Fees at a Crossroads *Revisited*

CLOSING THE GAP BETWEEN PRICE AND VALUE

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Introduction

We published “Fees at a Crossroads,” one of our most important and widely read white papers about the changing advisory fee landscape in 2015. In it, we presented our findings from primary research that probed for both financial advisors’ and consumers’ views about advisor compensation. We also documented the evolution of financial planning/advice models and fee structures and examined the often-rancorous debate between fee-only and fee-based advisors.

In 2015, multiple forces were upending the status quo and changing the way advisors were thinking about their business models. Those forces, which caused many to reexamine their competitive strengths and financial viability amid shrinking margins, included:

- The Department of Labor (DOL) was finalizing its ruling to expand the definition of “investment advice fiduciary” for retirement accounts
- Silicon Valley was proving that consumer habits had changed, and the success of online finance solutions was creating a groundswell of support for robo-advisors
- Consumer behavior and expectations were changing with demand for more personalized service, greater digital choice, and a growing call for advisors to act in their clients’ best interest

To stem the tide, we called for advice-based models built on solid value propositions that clients would both understand and be willing to pay for. We also predicted that the link between price and value would shape the advice business and further distinguish the model from lower cost solutions.

Fast-forward three years.

While threats from the DOL ruling have abated, in its wake a fiduciary movement continues to gain worldwide support. Even Pope Francis has called for a universal fiduciary standard for financial advisors, criticizing those who don't act in the best interests of their clients.[1] Meanwhile, the initial pressure from robo-advisor innovations has morphed into a new threat with the rise of technology-savvy "virtual advisory" services from financial giants such as Vanguard and Schwab.

In our 2018 update, we conclude that the stakes are even higher for advisors, and that the link between price and value has become even more acute. Replicating our 2015 advisor and consumer research in 2018, we find new reasons for optimism. We find that transparency is improving, consumers are becoming more fee-savvy and the industry is transitioning to a traditional professional service model—one that resembles the legal and accounting professions that command respect and are viewed by clients as true fiduciaries. In this paper, we share the latest trends and explore what has and hasn't changed since 2015 with implications for advisors and the industry. Along with our conclusions, we offer a helpful road map to support the strategic choices advisors now face.

A guide to this paper

BOB VERES WEIGHS IN

Throughout this paper, author and thought leader Bob Veres comments on a variety of fee model trends.

FINANCIAL ADVISOR SURVEY

We have incorporated responses to our 2018 online survey about advisory fees. We offer insights from the 736 respondents and compare their responses to a similar survey conducted in 2015 to better understand the shifting state of the industry and help advisors assess their own agenda.

CONSUMER SURVEY

SEI, in partnership with Phoenix Marketing International, surveyed 926 affluent U.S. households about their awareness and opinions of advisory fees. We compare this year's responses to similar survey questions we asked in 2015.

INSIGHTS FROM A PRICING LEADER

Because pricing is such an essential strategy for most advisors, we turned to Matthew Jackson, Director, Global Banking Division of Simon-Kucher & Partners—a top-line, growth-focused consulting firm that specializes in pricing—for insights on the evolving advice business.

ADVISOR SUCCESSES

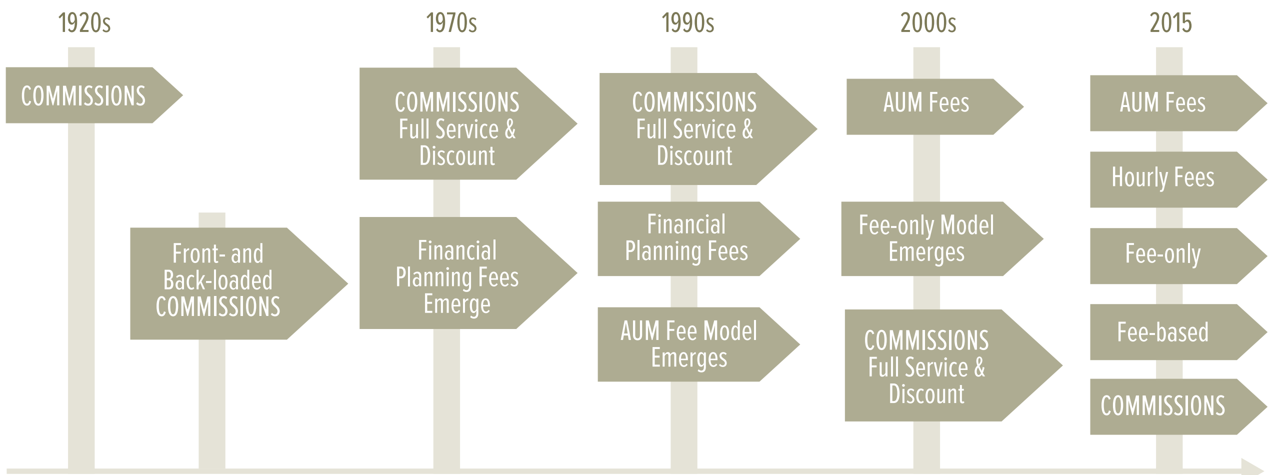
Among the highlights of our paper, we spoke to three advisory firms and incorporated insights from our conversations about how they're experiencing success with innovative fee models:

- **RANDY BRUNS**, CFP® is with Model Wealth, Inc., a Chicago-based advisory firm. Randy is also the current president of the Illinois FPA.
- **DANNA JACOBS**, CFP®, ADPA and **ROBERT COLON**, CFP®, ADPA, EA, co-founders of Jersey City, NJ Legacy Care Wealth, LLC.
- **SCOTT M. KAHAN**, CFP®, President and Senior Financial Planner at Financial Asset Management Corp., which he established in 1986. He has offices in Westchester County and New York City, and currently leads the new FPA of New York.

The evolving landscape: Where we are now

Firms of all shapes and sizes have enjoyed remarkable success over the past three years—benefitting from a robust stock market with limited volatility, a more robust economy, positive job outlook resulting in relatively stable client relationships.

In 2015, we illustrated a brief history of fees that moved over time from 100% commissions in the 1920s, to a growing mix of approaches in 2015.



