THOUGHT LEADER OF THE MONTH

THE SILENT TAX: YOUR WEALTH MANAGEMENT FEES

Know exactly what you pay your advisor, and why.

From the conflicted days of commissions to the advent of fee-only relationships, things have certainly improved for clients. But the work is not done. Today, everyone throws around the term “fiduciary,” and though many meet the textbook definition of the word, clients deserve more. The wealth management industry has deemed it a birthright to base client fees upon the amount of money a client invests, but shouldn’t a client’s fee be based on the work, not their worth?

Assets should not determine what you pay an advisor. If two clients require essentially the same amount of work, yet in some cases have materially different amounts of money to invest, should they pay considerably different fees? In theory, the client who has more money invested in this scenario has actually made the advisor’s job a bit easier, yet they pay more! Further, if a client saves additional money, should the advisor receive a raise in revenue? Yet in today’s common “assets under management” pricing model, that’s exactly what happens. Welcome to the Wealth Management Tax. You should be comfortable asking your advisor to base their fee on the amount of work that will be done, not some arbitrary formula that does not reflect the most basic pricing concept (actual work.) that is used in all other service professions.

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Make your advisor speak in dollars, not seemingly marginal percentages. For a clothing sale to even get your attention, it probably requires at least a 10% discount, maybe more. We ask athletes to give 110%. Common sense psychology then suggests that 1% is pretty nominal (the commonly stated fee of advisors based on the client assets they manage). What about 0.75%, commonly referred to as a mere 75 basis points when advisors cite their fee? A recent interview with the CEO of a large planning firm said that “basis points are the poker chips of our industry, and clients never translate their true value because stated that way, they carry no real value.” Is that a fiduciary mindset?

Don’t get caught in a product trap either. Unfortunately, clients are still being approached by salespeople about expensive, inflexible and complex products as a way to fund their goals. Not all annuities and permanent life insurances are bad, but when misplaced in a client’s portfolio, they can permanently transfer your wealth through the hefty commissions that are often paid, as well as the ongoing embedded costs that are applied by the insurance company. When it comes to your financial products, complexity rarely translates to value.

Wealth management services should enhance your wealth, not the advisor’s. A good advisor will be mindful of both your product and professional advisory fees. And they should be fairly compensated for good advice and the peace of mind that comes with that, but not simply because your investment balances grow through savings and long-term market trends. That’s why at PDS we have embraced a flat, fixed-fee pricing structure that is stated in dollars, not seemingly marginal percentages. **We’re cutting the silent wealth management tax—and ushering in a new era of transparency.**

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