Are You Paying Too Much for Financial Planning and Advice?

By Jane Bryant Quinn | Sep 21, 2010 | **6** Comments

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How much are you paying for the financial-planning advice you get? Some investors don't know. Others think they know but don't. "Fee-only" planners and registered investment advisors state their fees up front. "Fee-based" advisors appear to do the same but might be charging you in other ways. Brokerage house advisory accounts charge the most and can entangle you in costs you didn't expect.

In short, a stated fee isn't always what it seems. For that matter, neither is an advisor. I recommend fee-only planners but I've found some who are so new to the business or so limited in their skills that I wouldn't go near them.

So how do you go about assessing what you're paying for advice and what the potential conflicts or trouble spots might be? Here's a rundown:

Fee-only advice. This is my choice, always. These advisors give you a price list up front, for work by the hour, by the task, or for ongoing management of your money. They don't take sales commissions, so they're not primed to push products. They sell only their planning and investment expertise.

Within this world, however, there's a lot of variation.

A fee-only planner, with a CFP designation (for Certified Financial Planner) helps you establish your priorities and goals, create budgets, set savings targets, test your insurance safety net, establish retirement savings accounts, project future retirement income, plan for taxes, and make basic investment decisions. By "basic," I mean simple asset allocation and picking no-load (no sales charge) mutual funds. That's all that most families need. You can find some of these fee-only planners through the Garrett Planning Network, the Alliance of Cambridge Advisors, or the Financial Planning Association (when you search the FPA site, click on "How Planners Charge" and check the box for “fee-only”).

But some of these advisors — especially people who have been in business for only three or four years — might not have the knowledge or experience to analyze your investments in depth. Those with a brokerage-house background are familiar with securities, but others are still learning. They might be qualified to advise on mutual funds but not individual stocks and bonds. They might be taking clients before they’ve finished their CFP.

On average, you’ll find more experienced planners through the National Association of Personal Financial Advisors. Some NAPFA members deal only with people of higher wealth. Others take middle-class clients, too (see what their websites say).

Even planners with good paper qualifications might not serve you well if they don’t understand your life experience. For example, young planners who don’t own homes are not the best guide through mortgage decisions. Someone in his or her mid-30s will think more aggressively about investments than someone in late middle age. If you’re approaching retirement, you want a planner who can feel the same, cold wind of uncertainty that you do.

Fee-only planners typically charge 1 percent on accounts up to $1 million or so, and less on larger amounts. But fees have been going up, says Tom Orecchio of Modera Wealth Management and former president of NAPFA. Some firms charge 1.5 percent or more for the first $500,000.

“Advisors say they’re working harder, for less money, than at any time in their career,” Orecchio says. Accounts under management have declined in value, clients need more handholding, and more new products are coming to market that need evaluating. So they’re charging people more.

Normally, a percentage fee applies only to money that the planner has directly under management. A few planners assess the fee on your total net worth, including your 401(k) and home equity. “That’s for comprehensive financial planning,” says John Sestina of John E. Sestina and Co. “We advise on everything, including whether to refinance a mortgage and how to allocate a 401(k).” He charges $5,000 for accounts up to $1 million (that’s 0.05 percent, at the top) and larger fees for larger accounts. For younger clients, he offers “financial planning lite”– $1,000 for full planning and investment services on accounts of any size, but only two or three meetings a year.

Fee-based advice. Here, you have wolves in sheep’s clothing. It sounds as if they also give fee-only advice. In fact, they sell products and earn commissions. You might pay fees for some products and commissions for others. The size of the fees might depend on what else you buy. “Fee offset” means that the fee is deducted from the commission you pay. Commissions aren’t always visible, so it’s easy to pay more than you realize.

Brokerage house advisory accounts. You pay fees here, too. The broker provides an investment plan, developed and monitored by the firm’s advisory team. You get periodic reports. Small investors, with $25,000 to $50,000, might be charged in the area of 2 percent a year. These accounts don’t include packaged products such as variable annuities or unit trusts. Your broker might sell them to you on the side, earning a commission on the trade.

Skip these expensive advisory accounts if you’re a long-term investor who holds mutual funds and a few stocks. You're much better off in a regular brokerage account that doesn't charge fees–or, for that matter, with a fee-only planner.

Regarding conflicts of interest, I'm always careful about the commissioned-sales world because of its fondness for selling high-cost products. But the fee-only world has potential conflicts, too. Planners who charge on an hourly basis might stretch out the time it takes to complete your job. Planners who work on retainer might pay less attention to your account, because they've got the money anyway. Planners who charge a percentage of assets have an incentive to hold on to your money — for example, by recommending that you keep your mortgage rather than paying it off.

Always evaluate the advice, in terms of your advisor's interest as well as your own. Advice isn't always worth what you pay for it. You might do better by paying less.

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Jane Bryant Quinn is a leading commentator on personal finance, with books and columns read and trusted by millions. During her long career, she's established herself as America's most reliable voice for people trying to manage their money well. Her policy columns address matters of top concern to citizens, including investor protection, health insurance, Social Security, and the sufficiency of retirement plans. Her personal finance columns demystify money to help families make better decisions about their financial future. Jane's best-selling book, Making the Most of Your Money, is a comprehensive guide to personal finance, named by Consumers Union as the best personal finance book on the market. The first edition, published in 1991, has been in print and popular, ever since. The third edition -- Making the Most of Your Money NOW -- was published in January, 2010. She also writes for her own Web site, JaneBryantQuinn.com. Jane has worked extensively in television. She co-hosted an investment series, "Beyond Wall Street," which ran on the Public Broadcasting System. PBS also ran her own program, a personal-finance series called "Take Charge!" She worked ten years for CBS News, first on the CBS Morning News, appearing twice weekly, then on The Evening News with Dan Rather. She has also been a regular on ABC's The Home Show as well as a guest on Good Morning America, Nightline, The News Hour with Jim Lehrer and many other programs. Jane has many awards to her credit, including the Emmy Award for outstanding coverage of news on television and the Gerald Loeb award for distinguished lifetime achievement in business and financial journalism. She has also received many honorary degrees. She currently serves on the board of Bloomberg LP, the financial services company. She has also served on the board of the Harvard School of Public Health, the Jerome Levy Economics Institute of Bard College, and her alma mater, Middlebury College. She's a member of the Council on Foreign Relations. Jane is the editorial director of MainStreetConnect.com, a company she founded with her husband to bring high-quality local news to communities online.

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