ENVESTNET MoneyGuide

3rd Edition

State of Financial Planning and Fees: The Bigger Picture

Exploring industry trends and the future of the fee-for-planning business model

Executive summary

The COVID-19 pandemic has led to times of uncertainty, however the value of financial planning has become clearer to many investors. While the financial advisor industry is growing and evolving, so is the manner in how advice and solutions are provided and delivered to clients. The impact of COVID-19 should accelerate the trend among advisors toward providing more holistic advice, comprehensive financial planning services to a broader client base, and charging a fee.

With financial planning taking center stage, the question becomes how should advisors charge for their services. To help address this question and take the pulse of the industry, Envestnet | MoneyGuide conducted this survey in August and September 2020. More than 1,600 advisors responded to the survey and ranged from Registered Investment Advisors to Independent Broker Dealers and Financial Services Firms.

Key Highlights

1. **The demand for financial plans on the rise:**
The number of clients with a financial plan has been increasing since 2015. More than half (55%) of advisors' clients have a financial plan, up from 48%. In addition, advisors providing comprehensive planning grew 39% from 2017. (Page 3)

2. **3 out of 4 advisors charge some type of planning fee:**
Advisors charging a fee, commission, or via AUM for financial planning has jumped to 72%, up 8% from 2017. Of the 38% of advisors who charge a separate fee for a financial plan, 65% charge a flat fee and 18% charge an hourly fee. Interestingly, 8% charge a subscription fee. Additionally, 29% of advisors who charge some type of fee are considering implementing a different fee model in the future. For example, of those advisors, 44% are now considering implementing a subscription model in the next 12 months. (Page 8)

3. **Financial planning fees are on the rise:**
Since 2015, we have seen an increase in the fees charged. Flat fees went up by almost 50%, averaging $2,482 and hourly fees went up almost 25%, to $257. On the other hand, those who charge as a part of AUM have maintained a fee rate steady around 1% since 2015. (Page 9)

"We are seeing an increase in the number of clients with a plan along with the steady rise of fees; this suggests there is a demand for advisors to offer and expand their financial planning services and clients are willing to pay for it".

Tony Leal
President of
Envestnet | MoneyGuide

Evolution of financial planning

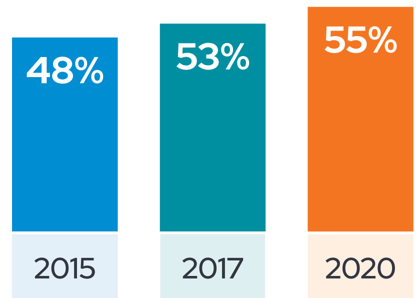
Financial planning is becoming more accessible. It is no longer only available for the wealthy but is often a key service provided to the broader client base of financial advisors. New technologies are improving the ability for advisors to provide financial plans by creating greater efficiencies. At the same time, technology allows financial advisors not only to educate, but also to adjust people's core attitudes and beliefs, and address the increased complexities of Americans' financial lives.

Redefining what it means to be prepared

The COVID-19 pandemic accentuated the need for basic financial knowledge around budgeting, savings and risk management that an individual can readily access. It's provided opportunities to engage clients more frequently through virtual planning.

More people are turning to professionals to help them navigate through their evolving financial goals and dreams over their lifetime. Our study shows an increase in the number of clients who have a financial plan. On average, more than half (55%) of advisors' clients have a financial plan in 2020.

