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What Are You Actually Paying For in Financial Advice?

How different fee models work — with real numbers and independent benchmarks

Investors frequently ask whether they are paying a “reasonable” amount for financial advice, yet the answer depends less on the fee itself and more on how advice is structured, delivered, and incentivized. This paper explains the most common financial advisory pricing models using realistic dollar and percentage ranges drawn from independent industry research. It highlights how different fee structures influence incentives and provides a framework for evaluating whether the cost of advice aligns with the complexity of an investor’s situation and the decisions being supported.

Why Advice Pricing Often Feels Confusing

Many investors encounter phrases such as:

- “Planning is included.”
- “There’s no cost to you.”
- “It’s just a percentage.”

In practice, **financial advice is never free.**

Costs are typically **bundled, embedded, or deferred**, making them difficult to observe directly.

Industry research shows that most households ultimately pay for:

- Financial planning
- Ongoing advice
- Investment implementation

The difference lies in *how transparently those costs are presented* (Kitces, 2022).

The Most Common Advice Pricing Models (With Benchmarks)

Commission-Based Advice

Under this model, compensation is tied to the sale of financial products and is available through advisors affiliated with broker dealers or who sell insurance products.

- Typical visible cost: \$0–\$2,000 upfront

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- Typical embedded cost:
 - 1–7% product commissions
 - Ongoing internal expenses within products

Illustrative example:

A \$500,000 investment in commissioned products may generate \$20,000 or more in cumulative embedded compensation over time.

Primary incentive: Product distribution

Primary risk: Advice may be influenced by compensation structure (U.S. Securities and Exchange Commission [SEC], 2019)

Assets Under Management (AUM) Fees

AUM fees are charged as a percentage of assets managed annually. These fee arrangements are usually available with advisors affiliated with a registered investment advisor, but may also be available through advisors affiliated with broker dealers.

Independent benchmarking studies consistently show:

- Common range: **0.75%–1.25%**
- Median fee: **approximately 1.00% on the first \$1 million** (Kitces, 2022; Schwab, 2023)

Illustrative examples:

- \$1,000,000 x **0.75%–1.25%** → \$7,500–\$12,500 per year
- \$2,000,000 x **0.75%–1.25%** → \$15,000–\$25,000 per year

Typically includes:

- Portfolio management
- Ongoing advice
- Periodic planning updates
- Coordination and oversight

Tradeoff:

Fees continue regardless of transaction volume, which emphasizes stewardship over activity.

Flat or Retainer-Based Fees

Under a flat-fee or retainer model, clients pay a fixed amount annually. These types of fee arrangements are most common for advisors affiliated with a registered investment advisor or RIA.

Industry research indicates:

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- Typical range: **\$3,000–\$10,000 per year**, depending on complexity (Kitces, 2022)

Often appropriate when:

- Assets are modest
- Complexity is high
- Investments are not central to the engagement

Tradeoff:

Fees do not scale with asset size or fiduciary responsibility.

Hybrid Models

Hybrid pricing combines elements of multiple models and is increasingly common among planning-oriented RIAs.

Common industry examples include:

- \$3,000–\$7,500 upfront planning fee + 0.75%–1.00% AUM
- Annual planning fee + reduced AUM percentage
- Planning-only engagement followed by implementation elsewhere

Research shows that most clients ultimately pay for **planning, advice, and implementation**, whether those costs are itemized or bundled (Cerulli Associates, 2022).

Side-by-Side Cost Illustration

The following examples reflect **typical industry pricing observed in benchmarking studies**, not specific firm recommendations.

Client Profile	Typical Industry Cost (Year 1)
\$1M AUM, AUM-only	\$10,000–\$12,500
\$2M AUM, AUM-only	\$20,000–\$25,000
Hybrid planning + AUM	\$15,000–\$30,000
Commission-based	\$0 upfront, \$20,000+ embedded

The relevant question is not which option is “cheapest,” but **which structure aligns incentives, expectations, and decision-making needs.**

Paying for Decisions vs. Paying for Distribution

Academic research suggests that long-term financial outcomes are influenced less by security selection and more by:

- Tax efficiency
- Asset location
- Behavioral discipline
- Coordinated decision-making
(Bodie & Treussard, 2007)

Pricing models focused on distribution often obscure these factors.
Models focused on ongoing advice and stewardship tend to make them explicit.

Transparency Does Not Require Complexity

Transparency is achieved when investors understand:

- What services are included
- When fees begin and end
- How incentives are aligned
- How conflicts are disclosed

Transparency does **not** require:

- Hourly billing
- Tracking activity
- Complex invoices

In many cases, **simpler fee structures provide greater clarity**, not less.

A Practical Framework for Evaluating Fees

Instead of asking, “Is this expensive?” investors may benefit from asking:

1. What decisions does this advice support?
2. How frequently is judgment required?
3. How are conflicts managed and disclosed?
4. What happens if no changes are recommended?
5. How are taxes, investments, and cash flow coordinated?

The answers often matter more than the fee itself.

Most investors pay for planning, advice, and implementation regardless of how fees are labeled.

Understanding how different pricing models work—using realistic, industry-benchmarked figures—allows investors to evaluate advisory relationships based on alignment, clarity, and long-term decision support rather than cost alone.

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