Source: SEI; "The History of Financial Planning", Brandon and Welch, 2009; CFP.net.

Rather than update the graphic with all the new fee iterations we're tracking in 2018, we note that the panorama has changed substantially in three years. Beyond the ubiquitous AUM fee model, new pricing variations account for a variety of factors, including client needs, account complexity, career stage, portfolio size, etc. We would argue that the compensation model would not evolve if left solely to the advisor/firm over the years. The consumer has driven change and continues to push advisors to more client-centric pricing models.

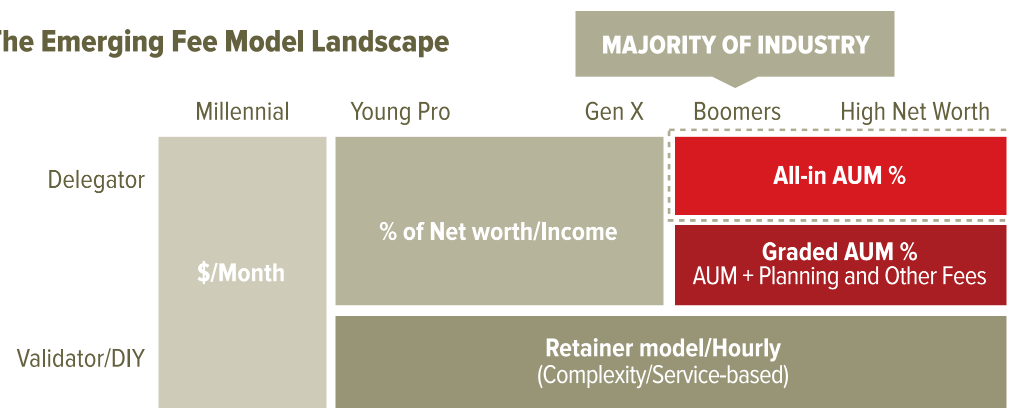
AUM-based Advisory Fees by Channel Databank, 2017			
	Average fee (bps)		
Client Relationship	**Independent Broker-Dealer (IBD)**	**Registered Investment Advisor (RIA)**	**Hybrid RIA**
$100,000	124	112	117
$300,000	115	109	113
$750,000	103	99	98
$1,500,000	92	87	91
$5,000,000	72	66	71
$10,000,000	59	55	61

Source: The Cerulli Report, U.S. Advisor Metrics, 2017, Pg 188-189

Traditional AUM fees tend to be all over the spectrum for clients using independent broker-dealer-affiliated advisors, RIAs or Hybrid RIAs, ranging from a low of 55 bps to a high of 124 bps. Today, as illustrated in the accompanying charts below, many are adding nontraditional fees based on meaningful client segmentation.[2]

Today's pricing landscape has not only expanded, it's decidedly more client-centric.

The Emerging Fee Model Landscape



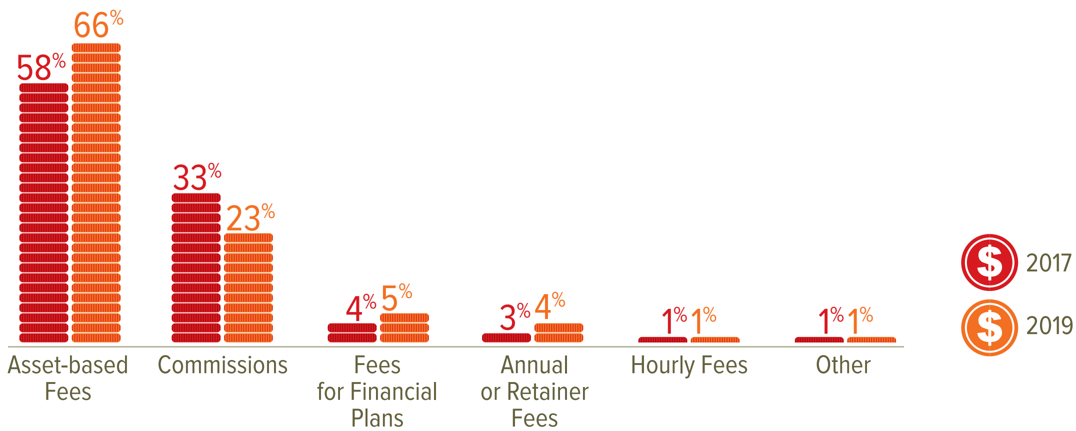
Source: The Future of Fees, Real Life Pricing Innovations in Wealth Management, Simon-Kucher & Partners, Matthew Jackson, Wei Ke, PhD, 2017

While the industry wrestled with terms like "fee-only" or "fee-based," a range of new models is emerging that diverges from traditional approaches. Today's pricing landscape is more of a spectrum, observes Matthew Jackson, director in the global banking division at Simon-Kucher & Partners. "At one extreme, clients are offered an all-you-can-eat buffet [and] at the other is an a la carte menu. In between is a growing number of variations." What's the right option? That depends on whom you're serving. "Your client base should dictate your fee model," Jackson says. "If you're just serving millennials, a fixed-rate fee may be appropriate. Late-career high-net-worth consumers bring more complexity and nuance—and new fee models designed for their specific needs reflect that shift.

AUM + nontraditional fees are growing

Our 2018 research reveals that the most innovation is emanating from fee-only RIAs. Those most likely to experiment with new models have made the strategic decision to scale their businesses. Also, they have embarked on growth plans that capitalize on a more predictable revenue stream from AUM or retainer fees, while looking to exploit emerging trends and market segments.

Advisor Compensation, 2017 vs 2019E



Source: Cerulli Associates in partnership with the Investment & Wealth Institute (formerly IMCA) and the Financial Planning Association (FPA); 2017

Still, in a 2017 study by Cerulli and the Investment & Wealth Institute, over half of advisors were compensated by asset-based fees; that percentage is expected to grow 8 points to 66% by 2019 showing that the trend isn't just for those innovative firms.[3] This observation is consistent with our 2018 survey in which 68% of respondents report that they charge AUM only, or a combination of AUM + upfront fees for initial planning work.