Average % of clients with a financial plan

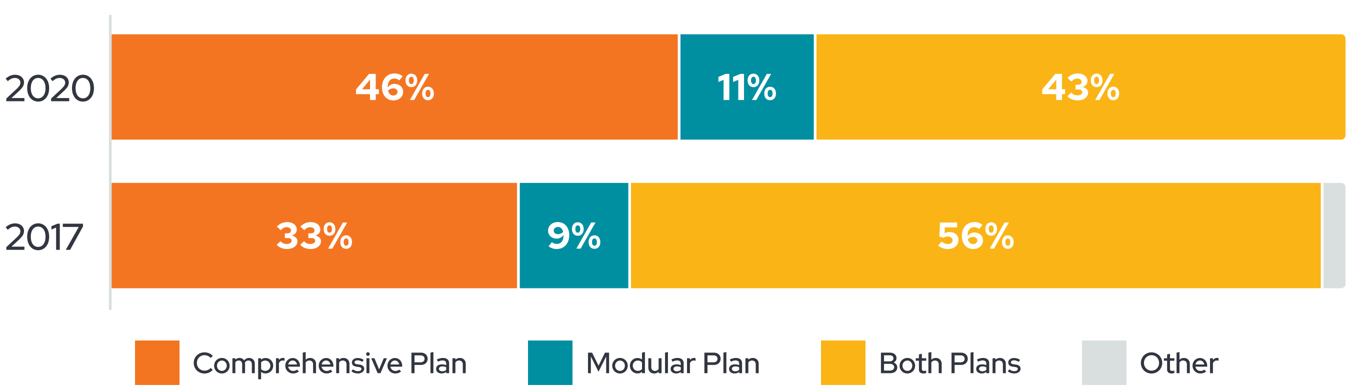


The industry is moving to provide more services to the mass affluent, considerably increasing the number of people who need financial planning. Advisors in our survey primarily have clients who are Boomers (56 to 76 year-olds) and who are affluent, with $500,000 to $2 million in investable assets.

Comprehensive planning is on the rise

As people's financial lives become more complex, advisors are offering different solutions. Our survey showed advisors shifting away from modular planning (topic specific planning) to comprehensive planning (up 39% overall in 2020). They are looking at their clients' entire financial picture, rather than focusing only on one aspect of the planning process. This follows the current trend of providing a more holistic approach to personal finances.

Level of financial plans delivered



Communications on financial planning services

Clearly communicating what financial planning services advisors are offering is very important. Advisors we surveyed communicate their financial planning services primarily via their ADV (Uniform Application for Investment Adviser Registration) and their client agreement. They also use brochures, their letter of engagement, digital instructions, checklists, as well as service calendars to inform their clients about the services they will receive.

Documents provided to explain financial planning services

- **72%** ADV
- **68%** Client Agreement
- **44%** Brochure
- **36%** Engagement Letter
- **34%** Instructions for digital engagement
- **29%** Checklists
- **9%** Client Service Calendar

> "Advisors can also go above and beyond by creating awareness around the importance of financial planning."

Joe Miller, CFP®, CPWA®
Chief Operating Officer of Envestnet | MoneyGuide

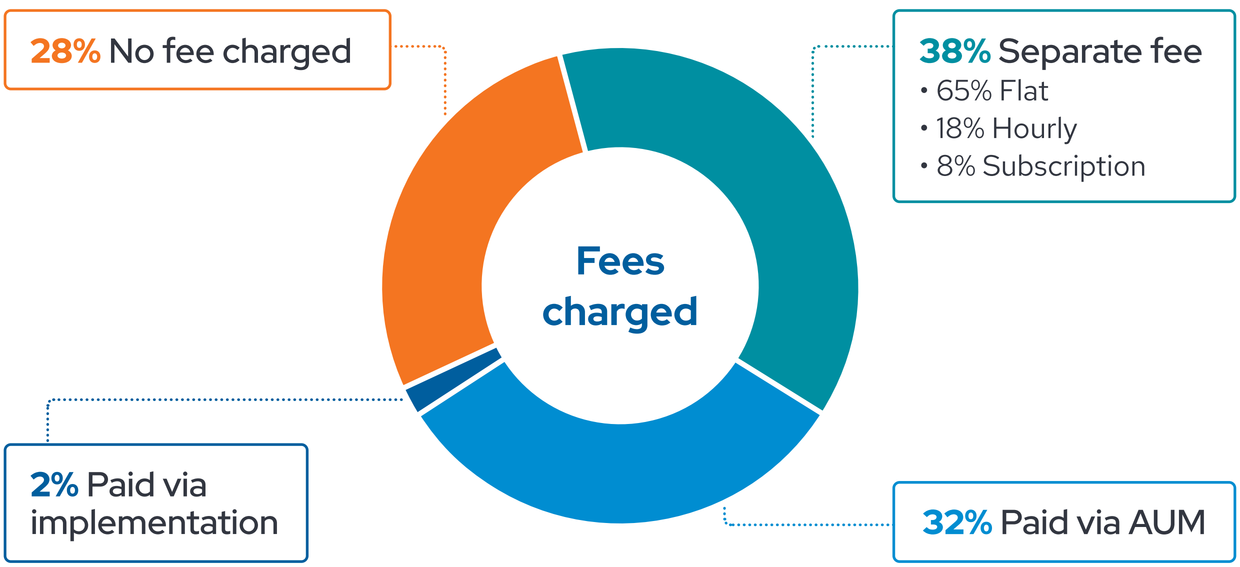
Evolution of Fee Structure

As more and more advisors are providing planning, we also see an evolution in the way they charge.

