



HOW TO PRICE YOUR FEE-FOR-SERVICE FINANCIAL PLANNING

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Here at AdvicePay, we're big proponents of helping advisors like you be paid in an efficient, compliant way for your fee-for-service financial planning. As fee-for-service planning continues to gain popularity, you may be wondering if it's right for your business. After all, there are countless reasons a fee-for-service model could benefit your firm and your clients.

One question we often hear from advisors considering implementing fee-for-service planning is, "What exactly should my fees be? How do I price my services in a way that's both profitable to me and attractive to my clients?" Our financial planning experts developed this brief guide to help you determine how to price out your advising services.



Choose a Pricing Structure

Pricing fee-for-service isn't quite as straightforward as charging a 1% AUM fee, but it allows for total transparency, a characteristic clients are placing a high value on. Even so, there are several factors to consider, unique to you and the clients you serve.

Flat Fee

When charging a flat fee, each client pays the same amount for your services. This structure works best if you are providing similar, clearly defined services to each of your clients.

Tiered Fee

When using a tiered fee structure, your clients' cost varies depending on the level of service they require of you. A young client only needing advice on 401(k) allocations would pay less than a client investing in several accounts that receives stock options from their company and is combining finances with a new spouse. This structure works well when your clients have varying financial situations. It's often helpful to develop tiers, or levels of services that outline services and costs upfront.

Hourly (Time-based) Fee

Hourly, or time-based, fees allow you to provide value to clients on onetime projects or as they require advice without the need for ongoing planning. This allows clients to work with you when needed, regardless of their available assets.



Project-based Fee

Project based fees are a viable option when working with clients needing advice regarding a specific situation, like an analysis of employee stock options, and don't necessarily require ongoing advice. Often, the cost is quoted upfront based on the estimated time to complete the project.



Calculating Your Fee

Once you've determined the pricing structure that provides the most value to your ideal client, there are a few more factors to consider to set an actual price for your services. We've found that most advisors use one of four approaches to determine their fees.

Value of Your Time

Consider how much revenue you need to generate annually to keep serving your clients well, maintain a comfortable life, and maintain (or grow) your business. Once you have that number, you can work backwards to determine how much an hour of your time is worth.

Value to Your Client

If you're serving a niche group of clientele, you likely have a firm grasp of your client profile. Try setting fees based on how your clients value their time and how much savings you can provide.

Net Worth and/or Income

Similar to an AUM fee, you can use a set calculation based on net worth and/or income to determine a client's fee. Unlike AUM, this calculation allows you to profitably work with clients regardless of their amount of assets.

Complexity

Calculating fees based on complexity allows for extreme transparency between you and your clients. With this structure, you can set predetermined measures of how "complex" a client's situation is and charge accordingly. For example, you may charge more if a client has several investment accounts with differing tax statuses than if they only had a 401(k)



Ultimately, it boils down to two main steps for determining the ideal fee-for-service pricing structure for you and your clients:

TWO-STEP PROCESS FOR DETERMINING APPROPRIATE FEE-FOR-SERVICE PLANNING FEES

STEP 1 Determine minimum fee per client

- ✓ Determine desired annual income
- ✓ Determine hours per week you are willing to work
- ✓ Determine billable hours (50% of hours willing to work * 50 weeks)
- ✓ Determine hours spent on each client
- ✓ Determine maximum number of clients (billable hours / hours spent on each client)
- ✓ Determine minimum fee per client (desired annual income / maximum number of clients)

STEP 2 Evaluate appropriateness of your fee for your target clientele

- ✓ Does the fee work for your ideal client?
- ✓ Does the minimum fee work for your client market?

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Worksheet: Two-Step Process For Determining Appropriate Fee-For-Service Planning Fees

Use the following tables below to determine the ideal fee-for-service pricing structure for you and your clients:

STEP 1: Determine your minimum fee per client

Desired annual income	
Hours per week you are willing to work	
Billable hours (50% of hours willing to work * 50 weeks)	
Hours spent on each client per year	
Maximum number of clients (billable hours / hours spent on each client)	
Minimum fee per client (desired annual income / maximum number of clients)	

STEP 2: Evaluate the appropriateness of your fee for your target clientele

Does the fee work for your ideal client?	
Does the minimum fee work for your client market?	



Planning Out Payments

Now that you've determined the pricing structure and the amount you'll charge for services, you can consider if you'll charge your clients to a single payment or if an ongoing subscription or retainer fee is more manageable.

Upfront/One-time Fee

The start of a relationship with a new client often requires upfront work (frequent meetings, following up to receive statements, creating and fine-tuning a financial plan to name a few). Charging an upfront fee ensures you're compensated for the investment you're making in that relationship.

Ongoing (Subscription or Retainer) Fee

Subscription agreements include a scheduled series of meetings and commitments for the client. Be careful to set expectations with your clients early that these commitments don't always involve a meeting or even a phone call. An annual service calendar (refer to your homework from the first webinar in our series) can keep clients from wondering why they're not hearing from you each month. A retainer fee charges the client for open-ended "access" to your services as needed. Advisors also have success framing the ongoing fee as an annual financial planning fee that they're paying monthly (or quarterly).

Combination

Most commonly, advisors use both an upfront fee to gain initial client buy-in, along with ongoing fees to maintain the relationship and keep growing their businesses.



Choosing a Payment Frequency

The final consideration you need to make is how often to bill your clients. You don't want clients to feel they're being charged more often than they're receiving value, but you also want to avoid sticker shock from large fees due to infrequent billing. Some advisors only offer one payment frequency, but we've seen advisors have great success coming to this decision together with their clients. Typical fee frequencies to consider are:

Monthly

Charging monthly is most common and allows clients to make manageable payments a part of their regular monthly expenses. Be sure to set realistic expectations for what clients should expect and how often you'll be interacting.

Quarterly

Most commonly, advisors use both an upfront fee to gain initial client buy-in, along with ongoing fees to maintain the relationship and keep growing their businesses.

Semi-annually

Charging fees semi-annually is a more frequent alternative to annual billing that won't trigger additional SEC rules like annual fees might (see below).

Annually

Annual fees wrap up a year's services with a single payment, albeit a sizable one. Although it may be simple to charge an annual fee at an annual review, keep in mind pre-payments of \$1,200 more than six months in advance trigger additional regulations from the SEC.



Consider Your Ideal Client

In the end, how you price your services comes down to the needs of your clients and the value you bring them. The "right" fee is the one that's right for you and the people you serve.

Here's a sense of how our own AdvicePay users handle their billing:

- 91% of users bill monthly
- Average monthly fee is \$248
- 8% of users bill quarterly
- Average quarterly fee is \$963
- .50% of users bill semi-annually
- Average semi-annual fee is \$1112
- Average upfront fees, when included, are \$967

No matter how much you charge or how you structure it, AdvicePay is here to help with all aspects of your billing and payment process!

Save the Date! November 16th

Join the 3rd webinar in our series with Bill Winterberg as he talks about how to identify clients seeking fee-for-service engagements.

