

Retirement Planning Insights

October 2025

Tenon Financial Happenings

- Some speaking gigs

Retirement Planning Happenings

- My thoughts on different advisory fee structures

Tenon Financial Happenings

Discussing advisory industry stuff in California and Virginia

Last month I had the honor of being a panelist at two different industry events.

The first one was at the Future Proof Festival, which is only in its fifth year, but has become one of the major conferences in the advisory industry.

My friend Kevin Thompson from [9i Capital Group](#) invited me and Jason Ray from [Zenith Wealth Partners](#) to do a panel discussion about running small advisory firms that have big impacts.



What's cool about Future Proof is that the whole conference takes place outside, right on the beach in

Huntington Beach, California. Hence the sunglasses and hats you see in the picture.

I was also asked to participate last month in a panel for the Financial Planning Association's National Capital Area chapter's annual "practice management summit" meeting, which was held in Vienna Virginia.

I was joined by panelists Howard Pressman from [Egan, Berger & Weiner LLC](#) and Gordon Bernhardt, who recently sold his advisory firm, Bernhardt Wealth Management, to a larger national firm, [Modera Wealth](#). Our topic was, "Debating fee structures and what is actually best for clients."



The discussion was engaging and cordial, even though the three of us have chosen to implement different fee structures in our respective firms, and obviously have different feelings about which fee structure we feel is best.

The fee structure debate is interesting in that I think it's something that advisors care a lot more about than most consumers do! But nonetheless I feel it's important to help educate folks about the different models out there, the pros and cons of each, the inherent conflicts in each, etc.

The next section below will discuss the different advisory fee structures and my thoughts on each.

Now excuse me while I start October by binging on pumpkin spice everything.

-Andy

Retirement Planning Happenings

My thoughts on the different ways in which financial advisory firms can charge for their services

Considering I'm fresh off of participating in a panel that discussed the pros and cons of different advisory compensation structures, I thought I'd recap what we discussed and further share my views on the topic.

I think about this topic more than I probably should, and I have very strong opinions on it. And that's not just because I'm in the business and chose to use a less common fee structure than most other places. Years before I even started my advisory firm, I had very strong views about all of this when I was just a "consumer," for lack of a better word.

And my views as a consumer of financial advice were formed from working in and around investing and investment management for my 19 years of corporate life prior to starting my advisory firm. So I saw the industry from the other side of the equation, so to say. While I wasn't an advisor, I had a lot of exposure to the products, strategies and processes that are used in the advisory industry.

Anyway, enough about me. Let's talk about the different advisory compensation structures. And I'm going to generically use the word "advisor" and "advisory." Those are NOT regulated or formally defined terms within the industry. Basically anyone can more or less give themselves that title, regardless of what product or service they actually focus on providing, regardless how they're paid, regardless how much or how little they actually know about advising, etc. But I'll save my gripes about the lack of standardized titles for another day.

The different fee structures in the industry are:

Commission-only:

The person is paid for consummating the sale of a product (or service). Common examples are when selling any life insurance policies or annuities, or certain mutual funds.

In the case of life insurance and annuities, the commission paid to the selling agent doesn't come directly from the client/purchaser. Instead, the insurance company whose product was sold is the

one who pays the agent. However, the cost of that commission is baked into the product and ultimately indirectly paid by the purchaser. It's just that there is no way to directly see the impacts of the commission within the product or its economics.

With mutual funds, it's now much less common for there to be commissions, as most mutual funds are "no load" (where a "load" is a sales commission). But in the case of a mutual fund that does have a load, it's possible that commission IS paid by the buyer. For example, a mutual fund with an upfront 5% sales load means if the buyer puts \$100 into the fund, \$5 will be used to pay the commission to the broker who sold the fund, and only \$95 will actually get invested into the fund.

Fee-only:

There is a lot of misuse and misunderstanding of this term. All it ultimately means is that the advisor's revenue comes purely from the client paying them.

More specifically, the advisor doesn't get any commissions, kickbacks or other financial incentives from any other person or place. Additionally, the advisor can't even have the *ability* to sell products for commissions, or work at a firm where other folks at the firm have licenses to sell things for commission. Basically, even if the advisor never sells a commissionable product, simply having licenses to sell such products disqualifies them from being able to be considered "fee-only."

The most common fee-only fee structure is when advisors manage investments for a client and their fee is a percentage of the client's assets under management, or "AUM." For example, if a client has \$1,000,000 under an advisor's management and the advisor fee is 1.00% of AUM, the advisor's fee for the year would be $\$1,000,000 \times 1.00\%$, or \$10,000.

Another fee-only method is hourly, where the advisor might bill by the hour at whatever their stated rate is.