Traditionally advisors were charging based on AUM, and results suggest that advisors are moving away from bundling the plan into the asset-based fee and charging a separate fee. More advisors currently charge for their financial planning services. Today 72% of advisors charge some type of fee for planning, up 8% from 2017. Based on our survey, 38% of advisors charge a seperate fee and about a third (32%) charge via AUM.

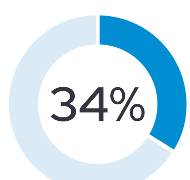
Most advisors charge a separate fee for financial planning

Fee structure for financial planning in 2020

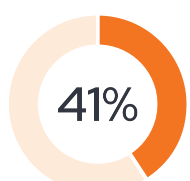


Interestingly, more advisors who have been in the business of providing financial plans for over 10 years charge a fee. This could be an indication of where the industry is heading. Financial planning software providers are making it easier for advisors to validate the cost of charging for plans and demonstrate their value by incorporating plan features, such as the ability to illustrate tax savings strategies, address client concerns in a bear market, plan for the long-term, and customize planning services to meet the unique needs of their clients.

Advisors with 10+ years of experience are more likely to charge a fee



Those providing financial planning for **10 years or less** charge a fee



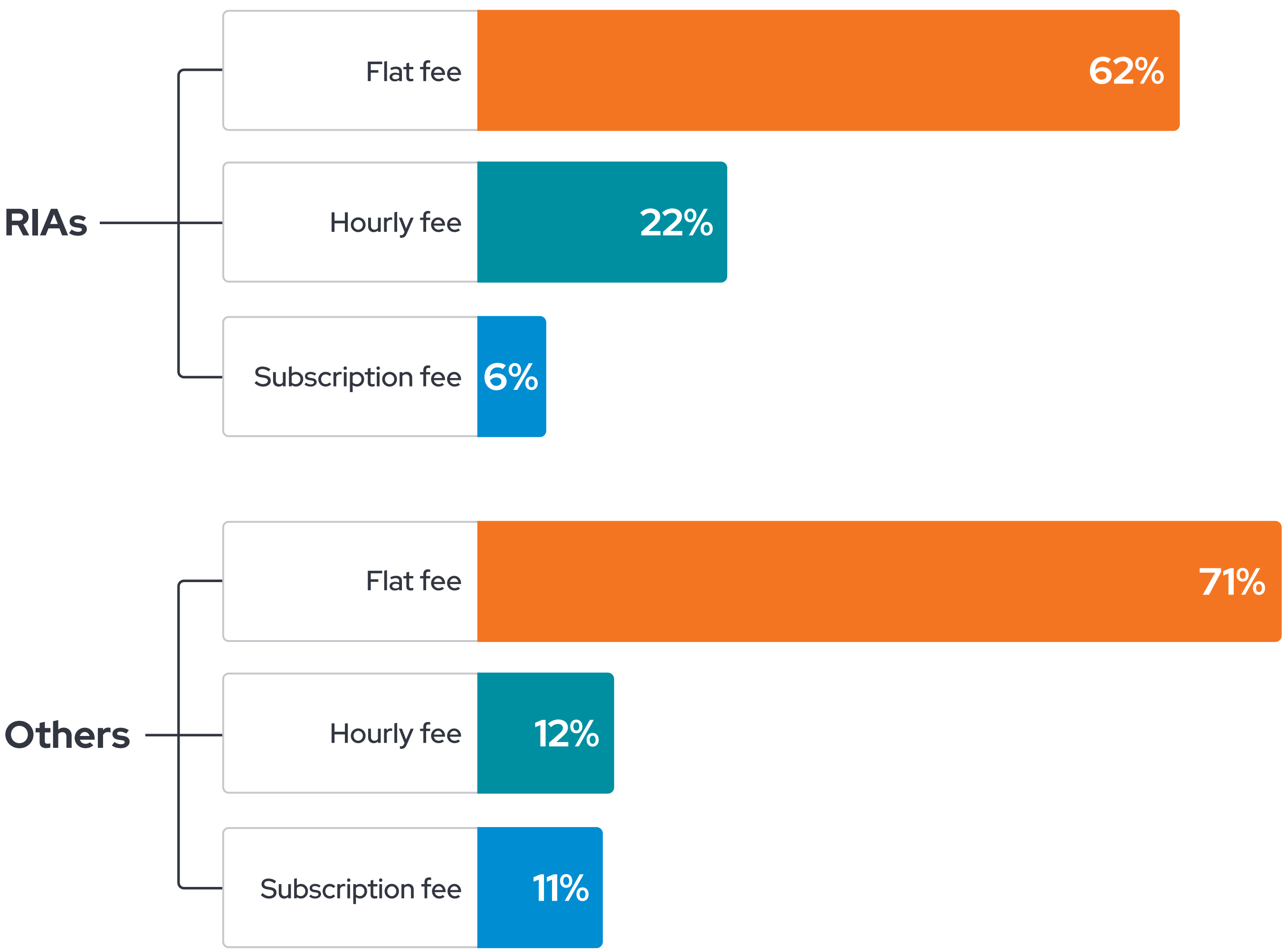
Those providing financial planning for **more than 10 years** charge a fee