Challenges ahead?

While the trend toward an all-in AUM fee tied to a client's total assets continues, there may be challenges ahead. *"One of the great advantages of the all-in AUM fee was its simplicity," says Matthew Jackson. "But this simplicity is not reflective of the variegated nature of client needs and willingness to pay—and its days are numbered,"* he declares.[4] He believes price and value are beginning to diverge. "We're seeing the wealth management proposition expanding beyond the boundaries of pure investment management. But the further you expand, the less the all-in fee makes sense. Your fee stays the same, but your costs increase as you offer more services." If your pricing is not accompanied by an understanding of the cost to serve, you have another problem. That's why it's essential for advisors to be very clear about exactly what it is you're offering and at what cost.

Top fee trends

Product selection historically dictated the fees investors paid. For the greater part of a century, a paternalistic approach to financial advice—whereby the advisor chose what clients received and the price they paid—endured. And while the move away from commissions continues in 2018, the shift has not been as decisive as we had expected, owing to, among other things, the demise of the controversial DOL Fiduciary Rule and some confusion about the SEC's "Best Interest" proposal. At the same time, various distribution channels have moved to advice models that make the distinction of product fees less pronounced—yet adding to greater consumer confusion about what the clients are actually paying for.

Persistent gaps remain between price and value.

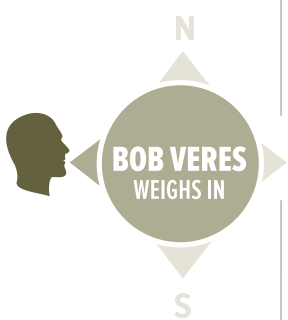
In 2015, the shift from commission-based to an assets-under-management fee model was underway. We advocated for an advice-based model that clearly articulates a firm's value proposition that clients would both understand and be willing to pay for. Three years ago, we urged advisors to focus on two imperatives as they transitioned from a product sales model to an advice model.

Revisit your value proposition. Our 2018 survey responses reveal that advisors are paying attention to our recommendation to focus on meeting client goals through financial planning and advice: 52% report they have changed their fee structure within the past four years; 27% have added planning fees and retainers; and 37% have made other pricing adjustments.

Segment your clients and target markets. We counselled advisors to consider different fees for specific client segments, particularly smaller or "accommodation" clients, and to segment clients by how they want to be served. Our latest survey shows that 34% of advisors have created such models, compared to 25% three years earlier.

Is fee compression real?

The combination of higher client expectations and growing regulatory, operational and technology costs is increasing advisors' costs to serve. While clients may not be asking about fees or complaining, their changing behaviors are making advisors work harder and add more services, leading to a decrease in their firms' net revenue. That decrease has been masked by a rising equity market over the years (higher gross revenue.) Advisors will soon be forced to reckon with demand for more services without a corresponding increase in fees.



Price and value:

The value proposition and client segmentation advice offered here are actually very closely tied together. Most advisors know that they are offering a lot more value to some clients (the complex and the needy ones) than others who hardly ever call. When clients perceived your value to be in the investment management work that took place behind the scenes, they were largely oblivious of these differences. But one of the central points made by this study (see Financial Planning Clients, 2013-2017, next page), which you have certainly noticed in your own practice, is that our profession's perceived value is rapidly shifting from asset management to a broad array of financial planning advice: modeling retirement expenses, tax advice, structuring a client's planned giving activities and perhaps concierge services. The difference between handling all these chores for the complex client, and doing very little for a less demanding client, becomes increasingly obvious—and potentially disturbing. Unless you're able to match your fees with your labor on behalf of clients, those who are currently your most profitable (least demanding) clients are in danger of becoming your dissatisfied ones.

Beyond that, noted below, some categories of clients are simply going to require higher internal costs than others, and should compensate you for them. A junior advisor can help millennial clients create budgets and work down their student loan debt, while more expensive senior advisors are required for baby boomers who are in the decumulation stage of life and who may want advice on how to start a part-time second career. Segmenting based on stage of life not only accounts for different "price preferences" among different client generations; it also helps you, procedurally, set fees that are appropriate from a cost standpoint.

The bottom line is that the AUM model does a terrible job of matching value to price. And increasingly, matching value to price is going to matter to the savvy financial planning consumer.

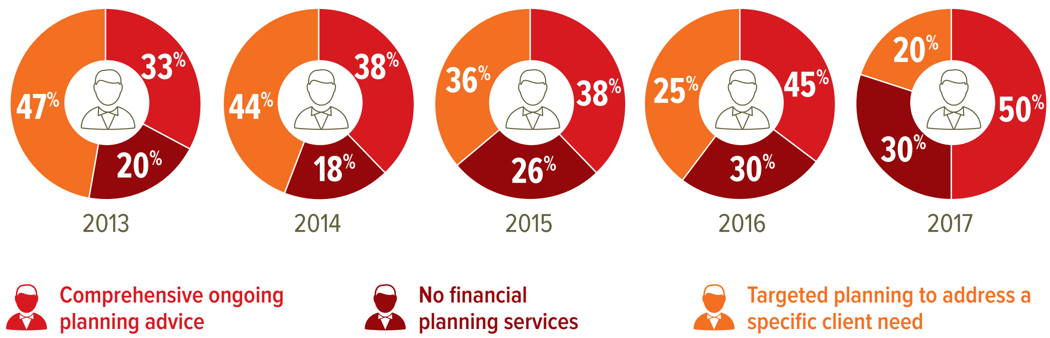
Financial planning gains traction.

Not that long ago, paying for financial planning was either considered preposterous or simply ignored by most advisors. The biggest changes we've witnessed from our 2015 study include greater acceptance and demand for financial planning—among both advisors and consumers.[5] It's also a lever for models that is helping attract new clients and justify a variety of fee arrangements.

The adoption of ongoing, comprehensive planning in advisors' practices is steadily rising over time.

Financial Planning Clients, 2013-2017

Clients value financial planning as much or more than investment management.



