

Practice Management

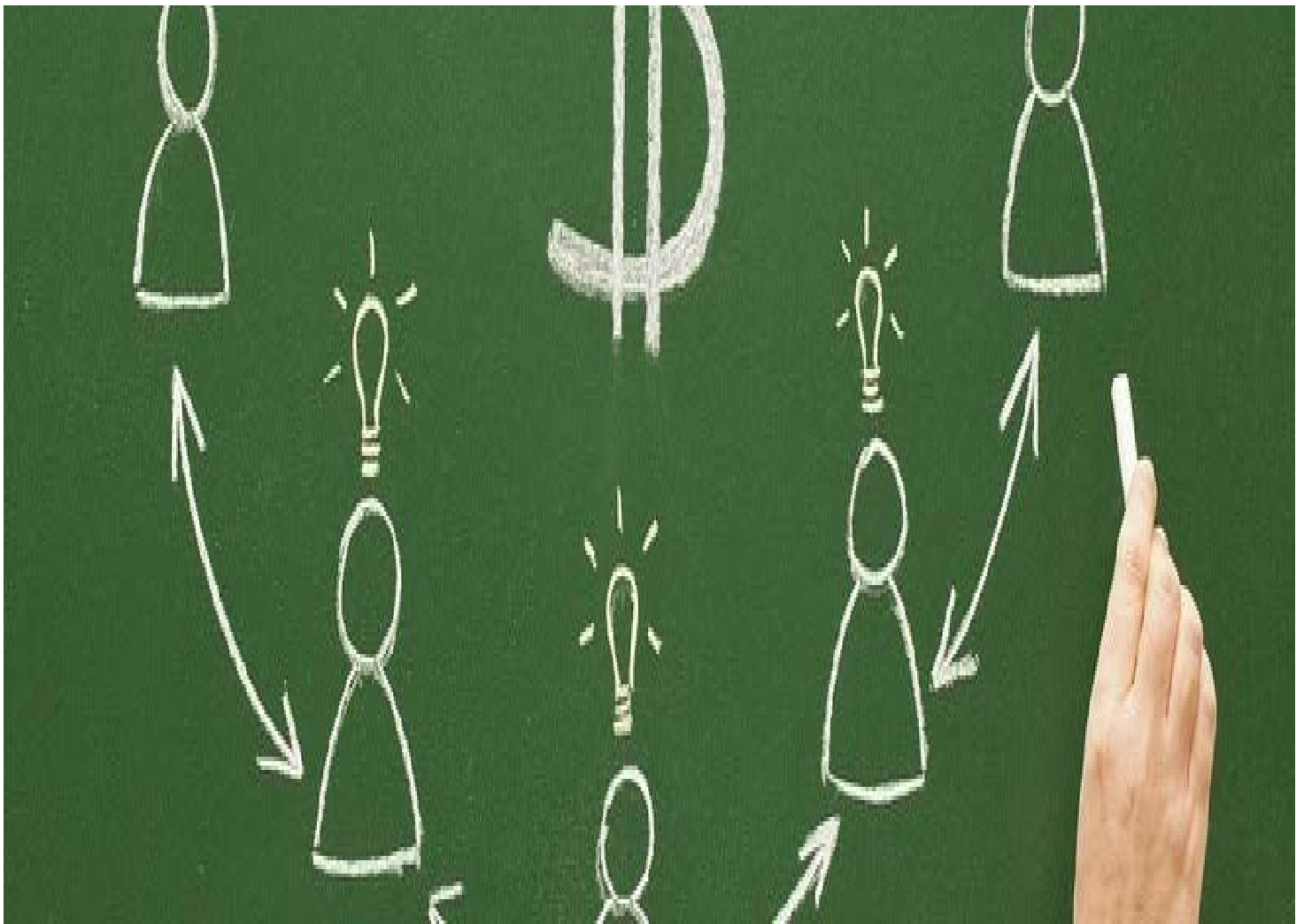
# RIAs make the case for charging on a client's total net worth

Holistic planning pushes fees beyond the investment account

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By **Jeff Benjamin**





Seventeen years ago, when Brighton Jones launched as an advisory firm billing clients based on their total net worth, it was a rare and innovative fee structure in the financial planning business.

Today, with the financial services industry feeling **fee pressure** from all sides, the net-worth basis for pay is still rare and innovative, but the idea has at least become a larger part of the conversation.

"It always annoyed me the way advisers will just focus on the investment account and not on the bigger picture," said Charles Brighton, co-owner and chief executive of the \$4.2 billion advisory firm, which bumps up to more than \$6 billion when calculating clients' combined total net worth.