Type of fee

Among advisors who charge a fee, two-thirds charge a flat fee, about one fifth charge an hourly fee and one in ten charge a subscription. Interestingly, RIAs are more likely to charge an hourly fee than other types of advisors (includes those from an Independent Broker Dealer, Financial Services Firm, Private Bank, Family Office, Insurance Company, Accounting Firm, Retail Bank or Credit Union).

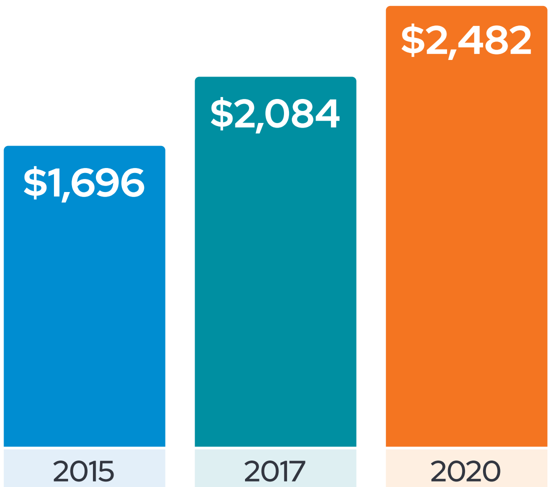
RIAs nearly twice as likely to charge hourly fees

Type of fee charged by type of advisor

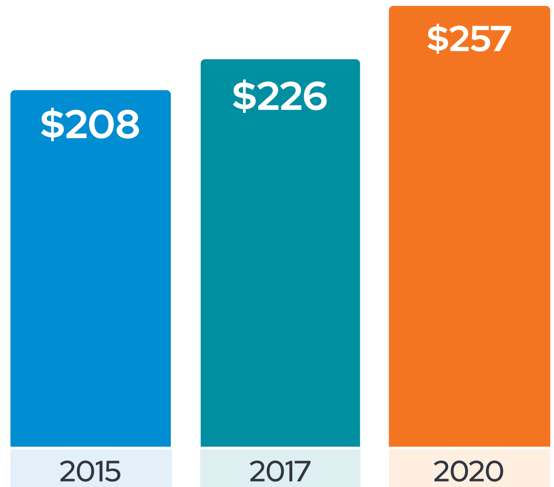


Now focusing on the actual expenses for clients, fees charged by advisors in our survey have been increasing over the years. The flat fee average is up to $2,482 from $1,696 in 2015. Hourly is up to $257 from $208 in 2015. Subscription is about $50 a month in 2020. A study conducted by Kitces.com also found that advisors charge a flat fee of $2,400, on average, for a financial plan.