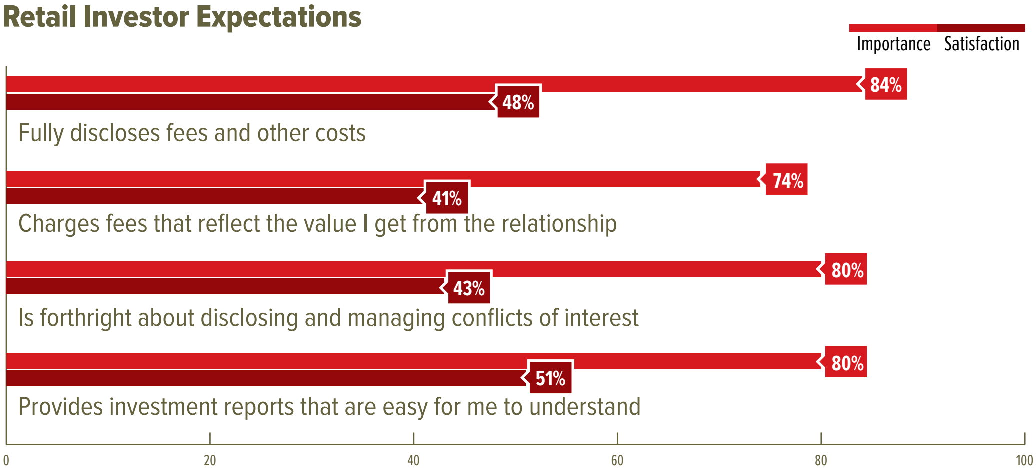
Cerulli Associates, in partnership with the Investments & Wealth Institute (formerly IMCA) and The Financial Planning Association® (FPA®), 2017.

- Research found that 53% of wealth management investors believe that financial planning is **as important** as investment management services, and more than 30% of respondents said financial planning is **more important**.[6]
- Survey respondents place a high value on financial planning and ongoing support services. More than 83% of survey respondents valued financial planning equally or more than investment management services. When we asked advisors in 2018 what changes they had recently made to their fee structure, an additional 19% indicated they had added financial planning fees to an AUM model, beyond the 30% who added planning fees in 2015.

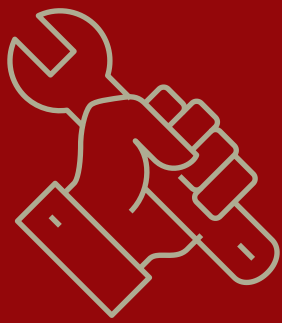
Transparency and conflict-of-interest issues persist.

In 2015, we promoted greater transparency and reduced conflicts of interest. Our 2018 investor research shows consumers still don't understand advisor fees: 28% are either unsure how their advisors assess fees or believe they don't compensate their advisor for service. New research from the CFA Institute echoes our findings.[7] The biggest gaps relate to disclosures, specifically about fees and conflicts of interest.

Retail Investor Expectations



Source: CFA Institute Future of Finance, 2018 Report: The Next Generation of Trust; n= 3,127 retail investors from 12 markets, 25+ years old, with investable assets of at least US$100,000,



How three advisory firms are putting innovative fee models to work

We wanted to find out how advisors are adapting to all of the changes taking place in today's market—so we contacted three firms. The advisors/owners shared their stories about how they're experiencing success with innovative fee models. Here's what they had to say.

Scott M. Kahan
CFP®

President and Senior Financial Planner at Financial Asset Management Corp.

Leads the new FPA of New York

Established: 1986

Clients: 150

Office: New York City and Chappaqua, NY

modelwealth.com

The back story

Scott started his own fee-only practice in the 1980s, focusing on small business owners and families (many of whom are now retired). His vision always was to run a small firm with a handful of other planners. Recognizing the growing number of younger investors who needed help, many of his clients' and friends' children, he tweaked his financial planning fees to accommodate younger clients. He has added a next-gen financial planner to further develop that business. He says the firm's fee-only model is a work in progress, but he's never had any pushback on fees from his clients.

In Scott's words

"We are transparent fiduciaries; we want to eliminate as many conflicts of interest as possible.

We backed into our model. We looked at what clients were paying for our services because we wanted to create a model that was crystal clear, fair to the client and to our firm."

Why it works

"Clients are definitely paying attention to fees. Our model forces us to have conversations with our clients about fees every three years. We view that as an opportunity to demonstrate our value.

Fee compression is real; our model positions us ahead of the curve."

Fair, clearly differentiated

How we sum up their value statement

Know what you're paying and what you're getting in return.

Target market

- Traditional wealth management clients with $2 million to $5 million in investable assets
- Young professionals looking for help and willing pay for it

Pricing model (Two fee plans)

Financial Planning Only (Does not include ongoing investment management services):

- $2,500 for first six months, $375 per quarter billed in arrears for clients with <$200,000 in investable assets

Wealth Management (Encompasses financial planning and investment management):

- Initial Fee, plus a fixed quarterly retainer, based on the following abbreviated schedule and adjusted every three years

Investable Assets up to	Initial Fee	Quarterly Fee
$500,000	$3,000	$1,500
$1,000,000	$4.500	$2.250
$3,000,000	$8,500	$4,250

Advice to others

"Think about why you want to change your fee model and then just do it. Don't be afraid. You don't have to switch every client at once—put your game plan together until you find your comfort level."

Danna Jacobs
CFP®, ADPA®

Robert Colon
CFP®, ADPA®, EA

Co-founders and Managing Directors, Legacy Care Wealth, LLC

Established: 2013

Clients: 60+

Office: Jersey City, NJ

legacycarewealth.com

The back story

The sister/brother team knew they wanted to start their own business and seized on the growing opportunity to work with underserved young professionals as fee-only fiduciaries. Danna and Rob related to the complexity of their clients' financial circumstances: career juggling, entrepreneurial endeavors, student loan debt, young families and a housing market where first-home values often exceed $1 million. Their high energy and contrasting styles have earned these siblings a prominent place among fellow next-gen advisors.

In Danna's and Robert's words

"We're excited about what we do; we're focused on educating our clients about their financial lives and helping them to avoid mistakes early on that may compromise their future goals.

