost investment products (21%), and again, shifting investor demands (18%).

Are you experiencing fee compression?	Yes	No
All clients AUM only	19.42%	80.58%
All clients flat monthly fees only	4.76%	95.24%
All clients hourly fees	11.11%	88.89%
All clients subscription fees only	0.00%	100.00%
AUM for some, flat monthly/quarterly fees for others	18.12%	81.88%
AUM for some, hourly for others	19.64%	80.36%
AUM for some, subscription fees for others	5.66%	94.34%
Hourly for some, monthly/quarterly fees for others	6.82%	93.18%
Hourly for some, subscription fees for others	0.00%	100.00%

Source: 2020 Inside Information Fee Report

Assessing your current fee structure

Given the current industry environment, you may want to perform an objective assessment of your firm’s fee structure and decide whether you should make any changes or not.

First, consider what your current primary fee structure is. You may have one type of fee structure, such as fee-only. Or, like many firms, you may be using a combination of two or more different revenue models. If so, determine what percentage of your revenue is generated by each different model. This will give you an indication of which model is generating the most income for your firm.

Next, assess whether your current fee structure is the most efficient and profitable for your firm and your clients. As the 2020 Inside Information Fee Report notes, more experienced advisors working with older and wealthier clients are more likely to use the AUM revenue model than less experienced advisors. The higher the total assets under management at your firm, the more profitable the AUM revenue model could be for you.

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

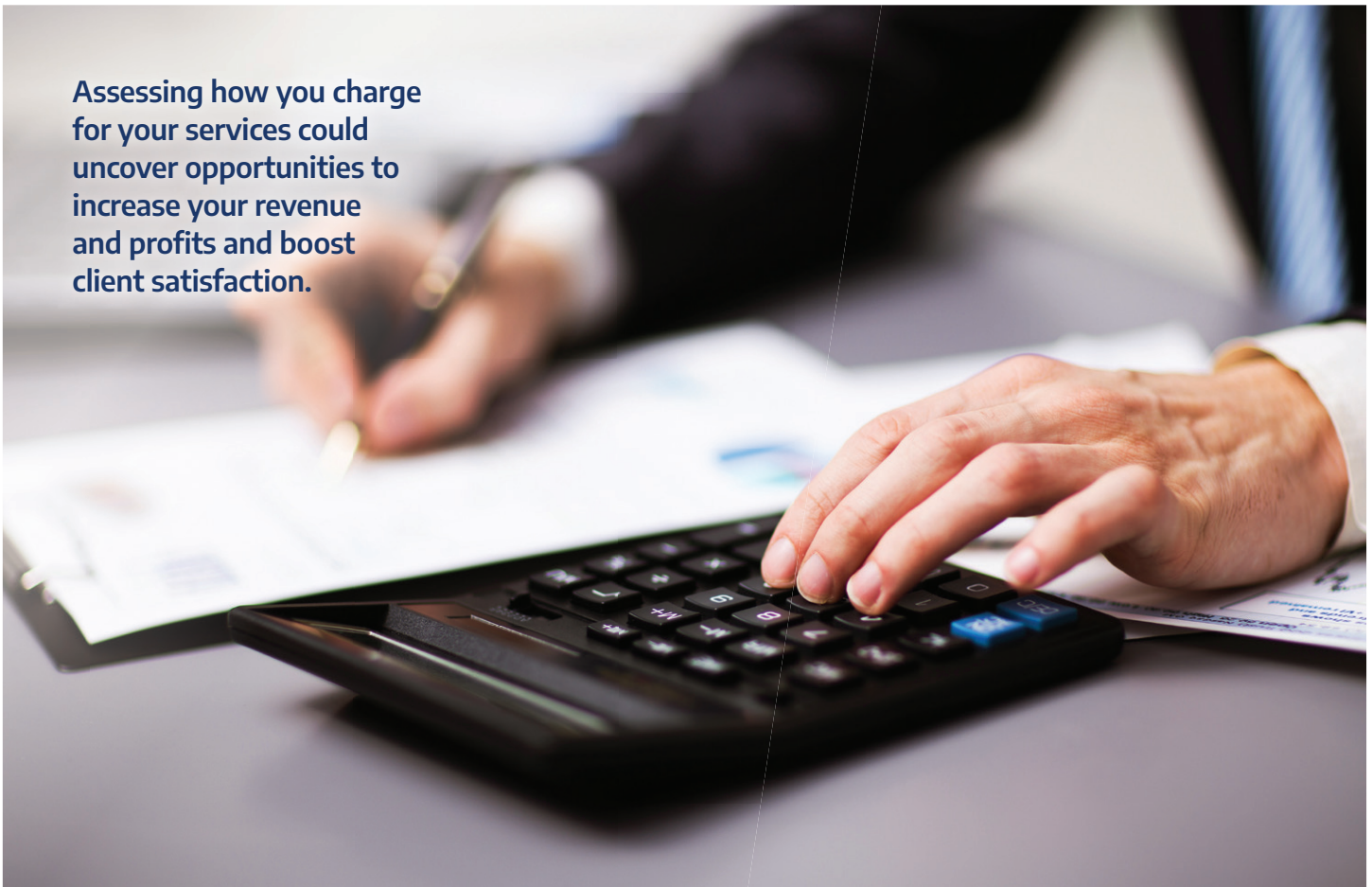
For example, if your clients tend to be younger with less assets, a fee schedule other than charging a percentage of AUM might be more appropriate for your firm. Also consider that younger clients are often most receptive to paying for services a la carte or paying an hourly fee or retainer. The opposite may be true if most of your clients are older and