Flat fee is another example of fee-only, where the advisor might charge a fixed annual fee, of \$10,000 per year let's say, to provide ongoing services. In some cases, the flat fee might cover only financial planning but not management of investments (where investment management would be an additional charge, under a percent of AUM approach). In other cases, like at Tenon Financial, the flat annual fee includes not only financial planning but also management of investments, where the fee is the

same regardless of the size of the client's assets under management.

Yet another fee-only method is complexity-based. For example, the advisor might charge a minimum level of flat annual fee for their services, but then have different fee add-ons based on the client's different areas of financial planning or investing complexity. Such as charging more if the client has rental properties, equity compensation, private investments, business interests, etc.

The key takeaway of any of these flat-fee models is that the advisor's compensation is coming directly from the client. It doesn't matter if the client is paying the advisor by having the fee deducted out of their investment accounts, or by the client paying the advisor via check, credit card, etc. The point is that it's the client who's paying the advisor. Unlike with the commission model where it's an insurance company, for example, paying the agent/advisor for selling the product to the client.

Fee-based aka Hybrid:

This is simply a hybrid of the above two fee models; the advisor not only charges fees directly to the client, but also gets paid commissions from selling products.

It's called *fee-based* (as opposed to *commission-based*) because the majority of the advisor's revenue typically comes from fees from clients as opposed to commissions. In theory, if the advisor focused more on selling commissionable products and less on services that generated fees from clients, I guess you could maybe then call that "*commission-based*." Though I've never actually heard anyone use that term before.

A common example of fee-based is an advisor who manages investments and charges a percent of AUM for those services. Maybe that equates to \$10,000/yr in fee revenue from the client. The advisor may also occasionally sell certain insurance products to the client. But the revenue the advisor gets from those insurance sales commissions is generally less than what the advisor gets in ongoing annual percent of AUM fees. Hence *fee-based*.

The advisor can't say they're fee-only, because they have the ability to also get paid sales commissions. But they can say they're *fee-based*.

Before sharing my views about the pros, cons and conflicts of each model, I want to preface this all by saying what ultimately matters the most is that clients fully understand what they're paying - in dollars, not just percentages - and that they fully understand the conflicts inherent in how their advisor gets paid.

Regardless what compensation method an advisor uses, so long as the client feels the products or services they're getting are worth what they're paying, and the advice or recommendations aren't unduly influenced by the advisor's conflicts of interest, then all is good! But hopefully what's shared in this article at least give you more info to make a better-informed decision about who you work with.

As you'll see below, I firmly feel some compensation models are better than others in that they're less conflicted, less illogical, more transparent, etc. But still, so long as you're comfortable with what you're paying for what you get, that's all that ultimately matters. And you can tell me to pipe down.

With that said, here's my thoughts on each fee structure:

Commission-only

This compensation method has the most conflict of interest in that the person doesn't get paid anything unless someone buys a product from them.

It's obvious to see there is a really large conflict here; there is no financial incentive to give advice or recommendations that lead to anything other than buying whatever it is the person is able to sell. With that in mind, this approach simply isn't appropriate for the giving of broader financial advice that extends beyond the product or service at hand.

This is a really cheesy example, but stick with me. Imagine new cars were sold by independent dealers that had the ability to sell multiple brands of cars. I know this isn't practical, as new cars are sold only by dealers that sell just one brand of car. But just pretend with me for a bit. Pretend there is a car store you could go to where people there can sell virtually any new car from any brand.

And let's assume that you come across someone who works as a salesperson at one of these new car dealers, and they introduce themselves to you as a "transportation advisor." If you didn't know how the

car sales industry worked, you might assume from that person's title that they are in the business of giving you advice about what means of transportation are best for you.

For example, maybe you live in a densely populated city, in a small apartment without a parking garage. And you're trying to figure out how best to address your transportation needs of commuting to and from work in the same city, visiting friends and family outside of the city and running other routine errands.

The possible transportation options available to you include walking, buying a bike, using rideshare bikes, taking buses, taking subways, taking taxis, using Uber or Lyft, renting cars when needed or buying a car. And you're trying to find someone to give you independent guidance of which option(s) is best for you and your particular circumstances.

So you go to the transportation advisor who says that you don't have to pay him anything for his services! But you didn't know that he's ultimately just in the business of selling new cars, and only gets paid if/when someone buys a new car from him; you thought he advises on people's transportation needs.

I think you can see where I'm going with this. There is virtually no way the person is going to put in the time and energy to really learn about you and your transportation needs, and end up recommending you buy a bike, use the subway and rent cars when necessary. The person will almost certainly try to convince you that you need to buy a car.

Granted, this is an extreme example. But examples like this are way too common in the financial services world. Most often it's with folks whose only business and licensing is to sell life insurance and annuities. Which means they only get paid if/when someone buys a product through them.