We capitalize on virtual communications to meet the time-pressed needs of our clients."

Why it works

"Fees are simple to understand and easy to administer. Consumers are ready for and looking for more transparency.

Clients are invested and engaged in the process more when they pay for financial planning advice."

Straightforward, transparent

How we sum up their value statement

Get smarter earlier about your financial life.

Target market

- Young professionals, H.E.N.R.Y.s—High Earning Not Rich Yet, and entrepreneurs
- Focused on meeting distinct financial needs of domestic partners as they plan for their financial future

Pricing model

Complexity-based model encompassing:

- Basic, Pro or Concierge Level Services
- Tax Planning Services

Initial Financial Planning

- Fees range from $1,500 to $10,000 based on complexity

Ongoing Financial Planning

- Range from $300 to $750 per quarter.

Investment Management

- Either a retainer or an AUM-derived fee dependent on complexity and structure

Advice to others

"When we started, people said our model would never work; it does. Carve out a part of your business that's geared toward younger clients' needs. Make sure everyone in the firm understands and commits to your vision."

Randy Bruns

CFP®

Model Wealth, Inc.

Current President, Financial Planning Association of Illinois

Established: 2018

Clients: 107 (Subscription), 75-100 (Hourly)

Office: Downers Grove, Illinois

modelwealth.com

The back story

Randy is a financial planning devotee who believes in the hourly-fee model and a higher fiduciary standard for the industry. He enjoys explaining how he won over a referral who was paying $127,000 in annual advisory fees on a $14 million portfolio to switch his account and simplify his holdings for a $7,500 annual fee. He's more convinced than ever that he's doing the right thing for his clients.

In Randy's words

"Charging a 1% fee on assets has never made sense to me; it presents massive conflicts in advice, has little relation to the amount of work required and is far more costly than most clients understand.

It's impossible to be passionate about a business model you don't believe in.

Advisors worry about making a change away from percentage fees, but pretty soon they won't have a choice."

Why it works

"Clients increasingly understand the value of an hourly model—they're used to that kind of arrangement with almost every other professional they hire."

Simplicity based on professional model

How we sum up their value statement

Stop paying your advisor exorbitant fees; pay based on the level of service you need rather than the wealth you've accumulated.

Target market

- Informed consumers searching for a more transparent approach to financial advice
- Those approaching retirement or already retired

Pricing model

Project-based compensation model for financial planning (billed hourly) and a flat annual fee for ongoing wealth management:

Financial Planning

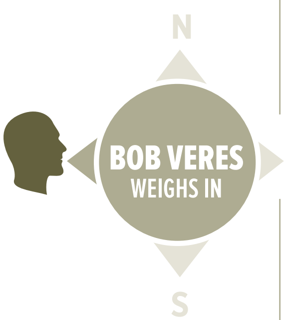
Hourly fee: $250; Average plan cost: $3,500.00

Investment Services

Fixed annual subscription fee based on overhead and estimated hours. Billed $5,000 to $10,000 based on complexity.

Advice to others

"Simple is better. Be in the model you believe in; Find a pricing structure and firm that makes sense for you, but run the numbers to make sure you can still pay the bills."



Differentiating your service model

What do these very different fee models tell us? The first lesson is that there is no "right" or "standard" way to charge for your services, just as there is no "right" or "standard" client service model. The key is to identify what you would feel most comfortable with—if you had the courage to make a switch. Then think about how much more comfortable your conversations with clients become when your fee model is totally aligned with your beliefs about your value.

The second lesson is that pretty much any fee model "works." If you're providing value, then people will be willing to pay for it, however you decide to charge. It's up to you to decide how to structure this exchange of value for compensation. And once you put some creativity into it, you realize that you can give your clients choices in how they'll pay, empowering them and making you more attractive as a service provider.

Finally, prospects and clients are going to become increasingly aware of the fees they're paying. These stories suggest that there is, or soon will be, some competitive advantage to being different, and being able to articulate why you're different and why you believe your compensation model is fairer than the person up the street who charges the way everybody else does.

v * In 2015, advisors were limit

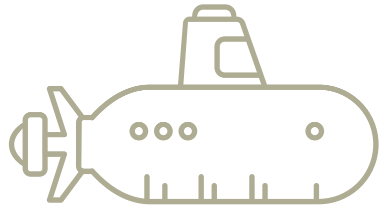
Three years later: Fresh research insights

Observations at a glance: 2015 vs. 2018

- **Fee structures evolving:** Advisory firms continue to fine-tune their business and fee models. Our research shows that changes in advisor fee structures were more likely done in 2015. While these changes had not been anticipated, the impetus was associated with both regulatory change, specifically the DOL ruling, and the adoption of robo-advisors.
- **AUM leadership:** One of the biggest changes to fee structures occurred since our first white paper in 2015. In 2018, an increase of 28% of firms made the change from commissions to an AUM and combination of other fee arrangements. More than two-thirds of advisors (69%) now report that they charge AUM only or a combination of AUM + upfront fees for initial planning work, which is up from 58% in 2015.
- **Project-based and hourly fees are growing**. Combined, these models represented just 1.4% of self-reported advisor revenue in 2015. That number increased significantly in 2018 to 32% of advisors.*
- **Use of retainers also up:** The number of advisors who now charge retainers increased to 24% over 2015's 15%.*
- **Pressure to change** in the 2018 survey revealed that new forces are influencing the decision to modify fee structure. Regulatory forces, client sentiment and the competitive landscape were identified as pressure sources by our survey respondents.
- **Consumers thinking more about fees now and how their advisors charge for their services**. While most are willing to pay for advice, they also think about fees more now. This represents a solid trend we've been tracking for more than five years. In addition to those in jeopardy of leaving due to high fees, 1 in 3 investors now believe they can manage their own finances with online tools. Many consumers report they would stay with their primary advisor if they believe their fees were too high, but **there are fewer who believe this each year**.

* In 2015, advisors were limited to a single answer to describe their fee model; in 2018, they could select all fee models their business uses.

