



of San Diego

HOME

PLANNER RESOURCES

KNOW HOW YOUR FINANCIAL PLANNER CHARGES

One of the key issues when hiring a financial planner is how that planner is to be paid and whether that form of compensation is the right one for you.

There are many forms of compensation, and the planner may even offer a choice, depending on services. But there's been much debate in the media, and within the profession itself, about which is the best form. Are fees better than commissions? A combination? What about annual retainers?

There's no one right answer to these questions, except the answer that's right for you. What is important is that the planner fully discloses how he or she charges, that you understand the pros and cons of each form of compensation, and that the arrangement best fits your needs. Ultimately, the key is finding a competent, ethical planner who will look out for your interests first and foremost, regardless of the type of compensation.

Commission. The planner is paid by financial institutions for each financial product sold to the client, such as insurance, mutual funds, limited partnerships, or stocks and bonds. For example, the planner might be paid up front a percentage (say 5.75 percent) based on the value of the shares bought in a mutual fund, or the planner might receive an annual commission (typically one percent) based on the amount of money the client has in the fund account.

Critics argue that this approach creates a conflict of interest because the planner may push products that might not be in the best interest of the client, or may encourage a rapid turnover of products, known as "churning." On the other hand, commissions can be a more affordable avenue than fees for more modest-income clients.

Fees for assets under management. The planner charges an annual fee based on the total value of the client's invested assets the planner is managing. A typical fee for this service is 1 to 1.5 percent. Proponents argue that this removes the commission-sale bias. But others say this arrangement can encourage the planner to keep as much money invested as possible, even when some of that money is needed elsewhere, such as for insurance, to pay down debts or to donate to charity.

Fees for total client assets. Some planners are beginning to charge a percentage based on the total value of the client's investment and non-investment assets on the assumption that they frequently provide advice on assets they don't directly manage, such as a 401(k) plan or a vacation home. This, they contend, removes any incentive to keep liquid investments under management. This method, of course, may not work for consumers with modest estates.

Hourly fee. This removes product-sale bias and the approach is flexible for those who want limited

advice. But some point out that this arrangement may not promote an ongoing relationship with the advisor. Furthermore, hourly consultation fees, which might run \$150 to \$250 or more, could easily pile up for continuous comprehensive planning, or encourage the planner to perform unnecessary work.

Retainer fee. A new trend is to charge a flat fee for the year based on the size and complexity of a client's finances. Conflicts of interest may be minimal, but with annual retainers ranging from \$2,000 to over \$10,000, the cost can be prohibitive for many families, and there can be an incentive for a planner to do as little as possible to maximize profit.

Fee and commission combination, or fee-based. A planner might charge a fee for developing a financial plan or particular strategy, and receive commissions on financial products bought by the client to implement the plan or strategy. A variation is fee-offset. Say the planner charges \$2,000 in initial fees and receives \$1,000 in commissions. The planner would then credit the client \$1,000 toward future fees.

Salary. A small percentage of planners use this method. Most of them work for financial institutions such as a bank. While the planner receives no direct commission from the sale of a product, critics note that the planner's salary is paid by fees or commissions generated by the sale of products and services sold by the financial institution to the consumer.

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January 2003- This column is produced by the Chapter of the Financial Planning Association. We can be a continued resource for your personal finance coverage. If you use this column in whole or part, please credit the chapter or one of our CERTIFIED FINANCIAL PLANNER™ members.

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