However, due to there not being any sort of meaningful industry restrictions on what titles people give themselves, such folks will often call themselves creative names like "wealth strategist," "safe money retirement specialist," "tax-exempt wealth specialist" and a host of other equally impressive-sounding titles. And, yes, these three examples are real titles I've seen used by insurance agents.

Also, some of these folks even go so far as to list their services to include broader topics like, "personal/business wealth management, business opportunities, tax-free retirement, estate planning, college fund/education, asset protection, 401(k) rollover, life insurance." In case you're wondering, this

list of services is quoted word for word from someone I'm aware of whose only business is to sell insurance and annuities. But it sure sounds like they're in the business of doing and providing much more than just ultimately getting paid from selling insurance products.

So, with all of the above in mind, I feel it's pretty clear that the commission-only model is definitely not appropriate for anyone seeking broader financial advice. However, if someone knows they're specifically looking for just life insurance or just annuities, then such agents are the right fit. As they specialize in knowing the various products available, and they keep up on the ever-changing lineup of features, bells & whistles with insurance products.

And for what it's worth, the way the insurance industry is structured in the U.S., it's literally not possible for an insurance product to be sold without someone getting a commission for it. I'm not saying that's necessarily a bad thing; it is what it is. But you have to know who's sitting across the table from you, what they provide, how they're paid, etc. Because that will give you insight into what the person's incentives are, what their ultimate objectives are, what their conflicts of interest are, etc.

For example, I've bought multiple life insurance policies for myself at different points of my adult life. And in each case I was glad to work with an agent who thoroughly understood the options, what I was looking for and needed, and so forth. He has knowledge and expertise in insurance that far surpasses mine. Plus, since I don't have insurance licenses, I couldn't sell myself an insurance policy even if I wanted to!

But I knew I engaged him specifically to help me pick the best life insurance policy for me. I didn't approach him to advise me on whether or not I need insurance. And I didn't approach him to give guidance on things outside of his area of expertise and compensation abilities, such as what to do with my investments, whether I should pay off my mortgage or not, how best to save for my kid's education, etc.

So, to sum up, the commission-only model works when you're specifically looking to purchase the product or service that the person sells. But it is not appropriate when you're looking for any sort of broader guidance or advice above and beyond just the product or service the person sells.

Fee-only:

As I mentioned before, there are a few different ways in which to charge for services on a fee-only basis: percent of AUM, hourly, flat fee and complexity-based.

Each of these fee models has their own unique conflicts of interest. But, generally speaking, the conflicts of interest are less under the fee-only models than they are under the commission-only model.

Fee-only; hourly:

For example, under the hourly model, there is no inherent financial incentive to recommend someone buy product A vs product B, or do this vs do that. The advisor is getting paid for their time and ultimately knowledge/advice; not based on the outcome of the client doing something, buying something, etc.

On the flipside, the obvious conflict of interest with the hourly model is that there is the risk of the advisor running the clock for longer than necessary to juice up their revenue.

Fee-only; flat fee:

As for the flat fee approach, particularly for ongoing services, it has the same benefit of hourly in that there isn't the inherent conflict to recommend a client do A vs B, or buy product C vs D. Because the advisor is ultimately getting paid the same regardless of what the resultant advice or recommendations are.

And for ongoing services such as ongoing planning and management of investments, flat fee is more effective than hourly because under an hourly arrangement, clients will be reluctant to pick up the phone and call the advisor or send emails to the advisor for fear of running up a higher fee. Under flat fee, there typically isn't any cap or limit on the number of hours the advisor will provide during the year, how many calls can be made, how many emails can be sent, etc.

Flat fee also makes a lot of sense when managing investments, especially compared to the percent of AUM model (which I'll talk about more below). It doesn't have the conflict of getting paid more simply because the client puts more money into the accounts under the advisor's management (or getting paid less simply because the client takes some money out of their accounts).

The conflict of interest under flat fee is similar to hourly; the advisor could potentially not be doing as much for their fee as they could or should be doing, yet they'll keep getting the same fee. In theory, I like

to think this would eventually work itself out in that if/when the client feels like they're not getting properly or fully served, they'll terminate the relationship. But nonetheless, the conflict exists.

Fee-only; complexity-based:

On the surface, the complexity-based model makes the most sense in my mind, particularly for ongoing relationships. It helps most closely tie the fee paid to the amount of time, services, resources, knowledge, expertise, etc. provided by the advisor.

However, there are some challenges and drawbacks to this model. Namely, it's impossible to fully and accurately capture and price every meaningful element of complexity in someone's financial life. And it also means the fee would likely need to be recalibrated regularly, as life and financial circumstances change. Which isn't necessarily a problem, but it's another process to have to do.