Delving deeper: Research findings



Following the success of our 2015 paper—and the hundreds of conversations it stimulated across the country—we wanted to assess how advisors' and consumers' views of pricing have changed over the last three years. Below we summarize some of the striking differences between our 2015 and 2018 advisor survey responses, followed by those of consumers.

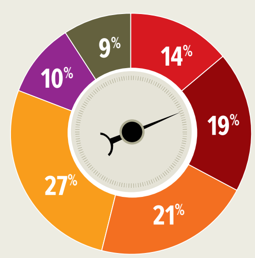
ADVISOR SURVEY FINDINGS

Have you changed your fee structure?

- Our 2018 survey reveals that 52% have changed their fee structure within the past four years.
- We note that hybrid RIAs and broker-dealer-affiliated advisors had the biggest change.
- 33% of advisors report they have never changed their fees, compared to 39% in 2015, but the number is significantly higher (62%) for broker-dealer-affiliated-only advisors, showing they are less inclined to fix what they feel isn't broken.

Sources of pressure to change have shifted

- In our 2018 survey, 80% more advisors report feeling pressure vs. 2015 (27% vs. 15%).
- Notably, two-thirds (67%) of advisors cite clients, industry news and competitive pressures as the chief pressure sources.



Robo-platforms
Other advisors
Industry news
Your clients
Regulatory environment
Other

Source: SEI Survey, Advisor Fees, March 2018, n=736

Retainers growing

- The number of advisors who charge **retainers** of some kind has increased to 24% in 2018, compared to just 15% three years earlier.*
- Retainers only—or in combination with AUM fees—have grown, particularly for advisors' smaller or "accommodation" clients.

Project-based and hourly fees on the rise

Project-based pricing and hourly fees now are used by 32% of advisors, compared to just 1.4% in 2015. Those percentages have changed substantially in four years.*

How often do clients/prospects pushback on fees

Advisors report a slight uptick in the frequency of client questions about fees compared to 2015. Most (60%) "seldom" get pushback, others (39%) "sometimes" get pushback.

* In 2015, advisors were limited to a single answer to describe their fee model; in 2018, they could select all fee models their business uses.

CONSUMER RESEARCH FINDINGS

Is there an elephant in the room? The investor/advisor fee disconnect

One of the fundamental issues threatening the future of the wealth management profession has to do with a lack of consideration for the client's perspective in the pricing and offering of financial advice. The **disconnect** continues **between what advisors charge** for their services and **what consumers believe they are charged**.

Investor perception of fee conversations

In 2018, 87% of consumers surveyed say they have conversations about fees once a year or less. In 2015, research revealed that most consumers across various wealth tiers they "never" or "seldom" discuss fees with their primary advisor.

How do you compensate your primary advisor for the services you receive?

- Up slightly in 2018, 38% of investors now say they pay advisors fees "based on the level of assets."
- Still, 16% are unsure how they pay their advisor, compared to 24% in 2015.
- An additional 12% believe they **don't compensate** their advisor in 2018.
- 13% indicate they pay transaction fees in 2018, vs. 27% in 2015, attributable no doubt, to the shift from commission to AUM pricing.

While the trend is promising, the fact that 28% of investors have no idea how their advisors are paid is disconcerting. In 2015, however, this percentage was 38%, which shows some progress has been made.

Would you stay with your advisor if you thought fees were too high?

- The number has dropped to 70% in 2018 (from 75% in 2015).
- Nearly one-third (29%) would leave if a reduction was not given when requested.
- Today, 1 in 10 would leave quietly, either going to another advisor or a web-based advice site.

Investors slightly more willing to pay for investment advice

57% agreed in 2018, compared to 51% in 2015, supporting a trend that has grown steadily since we began tracking the question five years ago.

INVESTORS EXPRESS DIFFERENT VIEWS THAN THEIR ADVISORS.

Do online advice tools compete with your financial advisor?

- Slightly more, 32% of investor respondents believe online tools are competing with advisors, compared to 21% three years ago.
- 37% of investors believe their advisor needs to differentiate themselves from online tools because they can help them manage their own investments.

With the rapid growth of online tools, my clients feel they can manage more of their finances on their own.

- In 2018, a similar number of advisors (44%) disagree compared to 47% in 2015.
- 18% strongly agree or agree.
- Very few (2%) are unsure.

With online tools I can manage more of my finances on my own

Today, about 1 in 3 of the total household respondents believes they can manage their finances with online tools.

My clients are concerned that financial advice costs more than it should.

Advisor views remain unchanged in 2018. Only 15% of advisors agreed vs. 16% in 2015 that their clients were concerned about the fees they pay for advice.

A sizeable share of investors report that financial advice costs more than it should

In contrast, more than one-third of households (36%) believe financial advice costs more than it should today, which is a slight uptick over 2015.

Key takeaways

Value matters. Clarify the value you deliver for the price clients pay.

In 2015, as migration from commissions to fees and the rise of low-cost options prompted industrywide pricing conversations, we predicted that the link between price and value would shape the advice business and further distinguish the model from lower cost solutions. We suggested "let others do the ground-breaking and learn from them as they evolve."

Three short years later, we still conclude that **the AUM fee model will continue to persist, along with many variations**. We acknowledge the transparency dilemma in a value-based pricing methodology vs. simplicity, but we don't underestimate the power of simplicity. Nothing is simpler than the number one (i.e., 1% or 100 bps). We believe the future of fees will not be a dramatic wholesale shift from AUM to a new fee model; rather, it will evolve to comprise many different fee structures to adapt to market conditions and meet distinct client needs.

Know your true value. It's much easier for new firms to make pricing a differentiator since they don't have legacy clients whom they need to change. But if you want to be in business 10 years from now, you'll need to **think more about clarifying your value**. By that, we mean:

1. Formalizing your client-centric business strategies
2. Engineering your firms' operating models to deliver valued capabilities
3. Articulating your differentiated services
4. Showing what the value is and pricing add-on services appropriately

Those looking for a sustainable future almost certainly will have to **begin experimenting**.

