

# FEES FOR SERVICE

What determines the size of a financial planner's annual income? Among other things, the size of the initial client fee.

BY TAHIRA K. HIRA, DANIEL M. NORRIS  
and HOWARD E. VAN AUKEN

**A**s the financial planning profession has grown in recent years, so too has the range of service options offered by planners. Today, the planning client expects careful integration of risk, tax and investment management, strategies to help fund the retirement years

and advice on estate management techniques.

Unfortunately, financial planners have a less clear idea about what kind of compensation to expect from—or charge—their clients. The fact that planning compensation is not uniform throughout the industry was made abundantly clear in a 1984 survey by the Atlanta-based International Association for Financial Planning, the industry's largest trade organization. The

results were summarized in an article in this magazine ("The Planner Defined," November 1984), which stated that commissions were the largest source of the surveyed planners' income, accounting for about 69%. This appeared to be a somewhat transitory number, however. When asked what changes they have made in their source of income, 19% of the respondents said they were switching from a purely commission-based compensation structure to a fee-plus-

**Table 1**  
**Sociodemographics and Professional Profile of the CFPs**

Sociodemographics		%	No.	Professional Background		%	No.
Sex	Male	81	222	<b>Licenses</b>			
	Female	19	52	Insurance	81	221	
Age	21-35	29	78	Real estate	26	70	
	36-45	39	104	Registered invest. advisor	43	118	
	46 and up	33	88	NASD	85	234	
Education	High school	15	42	<b>Expertise</b>			
	Bachelor's	57	148	Financial Planning	63	173	
	Master's and other	26	83	Other	36	98	
Income	< 50,000	37	102	<b>Level of Fees</b>			
	50,001-100,000	39	106	<b>Initial fees</b>			
	100,001-200,000	19	51	Up to 500	38	104	
	200,001 and up	5	14	501-1,999	25	68	
				2,000 and up	11	31	
Practice Structure				None	26	71	
	Geographic nature			<b>Ongoing fees</b>			
	Local	56	163	Up to 500	42	115	
	Regional	38	99	501-1,999	18	50	
City population size	National/international	7	20	2,000 and up	5	13	
	50,000-250,000	35	96	None	35	96	
	250,000-1,000,000	30	81	<b>Methods of setting fees</b>			
	Over 1,000,000	35	95	% of net income	11	30	
			% of assets managed	10	27		
			Flat rate	35	97		
			Hourly rate	38	103		