Additionally, the model for defining and categorizing complexity needs to be as objective and explicit as possible, otherwise there will likely be disagreements between advisor and client as to what qualifies as complexity (and therefore increases the fee) and what doesn't.

Fee-only; percent of AUM:

The final fee-only fee method is the percent of assets under management approach. As mentioned before, this is where the fee is a percentage of the client's assets that are managed by the advisor. And this is by far the most widely implemented fee-only method in the industry.

The obvious conflict with this method is that the advisor's compensation is directly tied to how much assets there are with the advisor. Some argue this aligns incentives between advisor and client because the advisor's compensation grows as the client's returns are larger and accounts grow (and conversely the advisor's compensation declines if the client's accounts lose money from poor performance). However, it's also true that the advisor's compensation grows if the client puts more money into their accounts (and conversely the advisor's compensation declines if the client takes money out of their accounts).

Common examples of this conflict include recommending money be rolled over from a 401(k) (which the advisor doesn't get paid on) to an IRA (which the advisor would get paid on), or not recommending paying off a mortgage or buying an

annuity as both would lead to a decrease in AUM and therefore a decrease in advisor compensation.

And I can say firsthand that investable asset size alone is a terrible gauge of the amount of time, resources or knowledge needed to manage the client's investments and provide broader financial planning. And it's a terrible gauge of the value clients receive from advisory services. There are many times where clients with less AUM require more time, attention and resources than clients of larger AUM. And who's to say that a person with a million dollars of assets values their money to a much less extent than a person with five million dollars values their money??? So we shouldn't pretend asset size equals any sort of measure of value. And if you're interested in reading more of my thoughts on this topic, check out my article, [How Much Are Your Services Worth?](#)

Additionally, markets go up more than they go down. As such, all else equal, AUM will go up more than it will go down. Yet the advisor isn't working any harder or necessarily providing any more value just because markets have gone up. Furthermore, what if the accounts under the advisor's management went up less than other comparable investments did, hence the advisor actually underperformed how the client's money could have otherwise grown?

And vice versa, if/when markets do decline and AUM decreases as a result, the advisor isn't working any less or providing any less value. In my experience, down markets are when advisors generally provide the most value! In helping clients stay the course, in rebalancing portfolios when necessary, in taking advantage of opportunities like tax loss harvesting or doing Roth conversions, etc. Yet the advisor gets paid less. For these reasons, the percent of AUM generally isn't very logical.

Fee-based aka Hybrid:

The fee-based arrangement of 1) getting fees from clients such as from percent of AUM and also 2) getting commissions from selling products to clients also has its pros and cons.

It has the same conflicts of interest present in both fee-only and commission-only. And some argue that the advisor is double-dipping by making money off of the client in multiple ways.

But arguably the conflicts of interest could be less in each case, because the advisor isn't dependent on making money just from providing advice or just from

selling products. And is it really double-dipping if the client is going to buy products elsewhere and someone is going to get paid those commissions anyway???

And there is definitely value and benefit to clients in having the advisor be able to provide a broader range of products and services. For example, the advisor may manage the client's investments, and then be of the opinion the client should buy life insurance. If the advisor were fee-only, they'd have to have the client work with an outside insurance agent to buy the policy. But by being *fee-based*, and being able to sell insurance themselves, the advisor can also be the one to help the client search for the best policy and get it in place. That "one stop shop" concept definitely has value.

Regardless of the way in which an advisor gets paid, there are inherently going to be conflicts of interest. There isn't any conflict-free compensation method. And no compensation model is perfectly logical or fair. It's more so a matter of which compensation model is the *least* illogical and *least* unfair. And what's ultimately best for the client all depends on the nature of the products and services the client wants and needs. There are no doubt times where each compensation model has its merits and makes the most sense for clients (and advisors alike).

Also, I like to think that the conflicts of interest are much less likely to be acted upon by advisors who are established in their business, more financially stable, more experienced, etc. I'm not saying everyone who's 25 and just starting out in the business will act in ways that primarily benefit themselves over their clients. But I have to believe that someone whose business is established and they personally make enough money are much less likely to have a subconscious urge to let conflicts of interest muddy the advice they give.

And I'll restate what I said at the beginning of this: what ultimately matters is that the client is aware of what they're paying – in dollars and not just percentages – and they feel what they're getting is worth what they're paying. Also, the client needs to be aware of what the advisor's inherent conflicts are, and be comfortable that the advisor is properly managing those conflicts and not letting them unduly cloud their judgement, advice and recommendations.

Hopefully all of the above info helps you make a more informed decision about what products or services you feel you may need, and what compensation model might make the most sense for it.

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