have significant assets, since these clients often tend to be more comfortable with the AUM fee model.

If you haven't taken an objective look at your firm's fee structure lately, now would be a great time to do so. Assessing how you charge for your services could uncover opportunities to increase your revenue and profits and boost client satisfaction.

Median AUM Fee by Business Model	Portfolio Size				
	\$250,000	\$500,000	\$1 Million	\$2 Million	\$5 Million
Fee-only	1.00%	1.00%	0.90%	0.80%	0.60%
Dually-registered	1.10%	1.00%	1.00%	0.80%	0.70%
Brokerage/Wirehouse	1.00%	1.00%	0.90%	0.80%	0.70%
	% Whose Minimums Are Higher Than This				
	\$250,000	\$500,000	\$1 Million	\$2 Million	\$5 Million
Fee-only	8.82%	2.83%	0.91%	0.87%	0.00%
Dually-registered	3.00%	1.34%	1.34%	1.00%	0.00%
Brokerage/Wirehouse	11.11%	5.56%	5.56%	0.00%	0.00%

Source: 2020 Inside Information Fee Report



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Axos Advisor Services can help make fee billing easy and efficient

Axos Advisor Services is designed to help you realize your full potential. Its leading technology helps you be more efficient and save time on administrative tasks, while delivering an exceptional experience for your clients. This combination helps you provide unique value to your clients while enhancing your service model.

The technology platforms from Axos Advisor Services can help you:

- **Improve scalability by automating back office tasks.** You will no longer have to spend large parts of the day on manual billing, performance reporting, or account opening. Using our integrated capabilities—like automatic proposal generator and e-signature, running proposals, and opening accounts—is simple, efficient, and fast.
- **Customize your fee billing process to meet your business' needs.** Leveraging our robust fee billing engine, you can charge fees in advance or in arrears, create household groupings for management fees, and have clients pay fees according to distribution percentage or out of the model where the fee is earned.
- **Provide a consistent investment process.** Our modeling tools, omnibus trading, and fractional share technology enables you to provide the same investment process to accounts of all sizes. You can manage small accounts more efficiently by managing and trading accounts at the model level (instead of account level) and rebalance your entire book of business in just a few clicks.
- **Streamline client service.** Our powerful yet easy-to-use technology gives you access to what you need in one interface. Custom-built for advisors, our technology streamlines modeling, reporting, and much more—all fully integrated without requiring the cost and hassles of add-on technologies.

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