Typical flat fee: mean



Typical hourly fee: mean



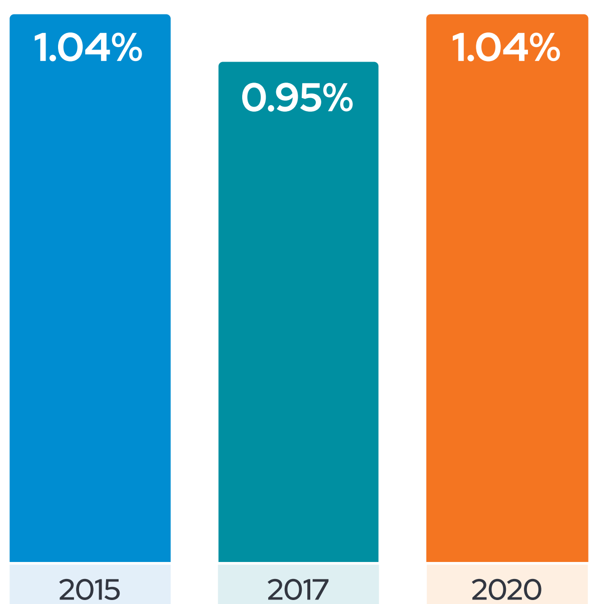
Experience seems to have an impact on how much advisors charge as advisors who have been providing financial plans for over 10 years charge more on average for their flat fee ($2,644 versus $2,239 for those who have been offering financial plans for less than 10 years).

Those who charge as part of AUM have maintained a fee rate steady at around 1% since 2015.

When asked how respondents collect their fees, the majority of advisors still do so by check (76%) while about three in ten collect them using debit (ACH) (29%) or directly from accounts they manage via the custodian (27%). We predict a rise in advisors using fee-for-service payments platforms as they become integrated into financial planning software systems.

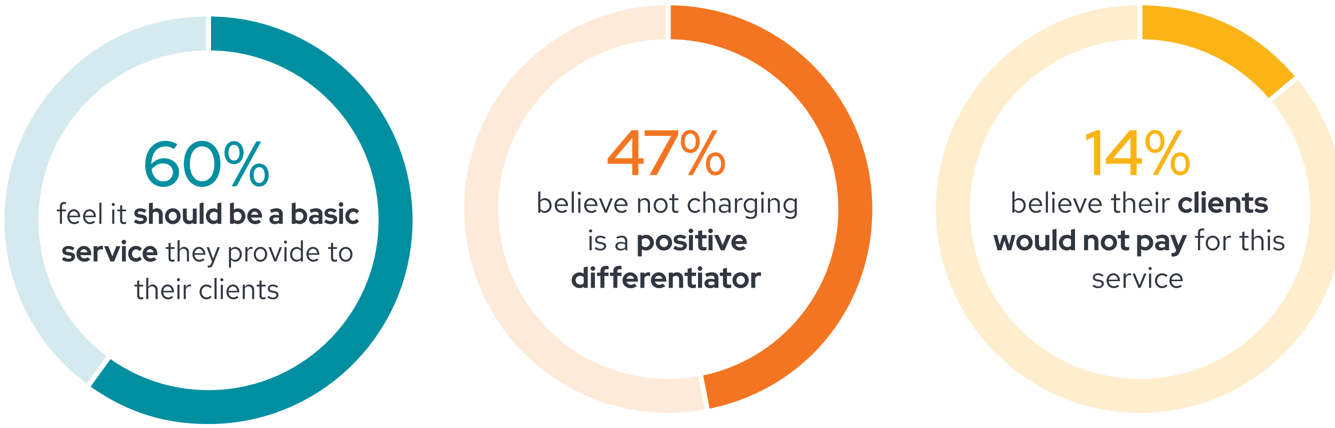
Advisors are not totally set on the best way to charge for their services. About three in ten (29%) who are currently charging for these services (either through a fee, AUM or a commission) are considering implementing a different fee model in the next 12 months. For example, of those advisors, 44% are now considering implementing a subscription model in the next 12 months.

Typical management fee: mean



28% of advisors do not charge for financial planning

3 reasons why



These reasons suggest these advisors consider the financial plan as a value-added service. Almost three-quarters of advisors (73%), who are not currently charging their clients for providing financial plans, do not plan on making any changes in the next 12 months. **Among those who are considering a change, 39% will charge a flat fee, 15% will move to a subscription fee while 34% are still undecided as to the best way to charge**.

Survey suggests fees do not impact advisor referrals

Almost all advisors (95%) who provide financial planning services receive referrals from their clients. Providing such a service seems to be rewarding. On average advisors receive six referrals per year from satisfied clients. Experience has an influence on referrals too: almost six in ten (58%) advisors who have been providing financial planning services for over 10 years get six or more referrals a year, compared to only about half (48%) for more junior advisors. Results show that advisors with more experience charge higher fees on average, suggesting experience may allow for higher fees and not impact referrals.