Know your clients and the underlying services they're willing to pay for. Whether you charge one price or different prices for different segments, one of the best ways to truly know what your clients want is to ask them. Consumers tell us they expect value from their financial advisors. Value-based pricing considers the benefits and perceived value of service from the client's perspective. That means you must give clients a real choice about what they pay for and what they receive. Talking to clients, delving deeper, monitoring their satisfaction and concerns, and delivering real and unique value will be the new standard. Connect with your clients. **Capitalize on micro-moments**—it's the single most important advantage you have over lower-cost or do-it-yourself alternatives. There's a lot of perceived value in the discovery and financial planning process. Higher fees can trigger price sensitivity if they're not accompanied by a consistent coherent story. Three years from now, where's the value? It's embedded in the ongoing relationship. The new normal is a client more involved in the planning process.

Clients' willingness to pay depends only on their perception of value. Just because there are lower-fee options available doesn't mean you have to match them. But, in the digital age, your client is likely to discover them. Your value story needs to stand up to greater scrutiny. It's the rare advisor who is able to effectively communicate that value in pricing terms. Rarer still is to find that clear value message on an advisor's website. If there is no value perceived, there will be a lot more pressure on fees. And in the digital age, as Matthew Jackson points out, advisors increasingly won't even be given the opportunity to initiate that conversation face-to-face. If your value proposition isn't clearly articulated on your website, potential clients will keep clicking until they find an advisor whose story resonates with them.

Know your costs. Downward fee pressure should prompt you to innovate with top-line growth strategies—such as planning and other value-creation services to acquire and retain clients—and seek bottom-line focused cost savings. Technology and standardized operational processes enable you to customize the delivery of advice while mechanizing the office to do it in a scalable, profitable way and with fewer errors. Workflows and integration win the day.

Food for thought

What will happen to the client/advisor conversation about fees if/when the market changes dramatically? All these fee structures don't matter as much when markets are rewarding consumers. Perhaps investors say they value investment management now because their account values have grown. But what happens if those values shrink? Will those consumer perceptions of value change?

How successful are the fee model innovators? Have these trendsetters been at it long enough to generate measurable results? We expect it may be too soon to tell, but predict that innovation will continue as firms fine-tune their pricing, adopt better technology to facilitate growth and manage growing expenses.

What fee model will survive in the post-paternalistic era in which clients co-plan with their advisors and actively participate in the goal-setting and portfolio-planning effort?

Think of pricing as a journey. If you're not getting pushback on your pricing from clients, why change? The basic AUM model is the closest thing we have to a best-in-class fee model. That said, we strongly recommend that you **experiment with different fee types** with specific niches and new clients in addition to maintaining your AUM fee structure. The research confirms that clients seek value in the relationship and are willing to pay for advice, but the **advice has to be relevant, personalized and immediate**.

Three years later—the evolution continues

In the information age, three years is an eternity. Increasingly, the same can be said for the advice business. At every turn, regulatory, market and consumer-driven pressures and innovative disruptors continue to upend the status quo.

The combination of internal factors, like change fatigue, aging advisors, and constant technology investment, with external pressures, such as historic intergenerational wealth transfer and unknown disruptors, will challenge those who are unprepared or unwilling to adapt.

The future will look very different: **Will you face obsolescence or be willing to pay the price of change?**

> "Bill Gates recognized that the products Microsoft made would become obsolete in three years. 'The only question,' said Gates, 'is whether we will make it obsolete or someone else will.' I'd say he understands the price of change and is willing to pay it as a leader."
>
> April 27, 2018 tweet by author John C. Maxwell
>
> https://twitter.com/JohnCMaxwell

ROAD MAP TO VALUE:

6 steps to closing the fee vs. value perception gap

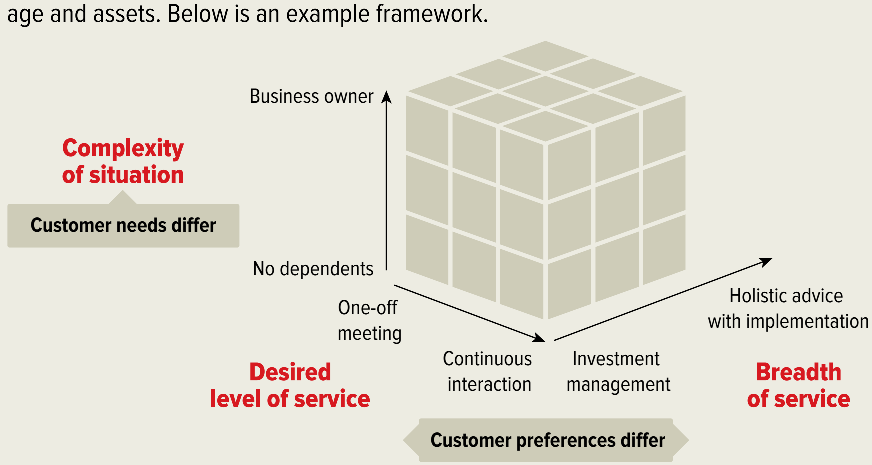
1 Segment clients by needs and preferences and create your persona.

A specialist or niche advisor can command a premium fee for real, timely and personalized advice. Innovative firms are staking out their niches, segmenting their clients and creating services and planning for them.

- "Fence" value rather than offer everything on an "all-you-can-eat" basis
- Look beyond age and assets to factors, such as:
  - Complexity of situation (children, health, asset level and type)
  - Level of service and preference for interaction
  - Breadth of service
- Create personas by talking to your best clients. These semi-fictional caricatures personify your ideal customer. From branding to onboarding, personas will help you shape your service suite, your message and your client base.
  - Augment your personas by analyzing the existing data in your CRM.
  - Let those personas guide your marketing efforts. For example, if you're redesigning your website, keeping the demographic of those personas in mind will help decide which features will enhance its usability.
  - Think in terms of what your persona is likely to identify with—and grab their interest.

Segmenting by needs and preference

For segmentation that translates into a customer-centric offer, we need to look beyond age and assets. Below is an example framework.



Source: Simon-Kucher, "Pricing for Growth in Wealth Management," p. 6.