"The real value we provide is helping clients understand balance sheets and net worth, and our fee is tied into driving that net worth higher," he said. "Plus, it removes any conflicts

of interest related to decisions that might increase the fees charged on assets under management."

Industry-wide, more than 85% of independent registered investment advisers charge clients a fee based on assets under management or advisement.

The popularity of the fee structure that tends to hover around 1% of assets is often attributed to the straightforward simplicity for both clients and regulators to understand and monitor.

But the fast-evolving financial services landscape that is being influenced by more-holistic planning, new fiduciary rules and **digital platforms that are managing portfolios** for 25 basis points might be driving more RIAs to start **thinking beyond the asset-based** pricing model.

"Advisers' pricing structures must evolve as their businesses evolve," said Tom Nally, president of **TD Ameritrade Institutional**.

"Firms that continue to charge fees solely based on a percentage of assets under management will face pressure as digital-advice delivery proliferates," he said. "Advisers need to realize that it's difficult to compete with platforms that are almost giving away the asset management for free."

Citing a 2015 TD Ameritrade study showing that 71% of fee-based clients receive services other than asset management, Mr. Nally said the groundwork is already laid for a shift to charging fees based on a client's total net worth or something comparable.

While some advisers might migrate to net-worth-based fees as a differentiator, the idea has long made sense to Krzysztof Garlewicz, president of Prosperifi.

"Net-worth pricing confirms the level of holistic advice, because we're continually looking at both assets and liabilities," he said.

Charging fees based on net worth is more complex, because it requires additional research on an entire household, including retirement plans and illiquid assets such as real estate.

Mr. Garlewicz, who launched his own advisory firm two years ago, has been billing clients based on total net worth since 2008.

For his clients, the foundation is set through a \$2,200 initial evaluation that takes about three months to complete.

"I don't run into a lot of advisers who do it this way, but I know a lot of people who talk about doing it this way," he said. "This is the way of the future."

Across an industry dominated by asset-based pricing models, it is not hard to find critics of charging fees based on net worth.

"Putting myself in the shoes of the client, why would I ever do that?" said Kashif Ahmed, president of American Private Wealth.

"It sounds like a gimmick for planners who are trying to differentiate themselves from those people charging asset-based fees," he said. "Kudos to those advisers that have been able to do it, but you don't manage my house or my cars or my jewelry, so why should I pay a fee for that?"

But proponents of net-worth fees insist it is less about bringing more wealth under the fee umbrella than it is about bringing fees in line with the services being provided.

"We think it's important to think about the entire balance sheet, and not just one line item," said Mr. Brighton, whose fees are pegged to a range of between 25 and 95 basis points of total net worth.

Mr. Garlewicz, who oversees \$170 million in total "net-worth under management," sets his fees to 25 basis points of a client's net worth. During his first year in the business, which was the only time he ever charged an asset-based fee, Mr. Garlewicz was charging clients 1.4% on the first \$250,000.

"A lot of advisers say they're comprehensive, but it's hard to do that if you don't have access to the entire balance sheet," he said. "Billing based on net worth forces accountability and it allows you to execute on holistic financial planning."

While Mr. Garlewicz said he still monitors and communicates with clients about their investment portfolio, "the needle we're trying to move is the total net worth figure," which is tracked quarterly.

## **POSSIBILITIES, PROBLEMS**

In addition to outright critics of the pricing model, like Mr. Ahmed, there are skeptics and curious onlookers like Breanna Reish, a financial planner at TriCord Advisors.

"I'm not exactly running scared by the fee pressure out there, but anytime I see a new fee structure I take note," she said.

Ms. Reish is nothing if not flexible when it comes to fees. She currently has at least three fee structures, including a base fee for younger clients, an asset-based fee that separates liquid and less-liquid assets, and an asset-based flat fee.

"I threw out the idea of a net-worth-based fee with a prospective client and they decided not to work with me," she said. "We're doing asset management, but we're also helping clients with any financial matters they have, and I find it hard to manage a lot of other things when we're only charging for the assets under management."

Michelle Fait, principal and founder of Satori Financial, also has been tempted by the idea of net-worth fees. But in her case, the main sticking point has been state-level regulators.

"In theory, I like the idea of net-worth fees, because if you're offering comprehensive advice you really are working across the client's entire net worth," she said. "I think asset-based fees puts too much focus on the portfolio rather than the whole service."

Ms. Fait, who is state-registered in California and Washington, said her attempts at net-worth pricing were stalled because "Washington state doesn't like net worth fees or income-based fees."

"I think the advantage of net-worth fees is that, similar to asset-based, it's easy to understand. But every fee structure is conflicted, to some extent," she said. "I started my practice 17 years ago, and I've been struggling with the issue of fees ever since."