> "Financial plans can serve as key differentiators for advisors, and a driver of business growth."

Kevin Hughes
Chief Growth Officer of Envestnet | MoneyGuide

Advisors cite regulatory requirements as top challenge

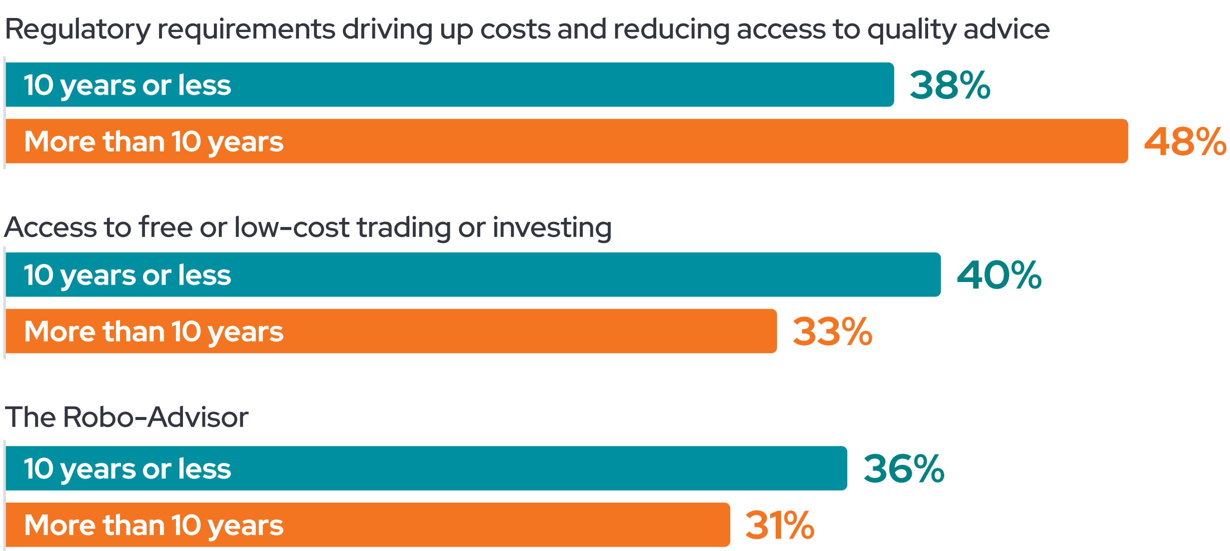
According to industry statistics compiled by IbisWorld, the market size of the financial planning and advice industry has grown by 1.8% per year on average between 2015 and 2020, which is faster than the overall economy. Despite this steady growth, most advisors are concerned about challenges or threats to their financial planning business. **The main threat to financial advice is regulatory requirements, which are driving costs up**. While technology has helped advisors become more efficient, advisors are also concerned about the rise of technology (e.g., AI, machine learning) and increased access to free or low-cost trading and investing that could impact their ability to deliver value to their clients.

Challenges or threats to financial planning

- **44%** Regulatory requirements driving up costs and reducing access to quality advice
- **37%** Tech advancements in AI/Machine Learning, Predictive Analytics, etc.
- **36%** Access to free or low-cost trading or investing
- **34%** Non-traditional advisors moving into financial advice
- **34%** The Robo-Advisor
- **29%** 401(k) providers moving into financial advice

Challenges or threats to financial planning by years of experience

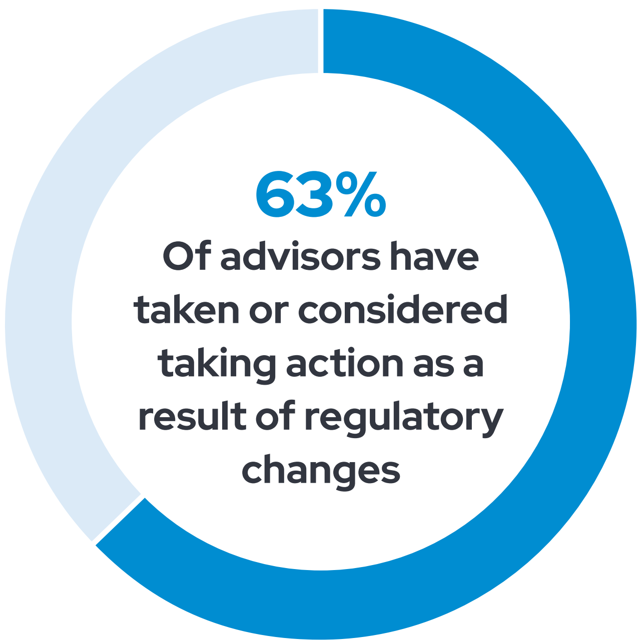
Advisors who have been in the business longest are much more concerned about the regulatory requirements. Those who have been offering financial planning for 10 years or less are more worried about their clients having access to free or low-cost trading and the rise of the Robo-Advisor.