2

Once you've established your persona, articulate your value proposition and price appropriately.

If your client doesn't understand what you do, then how are you going to charge? The value you deliver will help you adapt your model.

- Talk to your clients. Pay special attention to those that have brought up fee questions.
- Continue to evolve from being a product salesperson to your clients' wealth manager.
  - Deepen your client relationships to achieve greater wallet share and increased referrals.
  - Create recurring fee income that builds a predictable future for your firm through a combination of AUM and other fees, such as a flat fee for financial planning, retainers, hourly fees for advice and planning, etc.
  - Create a more salable business.
  - Ensure that your clients understand the value they are getting.
  - Use metrics to evaluate how you're helping clients stay on track toward achieving their goals.
- Explore a "blue ocean" strategy. Lasting success doesn't come from battling competitors. Find untapped new market spaces ripe for growth.
  - Adapt your AUM revenue model for younger, high-income earners that may not have significant assets yet but are willing and able to pay for advice.
  - Focus on the burgeoning "validators" who prefer to manage their portfolios themselves but would pay for financial planning and research.

3

Differentiate your service offering.

Now that you have segmented your client base, developed your persona and can articulate your value proposition, it's time to get the message out. For your existing markets, take this opportunity to:

- Select clearly defined market segments
- Create a time frame to test and evaluate the approach
- Track results

If you are looking to expand into the Gen X/millennial market, invite a newer/younger advisor on your team to initiate a project to reinvent a fee and service model.

4

Explore ways that technology can increase productivity and build scale while you fine-tune your fee model.

- Identify technology/outsource partners to support your improved processes. Look at which technologies support workflows and ensure that they provide solutions for your business needs.
- Evaluate self-service front-office technologies for clients and automation of select advisor tasks to create efficiencies and new revenue opportunities.
- Explore digital service tools to acquire potential clients that otherwise would be unprofitable or impractical to serve.

5

Think about how your client experience will change.

Clients increasingly want a greater say in which products and services they want, and how they're charged for them.

- Talk to your clients individually, through a survey, conduct a focus group or host an event to engage in a conversation about the change.
- Assess your people, processes and technology to measure and analyze client experiences in relation to their expectations.
- Explore innovative co-planning methods.
  - Use interactive technology to facilitate your conversation.
  - Acknowledge that investors are more technically and financially astute.
  - Expand the conversation beyond finances and investing.
  - Coordinate other experts to provide advice to investors on any topic from accounting and legal services to real estate and healthcare.

6

Implement your fee structure and transition your clients.

Once you've segmented your client base and determined how your pricing strategy will change, you may choose to implement the plan in stages.

- Create a disciplined transition plan.
  - Don't do it all at once.
  - Do new clients first.
  - Do tough clients last when you've worked out the kinks.
- Review with clients before implementing.
- Communicate well.
  - Work out how to communicate (in person or phone call).
  - Recognize it might be different by segment.
  - Communicate often.

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John Anderson is the managing director of Practice Management Solutions for Independent Advisor Solutions by SEI. He is responsible for all programs focused on helping financial advisors grow their businesses, create efficiencies in their operations and differentiate their practices. John is frequently quoted in publications, such as *Investment News*, *Financial Planning magazine* and *The Wall Street Journal*, and is a frequent speaker at broker-dealer conferences, client seminars and other industry forums. He is also the lead author of SEI's practice management blog, Practically Speaking, found at seic.com/practicallyspeaking. Alongside his practice management responsibilities, he also manages a team that provides investment research, case support and analysis to bolster the efforts of SEI's advisors.

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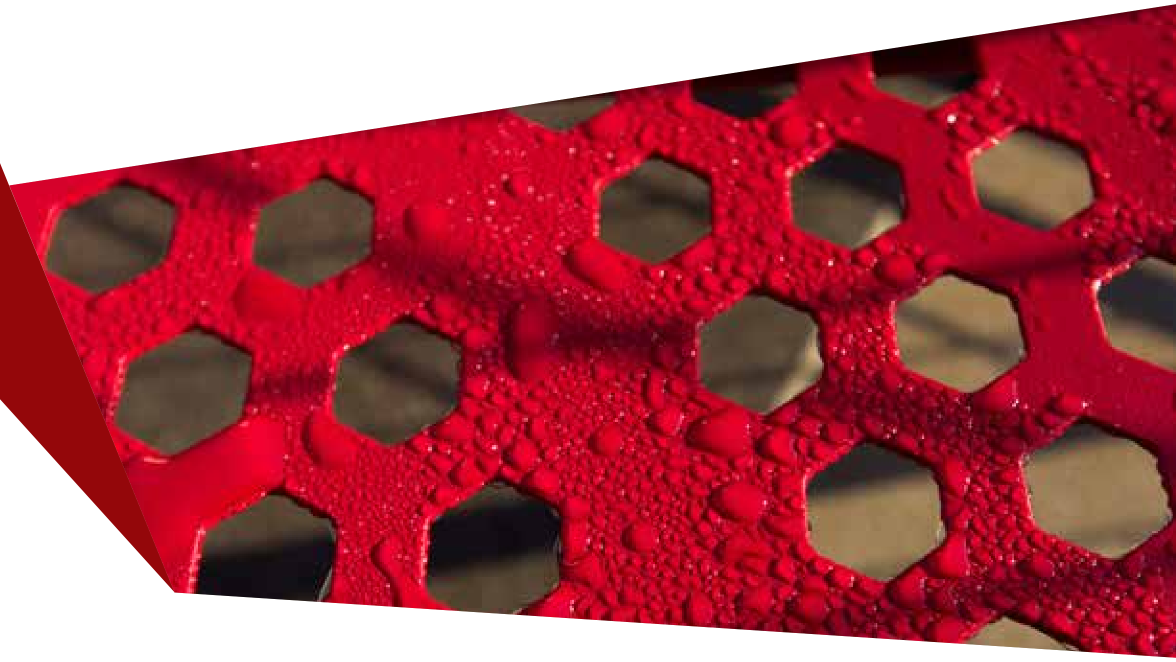

About Bob Veres

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Special thanks to our contributors

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