Regulatory changes prompts advisors to offer planning to all clients

As a result of regulatory changes, several trends are beginning to appear; the most prominent being that firms are encouraging their advisors to offer financial planning to all their clients (31%).

Actions as a result of regulatory changes



31%	Encourages financial planning for every client
29%	Reevaluate offerings to clients when financial planning
18%	Considering implementing a fee model
17%	Changed fee model
10%	Started offering clients financial planning
5%	Firm now requires financial planning for every client

Expert advisor + digital platform is the new way forward

Another way advisors are addressing these challenges is by embracing technology to create new opportunities. Advisors are able to work with clients around the country by conducting their business remotely. In turn, the industry continues to see clients working with subject matter experts regardless of geographic location. **Seven percent of the advisors we surveyed are no longer associating with a geographic location and are providing services virtually**. These advisors have a larger proportion of their clients with a financial plan (45% have more than 80% of their clients with a financial plan). They are serving younger clients, as well as more high-net-worth (HNW) clients.

Even advisors with physical locations are meeting with their clients virtually. Those that leverage a financial planning solution only need a computer and an internet connection to stay connected with their clients. Plus, many software solutions have a Client Portal feature that allows the advisor to communicate virtually in a simple and user-friendly format. It's crucial to stay connected with clients through digital collaboration and holistic advice to help them better understand their overall financial picture, and breathe a little easier during periods of market volatility.

Virtual advisors have a greater proportion of clients with financial plans

Percentage of clients with a financial plan based on advisor location

57% of geographically based advisors have clients with a plan

64% of virtually based advisors have clients with a plan

Virtual advisors have a younger client base

Percentage of clients with a plan based on generation and advisor location

	Geographically based	Virtually based
Millennials	11%	21%
Gen X	46%	60%
Boomers	92%	81%
Silent Generation	23%	12%

Virtual advisors have more HNW clients

Percentage of HNW clients ($10M–$25M) based on advisor's geographic location vs. virtually based

7% of geographically based advisors have HNW clients

14% of virtually based advisors have HNW clients

Conclusion

Financial plans are important to clients—helping them address the complexities of today's personal finance world. Not only do financial plans serve as a key differentiator, today advisors are embracing planning to help create more value for their clients and tying a plan to a product to help diversify their revenue streams. One key question advisors have is how to appropriately charge for these services. Based on these survey results, financial planning services are on the rise, many advisors charge a fee, and these fees are on the rise. The type of fee varies by advisor and is likely to be based on business model.

How and what you should charge will likely depend on your market and business model.

Key considerations:

- **Engage more clients in planning:** The pandemic has redefined what it means to be prepared. It's critical to understand a client's needs and pain points – and be ready with a proactive solution – to forge the foundation of a strong advisor-client relationship and avoid losing future business.

- **Become the go-to-advisor:** Explore offering virtual planning to create a niche planning service and position yourself as the planner of choice for a specific market.

- **Scale offering:** Optimize the use of financial planning software to engage more clients and produce plans on a larger scale, while helping clients improve their results.

- **Identify new opportunities:** Look at your current book of business and use analytical tools to identify clients that would benefit from planning and identify actionable opportunities that may have otherwise gone overlooked.

- **Remove barriers of entry:** Give clients an easy place to start exploring their financial landscape. Digital planning tools give advisors an opportunity to reduce the perceived stress of a formal planning process, and make a quality financial plan more accessible and easier to understand.

About this survey

This is the third wave of this survey, first done in 2015, with the second wave conducted in 2017. Participation increased from under 1,000 in 2015 to over 1,600 advisors in 2020. The web-based survey was conducted in August and September 2020. Respondents came from numerous sources, including associations, publications, and advisors using the MoneyGuide platform. They represent a range of advisors from Registered Investment Advisors to Independent Broker Dealers and Financial Service Firms.

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800.743.7092